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U.S. ASSISTANCE TO LESOTHO
STRATEGIC UPDATE
AND
FUTURE MANAGEMENT APPROACH

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U.S. ASSISTANCE TO LESOTHO
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LIST OF ACRONYMS

ADRA	-	Adventist Development and Relief Agency
AID	-	Agency for International Development
AIDS	-	Acquired Immune Deficiency Syndrome
AIDSTECH	-	AIDS Technical Support Project
AID/W	-	Agency for International Development/Washington
BAPS	-	Business Advisory and Promotion Service
BCP	-	Basotholand Congress Party
CBL	-	Central Bank of Lesotho
CEDPA	-	Centre for Development and Population Activities
CDIE	-	Center for Documentation, Information & Evaluation
CMA	-	Common Monetary Area
CNRM	-	Community Natural Resource Management
CPSP	-	Country Program Strategic Plan
CYP	-	Couple Years of Protection
DA	-	Development Assistance
DFA	-	Development Fund for Africa
EEC	-	European Economic Community
ESAP	-	Enhanced Structural Adjustment Program
FHI	-	Family Health Initiatives Project
FPIA	-	Family Planning International Assistance
GDP	-	Gross Domestic Product
GNP	-	Gross National Product
GOL	-	Government of Lesotho
GRISP	-	Grass Roots Initiative Support Programme
HIV	-	Human Immunodeficiency Virus
HSA	-	Health Service Areas
IEC	-	Information, Education and Communication
LAPSP	-	Lesotho Agricultural Policy Support Program
LCN	-	Lesotho Council of NGOs
LHWP	-	Lesotho Highlands Water Project
LPPA	-	Lesotho Planned Parenthood Association
MOH	-	Ministry of Health
MOTI	-	Ministry of Trade and Industry
MSA	-	Micro- and Small-Agroenterprise
NAPCP	-	National AIDS Prevention and Control Programme
NGO	-	Non-Governmental Organization
ODA	-	Overseas Development Administration
OE	-	Operating Expenses
PHAL	-	Private Health Association of Lesotho
PID	-	Project Identification Document
PP	-	Project Paper
PUP	-	PVO Umbrella Project
PVO	-	Private Voluntary Organization
REDSO/ESA	-	Regional Economic Development & Support Office for East and Southern Africa

RFA	-	Request for Application
SACU	-	Southern African Customs Union
SAP	-	Structural Adjustment Program
SOMARC	-	Social Marketing for Change
STD	-	Sexually Transmitted Disease
U5MR	-	Under-Five Child Mortality Rate
UNFPA	-	United Nations Family Planning Association
USAID	-	United States Agency for International Development
USDH	-	United States Direct Hire
USG	-	United States Government
USIA	-	United States Information Agency
VAT	-	Value Added Tax
VSC	-	Voluntary Surgical Contraception
WHO	-	World Health Organization
WVI	-	World Vision International

I. EXECUTIVE SUMMARY

The purpose of this paper is to propose a new management mode in the post-FY 1995 period for providing economic assistance to Lesotho. The recommended strategic plan and implementing private voluntary organization (PVO) intermediary management mechanism, (PVO Umbrella Project), would be phased in as the interim arrangement of staff sharing between the USAID/Lesotho-Swaziland, planned for FY 1994 implementation, is phased out.

Through 1991 AID had provided a total of \$268.4 million in economic assistance to Lesotho. The FY 1992 - FY 1996 Country Program Strategic Plan (CPS²) concentrates assistance in agriculture (natural resources and business activity) and primary education, with an ongoing portfolio of approximately \$60 million. Over the years USAID funding has assisted Lesotho to retain its political integrity as an island in apartheid South Africa, avoid humanitarian disasters and build basic institutional capacity and physical infrastructure, principally in the education, agriculture and health/population sectors.

U.S. interest in Lesotho centers on three foreign policy objectives: establishing a democratic system, supporting social and economic development and addressing transnational issues. Lesotho held democratic elections in March 1993 and successfully transferred power from the military to a civilian government. Continued support for this fledgling democracy is important to encourage the country to stay the course on its structural adjustment program and sustain its transition from military to civilian rule.

Lesotho and South Africa are highly interdependent economically and politically because of such factors as Lesotho's size and geographical location within industrialized South Africa, its limited resources, its high level of migrant employment in South Africa, the Highlands Water Project, formal economic links, and ethnic ties. The Lesotho Government recognizes the need to forge a continuing mutually beneficial relationship with its only neighbor to support economic growth and political stability. U.S. support of these efforts can contribute to greater regional security, especially as interest and donor funds shift to South Africa.

While Lesotho has made considerable development progress over the past two decades, it still faces daunting challenges that will require donor assistance for years to come. Under increasing demands for limited resources, the AID Africa Bureau moved in FY 1992 to concentrate resources in "major" countries. Lesotho with its 1.8 million people, high need, good economic performance, and its move toward democratic elections was placed in the "other" category and assistance was straightlined at \$7.3 million for FY 1994 and FY 1995. Management of programs in Lesotho and Swaziland will be combined in FY 1994 to reduce OE and

USDH resources, as recommended by the Transition Management Study of September 1992. As the current portfolio of projects phase out and OE resources shrink further, AID needs a different management mode to continue supporting the country's economic and political development in the post-FY 1995 period.

The proposed post FY 1995 strategic directions includes one strategic objective in agriculture, identified initially in the FY 1992 - FY 1996 CPSP, which will be supported by an ongoing project in natural resources and targets of opportunity in micro- and small agroenterprise, AIDS and population/family planning. The strategic objective aims to sustain or improve output and productivity of selected agricultural subsectors, supported by the ten-year Community Natural Resources Management Project (initiated in 1992), which aims to increase the sustainability of rangeland resource use, and a new PVO/non-governmental organization (NGO) activity to increase micro- and small agroenterprise activity. Reducing the rate of sexually transmitted HIV Infection and improving the availability of family planning information and services are objectives of the respective remaining targets of opportunity. Working in the three Agency priority areas as targets of opportunity is an important part of the proposed future management mode.

USAID/Lesotho reviewed various management options, including a joint commission, AID-endowed foundation, staff sharing with Swaziland, regional or mini-mission, a PVO co-finance effort and a PVO umbrella intermediary. USAID recommends the PVO umbrella intermediary as the best approach to continue U.S. development efforts in Lesotho, reduce OE and USDH resources further, support Agency priorities and engage U.S. Private Voluntary Organizations (U.S. PVOs) and Lesotho NGOs in the country's development.

USAID proposes to develop a five-year, \$25 million PVO Umbrella Project to be initiated in late FY 1995 to implement the recommended option and replace the current projects and the USAID Mission in Lesotho. The OYB would be \$7.3 million in FY 1994 and FY 1995 to complete funding of current portfolio of projects. The purpose of the PVO Umbrella Project will be to increase the developmental impact in selected sectors and increase the institutional capacity of Lesotho NGOs in these sectors. The U.S. PVO intermediary will monitor and provide subgrants to selected U.S. PVOs in key sectors that would work with local NGOs in implementing activities. In-country USDH staff will be reduced to one (assuming the Chief of Mission concurrence) as ongoing projects are completed or phased into the umbrella PVO management intermediary. Eventual regional rather than in-country oversight may be possible if a Southern African regional office is established to manage the transition of the small country programs in Southern Africa to less intensive management modes. A regional office coordinating implementation of new programs for Southern Africa could also have this responsibility.

II. BACKGROUND

A. Objective

The objective of this exercise is to recommend a management option for U.S. assistance for Lesotho after FY 1995 . The proposed strategic plan and the U.S. PVO umbrella intermediary management mode are based on the review of U.S. foreign policy objectives in Sub-Saharan Africa relative to Lesotho and the emerging AID management imperatives.

B. Historical Perspective on U.S. Assistance Program in Lesotho

Historically, the U.S. rationale for providing assistance to Lesotho has been based on development need, humanitarian concerns and political considerations related to Lesotho's hostage status to apartheid South Africa. Assistance has thus been directed to facilitate economic growth and reduced dependency on South Africa, relieve suffering from natural and man-made disasters, and support political stability, national integrity and, more recently, democracy. Through 1991 AID provided approximately \$268.4 million in economic assistance to Lesotho, with Peace Corp and other USG organizations providing an additional \$27 million. Throughout the 1970s and early 1980s, USAID worked in multiple areas, including agriculture and natural resources, health and population, education and human resources, infrastructure, renewable energy, small scale enterprise and shelter. During the later 1980s the program focused mainly on agriculture and natural resources, education and human resources, and health and population. Food assistance complemented the economic assistance throughout the 1970s and 1980s. The FY 1992 - FY 1996 CPSP emphasizes agriculture (natural resources and agroenterprise activity) and primary education.

Overall, the approach has successfully helped the country to retain its political integrity, avoid humanitarian disasters and political upheaval, and helped build basic institutional capacity and physical infrastructure, principally in the education, agriculture and health sectors.

III. RATIONALE FOR CONTINUING U.S. ASSISTANCE TO LESOTHO

A. U.S. Foreign Policy Objectives in Sub-Saharan Africa

The end of the Cold War and superpower strategic competition has resulted in the re-orientation of U.S. policy in Sub-Saharan Africa which is now experiencing unprecedented political and economic change. U.S. policy goals in the region for this new era are to promote democracy, encourage conflict resolution and peaceful change as a basis for economic and political progress, support the establishment of democratic systems that respect human rights and seek equitable growth, assist with sustained equitable development through private sector-led reforms, and to address transnational problems. U.S. interest in Lesotho focuses more directly on three of these -- namely, (1) establishing a democratic

system, (2) supporting social and economic development and (3) addressing transnational issues. While the discussion below emphasizes these three areas, the other two cannot be totally ignored. That is, continued support for the country's economic and political development will also contribute to the remaining U.S. foreign policy objectives in Africa, greater political stability and the avoidance of regional conflict and the sustainability of civilian rule.

B. Lesotho's Emerging Democracy

Lesotho became independent in 1966 under a Constitutional Monarchy, with a Legislative Council headed by Chief Jonathan who headed the Basotholand National Party. When it appeared Chief Jonathan's party was losing the elections in 1970 to the Basotholand Congress Party (BCP) opposition, he declared a state of emergency and suspended the Constitution. Intermittently through 1985, growing opposition to Chief Jonathan's authoritarian rule and increasing cross-border tension with apartheid South Africa prompted military intervention in early 1986. Ousting Chief Jonathan, the army set up a Military Council headed by General Lekhanya and banned political activity. Only in early 1990 did the Military Government initiate actions to move to civilian rule, including the establishment of a Constitutional Assembly to prepare a new constitution. Dissatisfaction of junior military officers over pay raises in April 1991 resulted in a putsch and replacement of Chairman Lekhanya by General Ramaema, who later repealed Order No. 4 banning party politics, thus initiating actions for elections.

The USG has played a key role in supporting Lesotho's move to democracy through assistance and policy dialogue. The USG, with AID financing, has provided consultants to conduct a pre-election assessment used by all donors to provide support for elections, revise electoral code, and assess election computer needs; administrative and commodity support for voter education and voter list preparation; and observers for the election itself. USIA has also provided assistance, including specialists to assist with revisions to the Constitution and voter education content. The Ambassador actively supported the country's move to democracy both in discussions with senior GOL officials and in public speeches on numerous occasions.

Elections were held March 27, 1993, with the BCP winning all legislative seats. The election marks the end of a two-year period of political uncertainty and the resulting generally weakened GOL leadership. While a newly elected government is now installed, it is inexperienced and faces serious economic challenges as unemployment grows and the country no longer holds its special position among the donor community as a frontline state to apartheid.

Needless to say, this fledgling democracy will need not only moral encouragement but also financial assistance to help it meet political and economic challenges, including staying the course on its Enhanced Structural Adjustment Program (ESAP). U.S. support for the newly elected democratic government is important to help the country sustain its transition from military rule to democracy. The current policy to concentrate U.S. assistance in major African countries and

to reduce in-country presence is already sending a mixed signal to the newly elected government. A reduction in assistance levels would send an even more disconcerting message. Support for the country's successful transition to democracy is especially important because of its geographical location within the borders of South Africa and its potential to serve as a successful model to other African countries which have yet to establish multi-party democratic systems.

C. The South Africa Factor and Development

1. Lesotho's Relationship to South Africa

Any discussion on the economic and social development of Lesotho cannot be separated from a discussion on the interdependency of Lesotho and South Africa. Given its small size, its land-locked geographical location within the boundaries of industrialized South Africa and its limited resources, Lesotho will continue to be highly dependent economically and politically on South Africa. More lucrative migrant labor opportunities in South Africa, particularly in the mines, have long attracted Basotho to leave their home for cross-border pursuits. The average number of Basotho mineworkers in 1992 was approximately 99,000, which was a considerable drop from 1989/1990 level of 120,000 as gold prices fell and more capital-intensive production methods were implemented. South Africans often employ Basotho as farm laborers or domestic workers as wells. Lesotho membership in the long-established Southern African Customs Union (SACU) and Common Monetary Area (CMA) and the more recent agreement to develop the Lesotho Highlands Water Project (LHWP) to transfer water to South Africa for revenue benefits have enhanced the interdependency. The Basotho nation exists on both sides of the border. There are complex ties between the Basotho in Lesotho and Sesotho-speaking South Africans. Numerous Basotho have family in Soweto, other urban townships and homeland areas of South Africa. Migrant workers have also established liaisons with South Africans, occasionally returning with South African spouses. Lesotho has also served as a refuge for South Africans wishing to get away from the repression of apartheid South Africa. Thus, despite the restrictions enforced by apartheid for many years, people, goods and services have continued to flow across borders, reinforcing the interdependent economic, political and people-level relationships between the two countries.

With the dismantling of apartheid and the movement to a broad-based democracy in South Africa, all types of cross-border relationships have increased, although accurate figures for migrant workers other than miners are not available. The limited employment opportunities in Lesotho coupled with higher salaries in South Africa are increasingly attracting not only unskilled laborers but also more highly skilled health workers, accountants, university staff and secondary teachers to the homelands and elsewhere in South Africa. Thus, while mineworker job opportunities have decreased, other opportunities have opened up. South Africa, with its greater size, resources and industrial base has greater potential for economic growth than Lesotho and thus will continue to attract the more able as well as the less skilled who find salaries attractive. One can speculate that until the supply of skilled social services manpower catches up with

the increasing demand in South Africa, skilled Basotho may be especially able to compete advantageously for cross-border jobs. What employment opportunities will exist for all migrants in the medium- or long-term under a new South African government, however, remains to be seen.

While maintaining official commercial relationships with South Africa for some time through a South African Trade Office in Maseru, the Government of Lesotho (GOL) moved more recently to establish full diplomatic relations at the ambassadorial level. The GOL is also moving to undertake a study of options related to SACU as a basis for future negotiations. These moves reflect the growing awareness of GOL officials that they must make efforts to continue to forge and consolidate a mutually beneficial relationship with their only neighbor. One can only speculate at this point on whether the two countries will remain separate political entities or whether they will eventually integrate. However, this does not minimize the importance of the fact that their political and economic futures will remain highly interdependent.

As the South African Government has begun to dismantle apartheid, other donors have increased their financial and moral support for that country, often reducing their assistance to and interest in Lesotho just as the latter faces the challenges of declining revenues, growing unemployment and a newly elected democratic government. If unemployment continues to increase unabatedly, there is the possibility of political unrest and instability as well as increased pressure on cross-border migration for jobs. It is in the interest of Lesotho to mitigate this situation by negotiating mutually beneficial future economic and political relationships. It is in the interest of the USG to support these efforts to enhance the possibility of greater regional security for both Lesotho and South Africa.

2. Lesotho's Development Status and AID Priorities in Africa

As discussed above, the USG has invested \$295.4 million in economic assistance through 1991. While the country has made considerable progress overall during the past two decades, it continues to face daunting challenges of a growing population, increasing unemployment, deteriorating natural resources and a growing AIDS epidemic. To address these challenges, the country will continue to require economic assistance for some years to come.

With increasing demands on AID resources and staff worldwide, the AID Africa Bureau initiated in FY 1992 a new formulation for categorizing countries into "major" or "other" for allocating economic assistance. Additionally, all countries were to concentrate assistance in fewer sectors, with major countries limited to four strategic objectives and others, to one or two. Major countries were to receive the bulk of economic assistance and operational resources, including staff. Selection criteria included population (below/above 5 million), need, economic policy performance, and democracy and governance. Lesotho, with its 1.8 million people, was placed in the "other" category. Based on its moderately high need, good economic performance and its move toward elections, a level of

\$7.3 million was projected for FY 1994 and FY 1995. But as part of the effort to reduce OE and staff resources, management of Swaziland and Lesotho portfolios will be combined in a staff sharing management mode in FY 1994, as recommended by the September 1993 Transition Management Study. The approved CPSP concentration in agriculture (especially natural resources management) and primary education is to continue in the meantime. This staff sharing arrangement allows for the existing program to be implemented, but does not provide for the development of new projects or continued assistance to the country. A new management mode will be required to provide for any new initiatives or a USAID presence beyond 1995, as noted by the chart included as Figure 1.

To assist with decisions on the importance and level of continued assistance for Lesotho, it is useful to review the current status of the country on the Africa Bureau criteria for determining assistance levels -- need, economic performance, and democracy/governance. These criteria are used to assess major countries, but can be applied to other countries as well.

Need. The Bureau has been using "very high" or "high" mortality rates of infants and children as a measure of strong need. Using the under-five child mortality rate (U5MR) indicator of the UNICEF 1991 State of the Children Report, Lesotho ranked as a "high" U5MR country among four groupings of very high, high, middle and low. According to the report, Lesotho rate was 132 in the high group that has a range of 72 to 139 and a median of 94. While not in the "very high" group, Lesotho's rate places it nearly in that group (beginning at 143) and could certainly qualify for assistance to alleviate poverty on the basis of need. Because of the 1991-1992 drought and the increased mortality related to it, rates may be even higher at the current time. In the Southern Africa region among countries with a least 1 million people, Lesotho's rates are higher on 1989 child mortality figures than those of Zimbabwe, Zambia and Botswana.

Economic performance. The Bureau considers a number of measures to assess progress on economic performance. In this area, Lesotho's achievement is high. The GOL is committed to market-based growth and markets are generally competitive. Prices are market determined and no price controls are in place, except for grain. The quantity of labor used by firms responds to changing market conditions; financial markets are open; and parastatals compete with the private sector for access to foreign credit and other services. Further, the trade regime provides for open trading practices among member countries of the Southern African Customs Union (SACU), including harmonized tariff rates. In addition, the foreign exchange system is open and non-directed, the local currency is on par with the South African rand and the exchange rate is market determined. Finally, businesses can freely enter and leave Lesotho and repatriate after-tax remittances.

The GOL is also committed to effective management of the economy. Under the Structural Adjustment Program, the GOL has improved fiscal management. Accordingly, the budget registered a surplus in 1993 and public

IMPLEMENTATION OF USAID PROJECTS

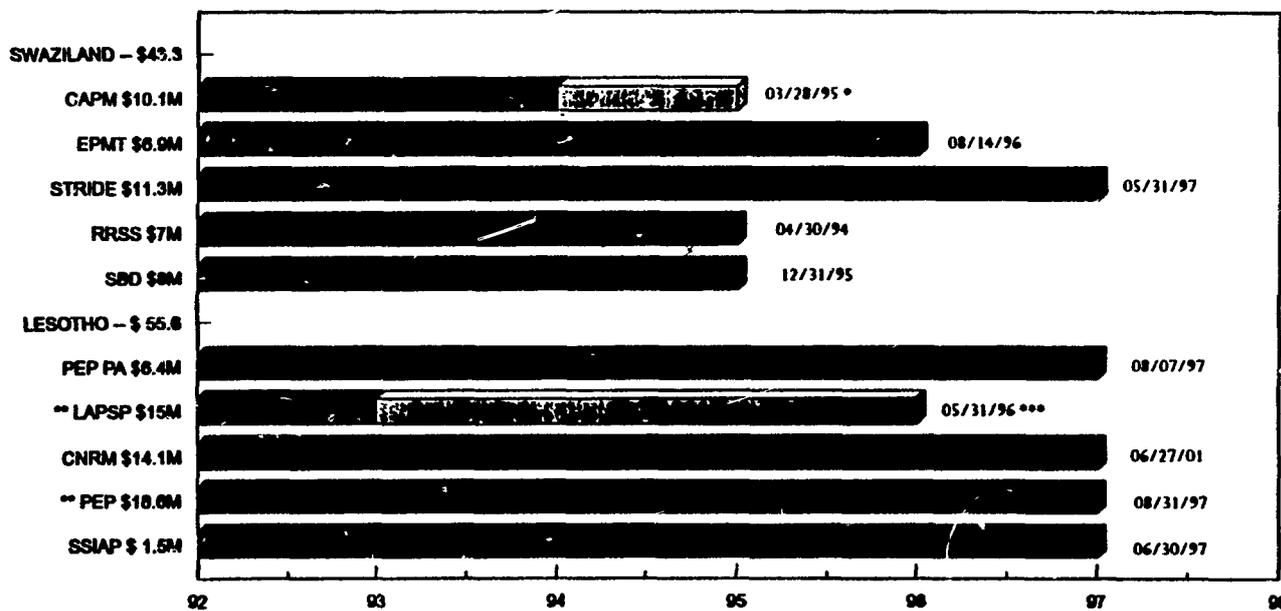


FIGURE 1

■ IMP PACD ■ PROP. EXTEN.

* Current PACD Is 2/28/94

** NPA

*** Current PACD Is 8/13/93

borrowing no longer crowds out private borrowing. Further, the public investment program allocates public capital on the basis of economic and social return, social and economic expenditures have increased and tax reform actions are aimed at improving efficiency, promoting investment and ensuring equity. The GOI still supports and subsidizes several agro-based and manufacturing parastatals but has recently liquidated the agricultural input marketing one, thus demonstrating its willingness to rationalize the state sector. Further progress in this area is expected. In general performance under adjustment has been improving, despite slow progress in implementing key structural reforms. Policies and practices are appropriate for competitive efficiency. (See Section IV and Annex A for additional economic details.)

Democracy and Governance. The Africa Bureau has looked at five aspects under this rubric to determine a country's progress in this area: freedom of the press, freedom of association, human rights, public sector transparency and effectiveness, and public accountability. Lesotho took a major positive step on March 27, 1993, when it held first democratic elections in 23 years and subsequently installed a new government.

Greater freedom of speech and press were observed in Lesotho during 1992, including widespread and generally unrestrained criticism of the military government leadership and policies leading up to elections. The newly elected government has also indicated their intent to take television and radio out of direct government control and place them under a quasi state organization to improve past misuse and abuse. (Lesotho broadcasts one hour daily on a South African pay television channel.)

Regarding association, the Military Government closely constrained large public gatherings in support of the ex-king Moshoeshoe's return and thereafter during 1992. However, other political gatherings were limited only by the requirement of prior police notification and nonpolitical groups had no limitations on free and open meetings.

Performance in the human rights area has improved with the holding of elections and the subsequent enactment of the revised Constitution that includes protection of fundamental human rights and freedoms. No reported political killings or disappearances occurred in 1992, although some reports of extra-judicial killings and police brutality continue.

On public sector transparency and effectiveness, USAID has no evidence of intended misuse of donor funds. Government capacity is weak in budgeting, financial management and auditing, which lead to some public sector ineffectiveness. Various donors are providing assistance in improving capacity in these areas. Further, the newly elected government has plans to enact anti-corruption laws, set up an anti-corruption commission and improve civil service efficiency. The government budget is published, but some extra-budgetary expenditure exists. During the 1988-1991 period, 10 - 11 percent of the recurrent budget expenditures was for the military, with an additional 7 percent for police

services (CBL Annual Report, 1991). The new government has indicated its intention to improve financial management and emphasize quality, rather than numbers, of security personnel.

Regarding public accountability, approximately 70 percent of eligible voters participated in the free and fair democratic elections. While the winning party won all parliament seats, its leaders have called for mechanisms to ensure consultation with other parties in the country. The new government supports democratically elected village councils and greater devolution of government authority and responsibilities. The judicial system operates fairly independently, which will likely be enhanced under the new government.

D. Addressing Transnational Issues

The USG supports addressing important transnational issues as necessary for the long-term stability and development in the Africa region. It is in the interest of the USG to address these issues both through bilateral and regional mechanisms. For Lesotho such critical issues include the environment, AIDS, population growth, and women in development. Highlights of these issues are touched on below:

Environment. AID's emphasis is on building African capacity and institutions to promote improved environmental practices and the protection of the continent's biological diversity. Lesotho has limited resources, one of the most important being water. Its traditional grazing practices together with increasing population and land pressures are seriously straining the ability of the country to sustain the productivity of its rangeland for future grazing. Increased rangeland deterioration will also lead to increased silting of valuable river resources and the loss of biological species. Unless better management of natural resources are adopted, future water resources for both Lesotho and South Africa will be jeopardized. USAID supports efforts to improve rangeland management toward sustaining the land and related resources under the ten-year Community Natural Resources Project.

AIDS. More than one-half of the HIV-infected persons worldwide live in Africa. The further prevention and control of AIDS are critically important to development progress since AIDS epidemics ultimately affect every sector. As noted below, while HIV-infection has come later to Lesotho and South Africa than to many African countries, its spread is reaching epidemic proportions. Recent surveillance data suggest that approximately 20,000 of Lesotho's 1.8 million people are HIV infected. The number projected to be infected by 1996 is 60,000. This rapid increase in infection and the subsequent full-blown AIDS cases could have devastating effects on the country's development. Addressing the issue of AIDS in Lesotho together with South Africa will continue to be important. To assist in this target of opportunity area, USAID has been complementing other donor activities by supporting social marketing of condoms and information, education and communication activities where AID has a comparative advantage.

Population growth. Sustainable economic progress in Africa is dependent upon slowing population growth. Lesotho's population growth continues to increase rapidly, with rates growing from 2.6 percent in 1986 to an estimated 2.9 percent in 1991. Rapid population growth increases pressure on land, leading to deteriorating rangeland resources and, ultimately, to agricultural declining productivity. It strains public resources and government efforts to provide quality education and primary health care. High fertility also reduces a family's ability to provide for basic needs. This issue needs greater attention by both the GOL and donors alike if the country is to reduce the growth rate. USAID phased out its support in this sector in 1992, both because of the requirement to focus the USAID program and because other donor planned assistance levels appeared to be adequate to address the problem. But the latter conclusion on assistance availability needs to be reconsidered.

Women in development. Women play a vital role in natural and human resource development in Africa and thus assisting with their training and education is important. While primary school attendance rates for girls are higher than for boys in Lesotho, many legal and customary constraints prevent women from participating more effectively in development. USAID projects continue to involve women in development activities, including training, as well as address legal constraints to women's participation in development.

IV. ECONOMIC BACKGROUND AND OUTLOOK

A. Overview of Recent Economic Performance

Gross domestic production (GDP) real growth averaged 7.0 percent for the period 1988/89 to 1992/93 under structural adjustment program (SAP), and other indicators met or exceeded programmed targets, but growth has slowed in recent years. In 1991/92, GDP real growth rate dropped to a negative 1.7 percent, due to drought. Nevertheless, the GOL has transformed a budget deficit of 9.2 percent of GNP in 1988/89 to a surplus of 2.1 percent surplus in 1992/93, halted rapid domestic credit growth and increased net repayments to the domestic credit system. However, inflation has increased to 18.2 percent in 1992/93 and the real saving deposit rate is currently negative. Also, the trade and current account balances remain negative but the overall balance of payment turned positive due to a substantial inflow of donor capital funds, mainly to finance the Lesotho Highlands Water Project (LHWP). Consequently, Lesotho more than doubled its total foreign reserves import coverage between 1988 to 1992. However, external debt rose to about 41 percent of GNP by 1991 due to LHWP loans, but these loans will be serviced from water sale revenue from the LHWP; consequently, the debt-service ratio, excluding LHWP debts, has not increased.

B. Key Issues Affecting Long-term Growth

Lesotho has not transformed historically high income growth rates into increased domestic employment because: the source of income increases is

external, most household income is spent on imported consumption, leading growth sectors have weak domestic resource linkages and saving and investment are inadequate to generate sustainable growth. The GOL needs to expedite land reforms, including leasing and grazing fee payment, to conserve the range lands and catalyze increased private sector employment. Employment generation has been affected by tardy public sector reform but the GOL plans to reform public enterprises and improve public sector financial management. Maximizing employment gains from the LHWP requires judicious use of water sale revenues. The GOL needs to further rationalize the tax system, including addressing the suitability of a value added tax (VAT) for Lesotho. Indigenous private sector expansion has been limited while foreign investment grew mainly due to relocation of investors seeking to escape Republic of South Africa (RSA) sanctions, avoid quotas or enjoy strong protection. The GOL now emphasizes Lesotho's competitive advantage, especially for domestic resource-based investment, but needs to further rationalize investment incentives and to integrate privatization, trade reforms, tax reforms and private sector promotion. Key external issues relate to migrant-worker employment, SACU and aid. The GOL needs to maximize migrant-employment gains and mitigate negative impacts of any future migrant worker retrenchments, prepare for any future reductions in Southern Africa Customs Union (SACU) revenue and improve donor resource coordination and utilization.

C. Growth Prospects

Lesotho can best sustain growth if it continues to reform, utilizes available domestic development opportunities efficiently and nurtures an advantageous relationship with the RSA. The GOL has projected that annual GDP and GNP real growth rates will average 5.6 percent and 3.9 percent, respectively, during the period 1993/94-1996/97. At these rates, per capita annual real GDP and GNP will increase by 2.7 percent and 1 percent, respectively. Therefore, GOL needs to markedly improve economic performance to ensure faster broad-based long-term growth for future generations of Basotho.

A more detailed discussion of Lesotho's economic development progress and outlook is presented in Annex A.

V. STRATEGIC DIRECTIONS

A. Overview

This section discusses strategic areas for program concentration, building on the FY 1992 - FY 1996 CPSP and planned for phasing in as USAID moves from its interim transition management mode (combined Swaziland-Lesotho Mission) to a new mode (U.S. PVO umbrella intermediary management mode). USAID proposes that the strategic objective in agriculture be maintained, supported by the Community Natural Resources Management (CNRM) Project targeting improvement in rangeland management through 2001, and by a target of

opportunity in micro- and small enterprise instead of the more ambitious larger sized enterprise project planned under the current CPSP. The second strategic objective in the current CPSP is the improved quality and efficiency of basic education which will be phased out as the sole effort \$25 million Primary Education Program ends in FY 1997.

The Mission also recommends that the important target of opportunity in AIDS prevention be continued. Also proposed is a new target of opportunity in population and family planning, an increasingly critical area for Lesotho's development. These activities will remain relatively small and emphasize interventions where AID has a comparative advantage.

The proposed strategy is consistent with Bureau guidelines that future programs in Lesotho preferably be in Congressional priority areas. It includes only one strategic objective as suggested in the guidelines. However, it involves interventions in more than the suggested two sectors. The principal reason for this is the nature of the proposed PVO umbrella intermediary management mode which is more cost effective in a small country such as Lesotho if activities are not limited to one sector (see Section VII for project description). NGOs already play a prominent role in both the health and population/family planning areas in Lesotho and have overlapping service delivery mechanisms. Accordingly, it makes sense to address both technical areas in the strengthening process. The addition of micro- and small agroenterprise assistance is important to provide PVOs the opportunity to work not only in social sectors, which are not likely to become sustainable in the short term, but also on income generating activities that have a greater possibility of becoming sustainable. This subsector is becoming increasingly important as providing alternative livelihoods for increasing numbers of retrenched miners and unemployed.

The discussions below provide more details on the proposed strategic areas:

B. Strategic Objective in Agriculture

As documented in the FY 1992 - FY 1996 CPSP, the strategic objective for USAID involvement in agriculture, natural resource and private sectors is to sustain or improve output and productivity of selected agricultural sub-sectors by building opportunities for the Basotho to increase income and employment, thereby contributing to overall economic growth of Lesotho. This strategic objective would remain valid in the post FY 1996 period for improved natural resource use. However, instead of confirming continuation with the envisioned target in increased business activity for the post FY 1996 period, USAID proposes a future target of opportunity in this area. The reasons for this are: (1) the preliminary assessment of an intervention in small- and medium-sized agroindustries conducted in 1992 did not confirm the feasibility of a large-scale effort, but nevertheless indicated potential for involvement in a PVO small-scale enterprise project; and (2) the planned scaling down of USAID operations in Lesotho requires a different approach to management of the AID program in

Lesotho. Details on the proposed target of opportunity are provided in Section V.B.2 below.

1. **Target: Improved Rangeland Resource Use**

The strategic rationale, interventions and impact measures for USAID involvement in rangeland resource management are as detailed in the CPSP. As part of the overall strategy, USAID does not propose any new initiatives in agricultural policy reform after the Lesotho Agriculture Policy Support Program (LAPSP) ends in 1996 (with planned extension). The Community Natural Resource Management (CNRM) Project will continue until 2001. However, USAID anticipates that technical inputs will come from a U.S. PVO rather than a contractor beginning in 1997 when the current contract end, with the view to minimize the AID management burden.

2. **Target of Opportunity: Increased Micro- and Small-Agroenterprise (MSA) Activity**

a. **Constraints**

The agriculture sector no longer dominates GDP but remains the largest source of employment, particularly in agro-related enterprises, a significant number of which are micro- and small-enterprises. A 1990 USAID study (GEMINI Small-Scale Enterprise Study) showed there were at least 100,000 small-scale enterprises, more than 80 percent of which were in rural areas and which employed more than 150,000 people, more than migrant employment in South Africa and in large enterprises. However, MSA activity development is affected by several policies, structural, managerial and institutional constraints. General private sector policy and regulatory constraints include distortions in the agro-industrial sector, such as support for parastatals, production and consumer subsidies, price controls and trade restrictions. Some constraints are structural: the domestic market is small, membership in SACU provides open accessibility to South African markets by consumers, few linkages exist between industry and domestic resources, and the availability of regional and domestic public sector employment has resulted in a weaker entrepreneurial disposition among the Basotho. Institutional constraints include: inadequate numbers and weak capacities of support service delivery institutions, such as those for industrial technology development and promotion; insufficient investment capital, partly due to low savings and ineffective financial intermediation; weak management of small businesses; and ineffective private sector representational associations.

b. **Past USAID Involvement**

For the past 16 years, USAID has focused on providing support in agriculture, but previous USAID involvement in private sector development has been limited to studies and modest support for enterprise development. This proposal for an MSA activity constitutes a first direct involvement in private sector development.

In agriculture, the original USAID focus on field crops, and heavy emphasis on land conservation in earlier projects, shifted in the late 1980s to support for labor-intensive high-value crops where Lesotho has a stronger comparative advantage. Consequently, the Lesotho Agricultural Production and Institutional Support Project (ended April 1993) supported the development of small agro-enterprises by students, wholesale farm produce market centers and credit unions as discrete private sector activities. Since 1989, USAID intervention in agriculture has emphasized improvement of the policy environment for private sector in agriculture, especially input and livestock marketing, through the Lesotho Agriculture Policy Support Program (LAPSP) which aims to develop a private sector-based competitive agricultural marketing system. By promoting privatization and private sector growth in agricultural input and livestock marketing, LAPSP interventions support planned MSA activities. The Human Resources Development Assistance Project has also provided private sector management and skills training and strengthened GOL capacity to formulate and implement private sector policy. The Small-Scale Intensive Agricultural Production Project, being implemented with Peace Corps Assistance through 1997, promotes high-value crop production through small community/home plots.

USAID's analytical work in the private sector, which began with the first private sector survey in 1973, peaked in 1989/1990 when USAID conducted the following studies: private sector assessment, the Manual of Actions for the Private Sector exercise (1989), Small-Scale Enterprises in Lesotho Survey (1990) and Lesotho Micro-Enterprise Sub-Sector Analysis (1990). To explore private sector involvement further under the CPSP, USAID assessed intervention options in a pre-PID study in 1992. The various studies, especially the pre-PID analysis, confirmed the presence of opportunities for increased private sector activity in agriculture, but noted that GOL participation and regulation in agriculture hampers the growth potential of most large- and medium-sized agroenterprises. As noted above, this analysis identified PVO support for micro- and small-scale enterprise development in agriculture as an effective intervention under a future USAID agroenterprise support activity. The conclusions from these studies form the basis for developing this initiative.

c. Proposed USAID involvement

Rationale. Employment and income generation opportunities exist in the micro- and small agroenterprise sub-sector in Lesotho. The proposed MSA activity supports an approach that provides services for small-scale enterprise to meet income and employment growth objectives. USAID involvement, especially support for local NGOs, will fill a niche in GOL and donor activities. The proposed new effort builds on past AID initiatives in private sector development and will focus on the agriculture sector. It is also consistent with the Development Fund for Africa (DFA) Target 3.3 "expanded skills and productivity on the job," the DFA management objective of strengthening collaboration with PVOs (both U.S. and African) and Congressional earmarks for micro-enterprise. Further, it is consistent with Bureau guidance to limit Lesotho future program activities to Bureau or Congressional priorities. USAID involvement will be in the

form of a sub-project within the proposed PVO-Umbrella Project (discussed in Section VII). The inclusion of local NGO capacity building to assist with private sector activities is an important part of sustaining NGO activity. Below is a preliminary sketch of the sub-project; details will be developed with a selected PVO.

Purpose. The purpose of the proposed USAID intervention is to increase business activity in the MSA sub-sector. This will target micro- and small enterprises, including those in both the informal and formal sector. The proposed initiative supports the strategic objective of USAID involvement in agriculture, natural resource and private sectors by promoting increased business activity in MSAs. This is expected to result in improved productivity of agriculture, which in turn, will likely sustain or improve income and domestic employment. USAID efforts will address these institutional and managerial constraints to increase MSA activity: business and management skills; capacity and capability of support service institutions; access to credit; market development to increase low demand for small-enterprise products and professional networking.

Activities. The proposed sub-project will focus on local institutional strengthening to provide improved services to and environment for MSAs. Illustrative activities include: (1) training in basic management and training skills for local NGOs to strengthen institutional capacity; (2) training for selected GOL officials on assessing business environment policy constraints; (3) facilitation to increase access to credit; (4) development of support services provided by NGOs -- e.g., market information, professional networking, etc.; and (5) address selected policy issues within sector, such as legal constraints for women on obtaining loans and entering contracts.

Expected outputs. Outputs will be refined during project design but illustrative outputs are: local NGO capacity strengthened to provide increased and better quality training and services for MSAs; increased services and skills provided to enterprises; increased numbers of GOL officials trained in private sector policy analysis; increased loans provided; and possibly selected sectoral policy reform.

Impact assessment. During design, USAID will determine whether cost-effective measurement of the contribution of this activity to the USAID agriculture strategic objective is feasible. At this time, the Mission does not believe that its impact can be easily measured without costly analysis, given available data and the size and nature of the activity. Therefore, it is structured as a target of opportunity. Nevertheless, PVO tracking of the number, average size and employment of a sample group of target MSAs will be explored.

Management aspects. As noted above, this activity would be managed by a U.S. PVO under the lead U.S. PVO responsible for managing the USAID-funded PVO Umbrella Project.

d. Other Efforts (Donors/GOL)

The donor community has been active in supporting various endeavors which provide assistance to small entrepreneurs, large manufacturers and public and private sector institutions. Major donors include the UNDP, World Bank, European Economic Community (EEC) and Germany. Donor activities cover several fields, including business regulatory policy reform, private sector skills and management training, rural technology improvement, industrial policy coordination and manpower development the Ministry of Trade and Industry (MOTI).

The GOL previously promoted private sector generally, but recent efforts focus on the small- and medium-enterprise sub-sector. The GOL established a Task Force which prioritized employment generation interventions for returned miners from South Africa, several of which were in small agroenterprises. For overall policy oversight, the GOL created a Small Industries Division within the Ministry of Trade and Industry (MOTI) as a service delivery unit responsible for supervision of the Business Advisory and Promotion Service (BAPS) and a Small Business Development Fund to provide technical assistance and training for MSAs and support institutions. To improve service delivery, the GOL streamlined the Basotho Enterprises Development Corporation, the parastatal responsible for promoting indigenous business ownership, and re-focused its activities on providing industrial and workshop space and assisting entrepreneurs prepare viable projects for submission to banks. Additionally, the GOL established BAPS to coordinate policy, give business advice and provide information about business opportunities and private sources of advisory and training services to indigenous enterprises.

The proposed USAID intervention will complement GOL and other donor efforts. For example, USAID support for expanding small enterprise planning services by business service institutions would enhance the effectiveness of several donor-funded credit programs and complement efforts of BAPS. USAID involvement in NGO development would also support donor-funded grassroots initiatives in small enterprises.

C. Other Targets of Opportunity

1. Continuing Target of Opportunity: Reduced Rate of Sexually Transmitted HIV Infection

In the FY 1992 - FY 1996 CPSP, USAID identified this subsector as a target of opportunity. It is proposed that involvement as a target of opportunity be maintained since the activity will continue to be relatively small and be in areas where AID has a comparative advantage. Further, it will be difficult to ensure measurable impact required for raising such an activity to a strategic objective, especially with the PVO management approach recommended. See Section C.1.c for details on the rationale for a continued and somewhat expanded program.

a. Constraints

While AIDS appears to be having relatively less devastating effects in Lesotho than in other African Nations at this time, it is an increasingly serious problem. The first case of AIDS was diagnosed in Lesotho in 1986. Thereafter, AIDS cases grew slowly for several years, initially among expatriates, then increased sharply, largely among Basotho. In 1991 there was a cumulative total of 51 cases. As of December 1992, the cumulative total was 181. In 1991, 28 new cases were reported; in 1992, 130 new cases, which was a 200 percent increase in one year. However, the real figure of full blown AIDS is thought to be much higher because of under-diagnosis and under-reporting. Another indicator, HIV infection rates, is also increasing rapidly and is estimated at 20,000, which is expected to increase to 60,000 by 1996. An estimated 10 percent of tuberculosis patients in Lesotho are HIV-positive. Blood donations testing positive for HIV rose from 0.02 percent in 1987 to 1.76 percent in 1992. Sero-prevalence rates and AIDS cases will reach epidemic proportions within the next one to two years unless effective interventions are implemented immediately.

The study on HIV/AIDS Prevention and Control Activities in Lesotho (Wilson and Field, 1993) identified a number of constraints to reducing HIV and sexually transmitted disease (STD) transmission, including a sexually active youth, frequent migration patterns, age preference in partner selection, demographic factors (i.e., the age structure), and limited use of condoms. The GOL and NGOs have just begun to grapple seriously with addressing the AIDS issue, being at an early state of implementation of the Medium-Term Plan. While progress has been made over the past two years, more needs to be done in these areas: promotion and coordination of a broad-based national policy; improvement of management/technical skills and service delivery, especially for integrating STD and AIDS control programs; involvement of leaders and communities; comprehensive condom promotion; and promotion of appropriate behavior change. The recent appointment by the new government of a strong minister in the Ministry of Health (MOH) is a particularly hopeful sign that the issue of AIDS will be given greater attention.

The GOL does not have sufficient resources to launch a broad-based approach to address AIDS prevention. Donor resources will be required for sometime to address the problem effectively and in a timely manner.

b. USAID Current Activity

Through the centrally funded Social Marketing Project, AID initiated a condom promotion and distribution activity in Lesotho in mid-1992. The objective was to increase the availability and accessibility of affordable condoms by distributing the product through commercial retail outlets. This activity has developed more slowly than planned, largely because of the weak management capacity of the indigenous private sector firm selected. With technical assistance provided through the centrally managed AIDS Technical Support (AIDSTECH) Project, USAID is reviewing distribution and related factors, with the view to modifying this approach to target high-risk groups more directly with information.

To reduce the further spread of HIV infection in Lesotho, USAID began to provide assistance in late FY 1992 through the AIDSTECH Project (OYB transfer) under a cooperative agreement with the U.S. PVO Family Health International (FHI)/AIDSCAP sub-project. This initiative supports peer education through the community networks of NGOs and technical assistance to the MOH for STD prevention and treatment protocols. Under a subgrant to FHI, the Lesotho Red Cross is providing AIDS information and education through its network of youth volunteers. These activities have just begun; however, it is clear that the quality of technical assistance already provided through AIDSTECH has been welcomed by the MOH and other donors as important to accelerate improvement in STD and AIDS prevention programs.

c. Proposed USAID Involvement

Rationale. As noted above, Lesotho is entering a phase of increasing HIV/AIDS infection. Rapid increases could halt or reverse social and economic gains (including child survival and human resource development) made in Lesotho over the years. Cases of other opportunistic infectious diseases, such as tuberculosis, have increased sharply. Health care costs are escalating and HIV/AIDS demands on the health care infrastructure are just beginning to be felt. The negative impact of AIDS goes beyond the health sector. As AIDS kills people in their most economically productive years, skilled and unskilled labor forces are adversely affected, decreasing labor productivity and requiring redundant investment in education and training. As farmers and migrant workers become affected, agricultural productivity and per capita income will certainly decline.

AID has a predominant capability to support GOL and NGO efforts to combat the spread of AIDS in Lesotho. USAID-funded support complementing that of other donors is important to ensure a strong technical input into AIDS and STD prevention and control program development in the country. Further, this effort supports the Agency priorities to stem the spread of AIDS and

improve the efficiency of contraception distribution programs. It also supports Bureau guidance for Lesotho to limit future program initiatives to Agency and Congressional priorities. Given GOL strong support for NGO involvement in AIDS activities in the country, it is especially appropriate to continue activities in the area under the proposed future management mode.

Purpose. The purpose of USAID assistance is to reduce the rate of sexually transmitted HIV infection among selected high-risk groups.

Activities. As recommended by the Wilson/Field report, USAID will target highly vulnerable groups principally through peer education, STD prevention and control, and condom promotion and distribution. USAID will focus its support on peer education through the community networks of NGOs and technical assistance to the MOH for STD prevention and treatment. These efforts will complement those of other donors and be in areas where AID has specialized experience and skills. USAID plans to support the following activities: (1) continuation of the community-based AIDS education project implemented by the Lesotho Red Cross Society (begun February 1993); (2) technical assistance for CARE for a peer education project with the football (soccer) players; (3) technical assistance for the MOH STD control unit to conduct studies and develop guidelines for integrating prevention and counseling education into STD case management, followed by training of private and government clinicians in STD diagnosis and treatment; (4) expanded social marketing of contraceptives to promote and distribute condoms to high-risk groups through commercial and NGO channels; (5) peer education activities among miners and construction workers; (6) continued policy dialogue with key policy makers and program managers to increase awareness of the significance and impact of AIDS in Lesotho. Initiative linking AIDS activities with miners on a regional basis will be considered.

Outputs and impact assessment. The NGO subgrantees will collect information on education activities and target group knowledge of AIDS. People-level impact data is difficult to obtain -- e.g., confirming that increased knowledge has affected behavior. MOH and WHO plan to compile data on condoms distributed/issued, providing a means to estimate condom use and monitor numbers practising safe sex. The MOH, with WHO assistance, has begun to collect data regularly on the number of new AIDS cases. It also carries out periodic sentinel surveillance studies to obtain data on sero-prevalence levels in selected areas. These data may provide a proxy on the impact of the combined GOL and donor efforts on the rates of newly identified HIV cases. Monitoring the effects of USAID assistance on improving the diagnosis and reporting of clinical STDs may also provide some useful data on reducing the incidence/prevalence of STDs and, indirectly, AIDS. Over time, potential for measuring impact may improve.

Management aspects. USAID is currently using the U.S. PVO FHI/AIDSCAP because it has the mandate to carry out AIDS prevention and control programs for AID worldwide and can provide the needed specialized and broad-based technical and financial resources. FHI has hired a resident adviser to

manage the program, minimizing USAID management responsibilities. Most of the AIDS education activity will be through subgrants to indigenous NGOs. Technical assistance will be provided by the Africa FHI/AIDSCAP regional office (which permits a regional approach), its home office and U.S. subcontractors available under the FHI/AIDSCAP Cooperative Agreement. It is planned to integrate USAID support for AIDS into the planned PVO Umbrella Project as it becomes operational, continuing with support through a U.S. PVO.

d. **Other Efforts (GOL/Donors)**

The GOL increasingly recognizes the seriousness of the AIDS threat and has developed an aggressive plan for AIDS prevention and control. The third Resource Mobilization Meeting on AIDS was held in March 1993 in Maseru where the MOH, World Health Organization (WHO) and other donors reviewed the progress of the National AIDS Prevention and Control Programme (NAPCP) and pledged support. Components of the MOH Plan include: (1) management support; (2) information, education and communication activities; (3) surveillance and control; (4) laboratory support and blood safety; and (5) clinical management.

WHO, the largest donor, provides technical assistance to the MOH/NAPCP; EEC funds blood testing, screening equipment and laboratory supplies; the Overseas Development Administration (British) funds program management and training; the Canadian International Development Agency supports research grants to NGOs; and the World Bank provides loans to the MOH primarily for STD prevention and control.

The Lesotho AIDS control program has made constructive progress over the two years. Key policy constraints which had hampered development have been lifted. Government is increasingly supportive of AIDS prevention strategies and more open to describing the problem statistically. In addition, the MOH has recently clarified the role and functions of the MOH in relation to the NAPCP, integrated AIDS activities with other health programs -- particularly STD programs, and actively encouraged NGO involvement. It has recently begun to address the critically needed management reforms, including the strengthening of key personnel.

2. **New Target of Opportunity: Improved Availability of Family Planning Information and Services**

USAID proposes to initiate a new target of opportunity in this sector. This effort will be relatively small and fits well with the proposed PVO Umbrella model for program management in Lesotho.

a. Constraints

A high rate of population growth is an overriding constraint to sustained, broad-based economic growth in Lesotho. If the 2.9 percent rate of growth continues, the population will double in less than 20 years. This situation seriously undermines efforts to attain per capita improvements in a wide range of social and economic areas.

As pointed out by a recent USAID-funded report (Lewis/St. Clair, 1993), a number of constraints impede the reduction of population growth rates in Lesotho. On the demand side, the high value Basotho place on children, sex preference for boys and the relatively low status of women contribute to high fertility. Lesotho is a traditional male-dominated society with men holding legal, economic and social power. Traditional lack of communication between spouses on sexual matters is exacerbated by the prolonged absences of men working in South Africa and higher female educational achievement levels. Religious beliefs opposed to modern methods of contraception may also contribute to continued high fertility.

On the supply side, access to quality family planning services, particularly in rural areas, limits contraceptive use. The rural Basotho women often have to overcome distance and cost barriers to get the information and services needed. The number of outlets are limited and more than half of the health centers do not provide comprehensive family planning services. Lesotho also suffers from a shortage of skilled manpower, including the loss of skilled workers to South Africa and the region. The out-migration of health workers has left large gaps in the family planning program structure. Medical barriers to use of contraceptives are extensive and repeat visits to clinics are required. Supplies are often limited, and frequent stockouts and brand rationing are common. The Lesotho program focus is on short-term methods, the pill and injectables, while ignoring more effective long-term methods such as Norplant and voluntary surgical contraception (VSC). Clinical staff skills in family planning are basic and counseling and motivations skills are limited with no standard protocols for family planning information.

Insufficient family planning and demographic data for estimating with any certainty contraceptive use and latent demand for family planning also impede planning for and providing services as well as convincing GOL leadership of the seriousness of the problem.

Lesotho is unlikely to be able to generate the necessary revenues to provide for an adequate health and family planning service delivery system to slow population growth effectively in the near or medium term. Thus, major donor assistance will be required for the foreseeable future.

b. Past USAID Involvement

The USAID-funded Lesotho Family Health Services

Subproject of the regional Family Health Initiatives Project (FHI II) provided \$1.2 million in assistance from 1987-1992. Its purpose was to strengthen the delivery of family planning information and services. Implementing organizations were the MOH, the Lesotho Planned Parenthood Association (LPPA) and the Lesotho Catholic Secretariat. FHI II supported management training; information, education and communication activities; contraceptive commodity procurement, logistics and user statistics; family life education; operations research; and natural family planning. USAID support in this sector was phased out to focus the program on only two strategic objectives.

c. Proposed USAID Involvement

Rationale. USAID/Lesotho involvement in the area of population/family planning is proposed for several reasons. First, family planning is a key development constraint in Lesotho. Every development activity in Lesotho is affected by rapid population growth: arable land is being lost from environmental damage caused by more people; educational expenditures must increase by 3 percent a year just to accommodate the growth in the school-age population; unemployment is increasing as numbers of school leavers increase; health services are increasingly inadequate; and food production cannot keep pace with population growth.

AID also has a predominant capability in the field. USAID has been a leader in support of international family planning efforts for more than 20 years. No other international donor can match AID for its technical capability, institutional support structures, pool of expertise, and capability to integrate technical and financial support through its cooperating agencies. The Basotho family planning community continues to hold USAID and the quality of support provided under FHI II in high regard. Other donor support cannot provide sufficient funds and technical resources provide to address the growing problem.

Further, involvement in the sector is appropriate for the envisioned PVO/NGO activities under the proposed PVO Umbrella Project. Involvement in the sector supports Target 1.3 under the DFA -- improved equity and efficiency in providing key public services particularly family planning services....-- and meets Africa Bureau guidance to limit small programs to Bureau and Congressional priority areas.

Purpose. The purpose of USAID efforts is to assist Lesotho to improve the availability of family planning information and services.

Activities. The emphasis will be on increasing contraceptive availability through the introduction or improvements in integrated family planning activities. Illustrative activities to address supply include: (1) technical assistance for MOH and NGOs to improve planning, procurement, distribution and monitoring of contraceptive supply; (2) technical (including training), management, financial and commodity assistance for local NGOs (e.g., the large delivery networks of LPPA, the Private Health Association of Lesotho

(PHAL) and Lesotho Catholic Secretariat) to introduce or expand access to family planning services; (3) building on the SOMARC condom marketing activity, providing support for the expanded retail sale of contraceptives (including oral contraceptives) at affordable prices in retail outlets, NGO community channels and the workplace to improve access to services; and (4) possible introduction of VSC services in both public and private sector facilities. Decisions on the level of effort in this sector and the final list of activities will be made during the PVO Umbrella Project design.

To increase demand for family planning, illustrative support will be provided for information, education and communication (IEC) activities to address communication problems, misinformation, rumors, attitudes, sensitive issues and fears about family planning. Expanded IEC effort is one of the most seriously needed elements of a family planning effort. The United Nations Family Planning Association (UNFPA) supports some IEC efforts but its resources are too limited for the massive effort required. Assistance will be provided for a IEC strategy needs assessment, development of information on the benefits of family planning and all family planning methods and use of both mass media and interpersonal channels to target males, youth, service providers and the general public.

Expected outputs and impact assessment. Expected outputs include: increased number of family service delivery sites (including retail and NGO facilities) providing improved information, supplies and services. These will be quantified during project design. The selected PVO will be expected to collect data regularly on number of outlets providing family planning service, clients served and couple years of protection (CYP). CYP is a good proxy for contraceptive use and can be calculated using contraceptive logistics data. This information will enable USAID to track progress toward meeting its objective and to assess if our assistance is having an impact on increasing the availability and use of contraceptives in the project areas. Direct estimates of fertility and contraceptive use should of course be obtained through periodic sample surveys. UNFPA is providing support in this area and it or another donor will be encouraged to continue these efforts.

Management aspects. After careful consideration of all management options (Chapter 6, Lewis/St. Clair), USAID has determined that the most effective and least management intensive approach is to use a PVO intermediary under the proposed USAID PVO Umbrella Project. The intermediary will manage the effort, coordinate inputs, provide ongoing and specialized technical and financial resources, and work with the government to ensure full integration. It will work with targeted local NGOs to expand and improve service delivery. The U.S. PVO community includes a number of potential implementing agencies (e.g., Pathfinder, CARE, CEDPA, and FPIA). The selected PVO will have the flexibility to contract out technical services as appropriate (e.g., IEC, VSC, contraceptive logistics).

d. Other Efforts (GOL/Donors)

Although the MOH is the main service provider in Lesotho, local NGOs such as the Lesotho Planned Parenthood Association (LPPA) and the Private Health Association of Lesotho (PHAL) play a major role in the delivery of health and family planning services. Lesotho is divided into 18 Health Service Areas (HSAs). The MOH directly administers nine, including nine hospitals and 63 clinics; under MOH oversight, PHAL administers another nine, comprising an additional nine hospitals and 86 primary health care centers. Unlike most countries, government and NGO facilities in Lesotho are totally integrated. Half of the health centers, under the Catholic Church, do not provide family planning services.

Lesotho now has an official population policy, as reflected in its most recent Five Year Plan. This effort represents a major departure from the past and the higher priority given population growth. The policy, while basic in scope and objectives, sets demographic goals (crude birth rate of 34 by 1996) and general implementation guidelines, including integration of family planning into all health services; making all contraceptive methods available; identification of information, training, research and evaluation activities; and support for active NGO community participation.

Other donor support in the sector is limited. The World Bank is financing the upgrading of rural health centers and facilities at Queen Elizabeth II Hospital. It has assisted MOH with the development of a population policy, in-service training for clinical works, and creation of two youth counseling centers. UNFPA has focuses its assistance in IEC and family life education. In the future (1993-96), UNFPA plans to support population education for in- and out-of-school youth through formal and informal channels, training of health workers and support to the National University of Lesotho for analysis of the 1991 Demographic and Health Survey. Support for contraceptive commodities is only planned for one more year.

VI. MANAGEMENT OPTIONS

A. Overview

USAID has reviewed a number of options for managing the Lesotho program in the post-FY 1995 period, including a joint commission, foundation, Swaziland/Lesotho shared staffing, small traditional mission, and various PVO/NGO approaches. USAID has looked more intensely at those models which offered more promise within time constraints.

A major assumption in embarking on the assessment of management modes was that USAID/Lesotho will be under continuing pressure to reduce OE costs and USDH staff beyond the FY 1994 planned level. A related assumption was that the Africa Bureau policy to concentrate resources and staff in "major"

countries for greater people-level impact will continue, and perhaps intensify. Finally, it was anticipated that AID will be strongly encouraged to use innovative approaches that involve increased use of U.S. private organizations. These assumptions, together with the reality of the Lesotho context have helped mold our thinking.

B. Options Reviewed

1. Joint Commission

The only USAID experience with this model is the USAID Joint Commission in Oman, which does not substantially reduce the number of USDHs nor significantly reduce OE expenses. Additionally, the GOL does not have large amounts of funds that could be contributed nor the management capacity to support such a model.

2. AID-Endowed Institution or Foundation

AID has used this model to strengthen existing institutions or establish new ones. Important issues in considering this approach in developing countries have been weak institutional and legal structures, organizational performance, political interference, devaluation accountability, and AID termination. Although this approach would minimize OE and USDH resources once established, USAID/Lesotho believes that the implementation process would be long and difficult in Lesotho with its limited management, financial and technical capacity. Further, Lesotho has weak local NGO capacity and does not have a suitable existing organization for this model. Establishing a new foundation would be particularly management intensive and entail greater risk given these constraints. A final concern is whether DFA funds could be used for this type of arrangement.

3. Staff Sharing with Swaziland

The staff sharing mechanism between Swaziland and Lesotho being implemented in FY 1994 is an interim measure to enable the Missions to implement their respective programs with reduced OE and USDH staff resources. The reduced staff is sufficient for implementation of ongoing projects; it is not adequate to oversee the design of a sufficient number of new projects to justify continuing this mode (and the staff level) beyond an interim two-year period. Most ongoing projects will be completed in Swaziland by FY 1996 (except for one ending in FY 1997) and Lesotho by FY 1997 (except for one which ends in 2001). In order to have a post-interim mode in place by FY 1996, design actions must be taken no later than FY 1994. Furthermore, OE and USDH levels could be further reduced, making continuing design even more difficult.

4. Regional or Mini-Mission

Since the potential plans to establish a regional Mission in southern Africa have been shelved for the time being, we are not considering this

option. Communication (fax and telephone) and travel between Nairobi and Lesotho are too difficult to oversee a regular program with minimal or no staff. The mini-Mission would have the same problems with continuing project design as the interim staff sharing arrangement.

5. PVO/NGO Option 1: Co-Finance Project

USAID/Lesotho conducted a PVO/NGO assessment (a) to assess capacity and capability of U.S. registered PVOs and Lesotho NGOs to expand activity in selected sectors which match USAID/Lesotho focus areas, and (b) to assess options for more direct PVO involvement in supporting program management (see Annex B). This study identified two options: a PVO Co-Financing Project (discussed in this section) and an PVO Umbrella Intermediary (discussed in Section VI below). The PVO Co-Financing Project under Mission management would be far too management intensive with either the interim reduced USAID staff or an anticipated further reduced staff since it would require internal project management oversight. Furthermore, because such a project would provide multiple grants to PVOs/NGOs, USAID/Lesotho would have the continuing responsibility to review such grants, monitor progress, carry out normal controller functions, etc. Given the capacity weaknesses of NGOs in Lesotho and the potential heavy USAID/Lesotho management load, we do not see this as a viable option.

6. PVO/NGO Option 2: U.S. PVO Umbrella Intermediary

The U.S. PVO Umbrella Intermediary model provides for external management of a PVO support program through an intermediary organization, generally a PVO organization that specializes in PVO project management. The U.S. PVO selected to manage the project is responsible for providing and supervising all project personnel, procurement of commodities and technical assistance, and maintaining appropriate systems to monitor grantees and to ensure financial accountability. Grant proposal review, approval, and administration is the responsibility of the U.S. PVO intermediary organization. AID monitoring is accomplished through periodic site visits, monitoring reports, approval of annual workplans and budgets, evaluations and audits. Under this model the majority of the costs associated with project management are attributed to the project. This model significantly reduces the AID's administrative burden as compared to the Co-Finance model. Except in situations where AID has made a determination that for security, political or specific program requirements that a PVO support project should be managed internally by the mission, most recent PVO support projects have been of the umbrella intermediary mode rather than the co-finance mode.

C. Recommended Option

USAID/Lesotho recommends the PVO Umbrella Intermediary option for future management of the USG assistance program in Lesotho. The planned reduction in USDH staff requires that consideration be given to selecting a less

USDH intensive management mode. The U.S. PVO Umbrella Intermediary option would provide an opportunity to continue to support programs in USAID/Lesotho's sector focus area while transferring longer-term implementation responsibility to an external management entity. AID oversight management responsibility could continue to be provided by remaining USDH staff in country or possibly in the future from a regional mission. If a regional mission is not established, then responsibility for the Lesotho Umbrella Project would have to be assumed by a mission in the region.

With the exception of the Community Natural Resource Management (CNRM) Project, the balance of programs and projects in the current portfolio will be completed by FY 1997 (LAPSP would end, if extended, in 1995 and PEP in 1997). This schedule will provide sufficient time to design a PVO support project to start in late FY 1995. During FY 1996, ongoing activities in AIDS and family planning would be folded into the PVO Umbrella Project (PUP). Remaining USDH staff would oversee completion of existing projects through FY 1996 and facilitate start-up of PUP. In-country USDH presence is critical during the start-up phase of PUP. USAID/Lesotho administrative and management responsibilities will decrease as PUP becomes operational and project grant management responsibilities are assumed by the PVO selected to manage the project. The proposed design schedule will provide adequate time to assess options relative to the second phase of CNRM including the possibility of incorporating the remainder of the CNRM project under PUP.

The life of project funding level for PUP is \$25 million over a five-year period. This level of funding assumes that the second phase of CNRM funding would be incorporated under PUP. Initial obligation for PUP is \$2 million in FY 1995 and an additional \$3.3 million in FY 1996. Remaining annual obligations are between \$3-4 million. When CNRM is folded under PUP upon completion of the current contract in 1997, an additional \$1.7 million funds would be required in annual obligations starting approximately in 1997.

VII. NEW PROJECT NARRATIVE

A. Background

Project Title. Lesotho PVO Umbrella Project (PUP)

Project Number. 632-0233

Project Funding Level. \$25 million over 5 years

Major Development Problem Addressed. Lesotho's high population growth rate and the raising demand for improved social services continues to place increasing pressure on available government budgetary resources. As the GOL continues to reduce its role in managing the economy, including the provision of public services, the private sector and the NGO community will be required to fill the gap. The rapidly increasing demand for public sector social services and internal demands on human and financial resources has curtailed the growth of public service delivery in both urban and rural areas with the latter being the hardest hit. These conditions make it difficult for the GOL to expand and extend programs that are important for greater people level impact. GOL response has been to increasingly look to PVO/NGO-government partnerships in health, education, social services, and income-generating activities to complement their central program. For the foreseeable future, GOL outreach and extension programs will continue to be of limited scope, thus placing increased importance on PVO/NGO programs. The environment in Lesotho for expanding the PVO/NGO-government relationship is positive and the government continues to be supportive of this endeavor.

Responding to AID/W requirements for reductions in staffing and OE costs, continued programming of U.S. assistance to Lesotho will require a change in the modality for program assistance delivery that is different from the existing USAID Mission or planned interim model of staff sharing with USAID/Swaziland. Several options for managing the AID program in the post-transition period were considered. Lesotho has a long history of private voluntary and non-governmental organizations although local NGO capacity is still limited. Government policies are favorable to PVO/NGO activities and U.S. PVOs have expressed interest in expanding and/or establishing programs in Lesotho. Consistent with the AID policy that encourages increased support for PVOs/NGOs, USAID proposes to design a PVO support project that will assume increasing responsibility for managing the implementation of economic assistance to Lesotho in selective areas.

B. Project Objectives

The purpose of this project is twofold:

- To increase the development impact in selected areas of agriculture (natural resource management and micro- and small

agro-enterprises), family planning and AIDS prevention.

- To increase the institutional capacity of Lesotho NGOs to undertake developmental activities in these key areas in collaboration with local organizations and community groups.

Furthermore, this project will provide a means to manage AID-funded activities beyond the interim transition management mode.

Project objectives will include (1) initially helping to decrease the Mission's management burden of activities either already in its portfolio, or to be funded by the project itself; and (2) eventually assume responsibility for USAID's program portfolio, which would consist of only PVO/NGO activities.

The proposed project is consistent with AID/W guidance on program management transition which requires future AID-funded activities in Lesotho be accomplished with a major reduction in staff and OE costs. The timing for the design and implementation of PVO Umbrella Project (PUP) coincides with the completion of major programs in FY-1996/FY-1997 in the current portfolio and would provide a means to continue to implement AID-funded activities in Lesotho that address important development needs.

Consistent with the "A.I.D. Policy Paper on Private Voluntary Organization" and in DFA legislation on the increased use of Private and Voluntary Organizations, PUP will further contribute to the A.I.D. mandate to support and collaborate with U.S. PVOs, African NGOs and community groups. This project is consistent with AID/Congressional development priorities.

C. Project Description

The PVO Umbrella Project will provide a mechanism to manage funding to continue to support project activity in sectors identified in the current CPSP (FY 1992-1996) which includes agriculture and natural resource management (including enterprise development), and AIDS. Given the grassroots nature of PVO/NGO activities, a larger percentage of the beneficiaries will be the rural population which includes a high portion of households headed by women.

An externally managed PVO umbrella project is proposed for Lesotho. Under this model, a U.S PVO organization would be selected to implement a PVO funding project. AID would maintain regular project oversight responsibilities as specified through a cooperative agreement with the PVO selected to implement the project. This approach was selected to: (1) reduce both USDH staffing requirements and OE costs, (2) reduce the AID management burden, (3) incorporate to the maximum extent possible the full management costs within the project, and (4) to facilitate procurement of specialized skills and other technical assistance through a project mechanism. AID project monitoring responsibilities would be provided by a resident USDH, who would also be responsible for

monitoring the completion of the Primary Education Program (PACD July 31, 1997) and incorporation of the Community Natural Resource Management (CNRM) Project under the PVO Umbrella Project by March 30, 1997, the expiration date of the current CNRM implementation contract. The resident USDH would be responsible to a regional office or neighboring mission. The neighboring mission or regional office would continue to be responsible for AID's oversight of the Lesotho PVO Umbrella Project after the USDH presence terminates in Lesotho in 1997.

It is anticipated that the U.S. PVO selected to implement PUP would submit annual work plans and budgets for approval by AID. Furthermore, periodic reports would be required (e.g., progress reports measured against annual work plan and variance analysis of actual expenditures against the approved budget).

Preliminary estimates relative to annual funding levels indicate that \$5 million could be effectively programmed in Lesotho. This level of funding also includes the cost of PUP project management and CNRM following completion of CNRM phase 1 in 1997. Both annual and multi-year grants would be available to qualifying PVOs/NGOs. The projected first obligation is \$2 million in FY-1995 with \$3.3 million to be added in FY-1996.

Following PID approval, a Request for Application (RFA) would be issued to solicit interest from the PVO community to enter into a cooperative agreement for the purpose of assisting the Mission with further design including preparation of the Project Paper (PP). The RFA will specify that the Mission will consider entering into a longer term cooperative agreement with the selected PVO for project implementation. The RFA/Cooperative Agreement mode would be utilized to competitively secure the services of a U.S. PVO to assist with project design (preparation of the PP) and following completion of the project design serve as the external project manager. Participation of local NGO representatives will be sought during both PID and PP designs. Consultations will also be held with GOL officials during the design phase. Consistent with requirements to reduce Mission staffing and the likelihood of minimum staff from FY-1995 onward, the externally-managed umbrella project is proposed for management of AID activities and grants to PVOs and NGOs for implementation of activities in the period following the interim transition phase (staff sharing with Swaziland).

U.S. PVOs that are registered with AID will be eligible to submit proposals in the Mission's focus areas for funding to the PVO manager of PUP. Guidelines and criteria for developing proposals will be developed during PP design and will be made available to prospective grantees. The application process will consist of two steps - an initial concept paper and, if approved, a full proposal. Guidelines will include outlines for both the concept paper and the full proposal. The concept paper which will include a budget for proposed activities and a budget for preparation of a full proposal. A review committee, composed of representatives of the PVO selected to manage PUP, USAID, and the GOL, will review concept papers. AID participation in the proposal review process will be phased out upon departure of USDHs from Lesotho. Approval of a concept paper will lead to an invitation to submit a full proposal. There will be a provision for the

project to share in the costs of PVO/NGO proposal preparation following approval of a concept paper. Full proposals will be subject to the same review process as the concept paper. PVOs/NGOs will be expected to meet the 25 percent minimum matching contribution from non-U.S. government sources.

U.S. PVOs will be encouraged to enter into collaborative relationships with local NGOs. Local NGOs will be eligible to receive sub-grants from U.S. PVOs under the condition that the principal grant recipient retain accountability.

Funds under the project will also be made available to PVOs/NGOs and to PVO/NGO representative organizations for the purpose of training and other aspects of institutional strengthening. Such grants can be for individual activities or for longer term training programs.

D. Design Schedule

The time frame below is based on the assumption that there are no major delays and that approvals are forthcoming in a timely manner. If any delays are experienced due to unavailability of consultants, REDSO staff, etc., or redesign following review(s), additional time will likely be required.

The Mission will look to REDSO/ESA to assist in developing the PID and provide the design team for the Project Paper as staff remaining in the Mission will be insufficient to undertake this design.

<u>Tasks</u>	<u>Time Required</u>	<u>Completion Date</u>
1. AID/W review/approval of PVO/NGO concept in post transition strategy.	6 weeks	August 15, 1993
2. Project Identification Document (PID) Design - PID will be a comprehensive document as AID/W will likely use as part of the rationale for the longer-term program in Lesotho. PID will propose selecting a PVO to assist with PP design. Some analysis normally done at the PP stage may be included in the PID to ensure that reviewers have adequate information on which to base decision to continue to PP. Early REDSO/ESA involvement in PID design would be advantageous to provide continuity in design effort for the PP. Furthermore, with recent reductions in USDH staff, the Mission no longer has all the staff resources to undertake this design. USAID/Swaziland will also review PID as responsibility for PP design would be with Director of the combined Swaziland and Lesotho Missions.	6 months	Feb. 28, 1994
3. AID/W review/approval of PID.	4 weeks	March 31, 1994

<u>Tasks</u>	<u>Time Required</u>	<u>Completion Date</u>
4. RFA on collaborative mode completed/advertised.	6 weeks	May 15, 1994
5. RFA on-the-street.	2 months	July 15, 1994
6. Selection/negotiation coop. agreement.	2 months	Sept. 15, 1994

(at about this point USAID/Swaziland takes over Mission Director oversight to continue this process as the Lesotho Mission Director will depart post shortly thereafter and will not be replaced)

7. Mobilization of PVO to assist with PP design. REDSO/ESA (or a Southern Africa Regional Office if it exists) will be requested to lead the PP design effort with the assistance of the PVO selected under the process noted above. Design would be undertaken in consultation with the Swaziland/Lesotho USAID Director. At this time remaining USAID/Lesotho staff resources will be devoted primarily to implementation responsibilities of the remaining portfolio. Project design staff resources in both USAID/Lesotho and USAID/Swaziland will also be very limited.

	6 weeks	October 30, 1994
8. PP Completed.	4 months	February 28, 1995
9. REDSO or AID/W approval of PP (likely to be required given the implications for program management). USAID/Swaziland submits.	2 months	April, 1995
10. Staff selection/mobilization and PVO Project Operational.	2 months	June, 1995

Employment generation has been affected by tardy public sector, including civil service, reform as the GOL has continued to play a direct role in production and distribution, especially in agricultural marketing and industry. To accelerate public sector reform, the GOL will implement a public enterprise reform program, including capital market development, and enhance economic management through a public sector financial management project. However, to enhance the growth linkages of public sector reform, the GOL needs to integrate the privatization component with trade and tax reforms and private sector promotion.

Ensuring employment gains from the Lesotho Highland Water Project (LHWP) requires judicious investment of projected annual LHWP revenues, which are less than either SACU payments or wage remittances. The GOL has to ensure that the LHWP Development Fund, to be financed from LHWP revenues and utilized solely for developmental purposes, is utilized prudently. In particular, the GOL needs to minimize future use of the Fund stabilization account to finance the normal budget and develop the capability to manage future local and off-shore Fund investments effectively.

To increase domestic investment, enhance revenue and improve equity, the GOL reduced the income tax rates for the individual top marginal incomes and resident manufacturing companies; lowered the general sales tax rate; abolished sales tax exemptions on basic goods and tax holidays for manufacturing; and began levying tax on several public enterprises. However, the new tax law increases the company tax burden on non-residents and introduces a limited capital gains tax; these may stifle investment. To achieve tax reform goals and improve regional investment competitiveness, the GOL needs to rationalize the tax system further, broaden the tax base, lower tax rates, strengthen enforcement and address the suitability of a value-added tax for Lesotho.

Lesotho's investment planning has resulted in limited indigenous private sector expansion whereas foreign investment has grown, mainly due to the relocation of investors from South Africa and the Far East who sought escape from sanctions, avoided quotas or took advantage of strong protection. The GOL now emphasizes Lesotho's competitive advantage for investment, especially in resource-based industries, including: lack of history of nationalization or restrictions on after-tax repatriation of investment returns, significantly lower manufacturing income tax than elsewhere in the region and low labor costs. However, agricultural sector distortions constrain long-term investment in agro-based and manufacturing industries while rising labor costs relative to productivity are reducing Lesotho's attractiveness for investment. Additionally, the substitution of a lower tax rate in manufacturing for tax concessions may slow investment, or cause divestment, of concession-dependent businesses. Lesotho needs to implement a comprehensive private sector strategy which further rationalizes investment incentives and links private sector development with trade, tax and public sector reforms.

Key external issues relate to migrant-worker employment, SACU and aid. Migrant worker remittances averaged 41 percent of GNP during 1988/89-

Annex A

SUMMARY OF THE ECONOMIC BACKGROUND AND OUTLOOK

A. Overview of Economic Performance

Gross domestic product (GDP) real growth averaged 7.0 percent annually under the structural adjustment program (SAP) during the period 1988/89 to 1992/93, and other indicators met or exceeded programmed targets, but growth has slowed in recent years. In 1991/92, GDP real growth rate dropped to a negative 1.7 percent, mainly due to drought, and both budget and current account aggregates were below programmed Enhanced SAP targets. Nevertheless, the GOL has transformed the budget deficit from 9.2 percent of gross national product (GNP) in 1988/89 to 2.1 percent surplus in 1992/93, halted rapid domestic credit growth and increased net repayments to the domestic credit system. However, inflation has increased to 18.2 percent in 1992/93 and the real saving deposit rate is currently negative. In addition, the trade and current account balances remain negative, but the overall balance of payments turned positive because of increased donor capital inflows and Lesotho more than doubled its total foreign reserve import coverage between 1988 and 1992. The external debt increased to about 41 percent of GNP in 1992, but, the debt-service ratio, excluding LHWP debt, has not increased.

B. Key Issues Affecting Long-Term Growth

Lesotho has gained from economic reforms but has not been able to transform historically high national income growth rates into increased domestic employment; unemployment was estimated to be 30 percent in 1992, with a likely higher increase in the future. The source of income increases is external, most household income is spent on imported consumption and leading growth sectors have weak domestic resource linkages. Basically, saving and investment are inadequate to generate the needed sustainable growth and employment: gross domestic negative saving was the lowest among 124 developing countries in 1990 and the gap between total domestic expenditure and GDP has widened. Long-term growth depends on the ability of the GOL to address critical issues, especially those relating to land, employment, budget revenues, private and public sectors and aid.

The issues of land access, management and use are central to long-term growth. At least 30 percent of rural households were without land in 1986 and landlessness has increased. Legislation allows agricultural land leasing and leased property bonding as credit security collateral, but land leasing is nascent and banks have difficulty calling up land bonds of defaulters. However, grazing associations and village development councils have begun to institutionalize sustainable land management systems. Successful land reform should help conserve the rangelands, facilitate decentralization and catalyze increased private sector employment.

1992/93; but annual total remittances from all migrant workers, declined by an average of 15 percent in real terms. About 35 percent of the total labor force worked in South Africa in 1991, but migrant mineworker employment has started to decline and both the average contract length per worker and new recruits intake have dropped. Basotho mineworker employment dropped from 127,000 in 1990 to 122,000 in 1991. Since Basotho are some of the best trained mineworkers and hold more skilled positions, mineworker reductions may not be as large as feared. But, the GOL needs to maximize migrant employment gains and must plan measures to mitigate the negative impact of retrenchments. This would include improving the management of miners' deferred pay savings and expanding retraining and employment-creation support services for returning workers.

SACU receipts, which have averaged 52 percent of budget revenue since 1988/89-1992/93, rose from 10 percent of GNP in 1988/89 to 15 percent in 1992/93. However, customs revenue could drop sharply if present SACU payment conditions are modified with changes in the regional economy, although the adverse impacts could be mitigated through accompanying changes in trade and industry regulations. Nevertheless, the GOL has to prepare for any significant future reduction of SACU inflows, by developing contingency plans for financing the budget, accelerating expansion of its customs service capabilities and expanding the scope of tax reform to incorporate trade issues.

The donor-financed portion of the capital budget has increased from 67 percent at independence to 83 percent during the structural adjustment program. In 1990, net disbursed aid per capita was 14 percent of GNP, about the same as SACU receipts. However, future aid to Lesotho will likely drop. To improve donor resource management, GOL has to improve donor coordination, integrate donor flows in the national budget more effectively, design comprehensive sectoral development plans such as the Education Sector Development Plan that donors can buy into and channel more aid through the private sector, including through non-governmental organizations (NGOs).

C. Growth Prospects

Lesotho is at a critical point in its economic development and can best sustain growth if it continues its reforms, utilizes available domestic development opportunities efficiently and nurtures an advantageous relationship with South Africa. Any future Lesotho-South Africa relationship depends on the outcome of negotiations on constitutional rule in the latter country. Lesotho's dilemma is that effective political settlement and increased investment and growth in South Africa will likely be accompanied by reductions in migrant employment, remittances, SACU payments and competitiveness for regional investment. Based on assumptions similar to outcomes that can be plausibly expected under the best-case scenario in South Africa, the GOL has projected that annual GDP and GNP real growth rates will average 3.1 percent and 2.2 percent, respectively, during the period 1993-1995. At these rate, per capita income will decline or stagnate over the medium-term. Therefore, the GOL needs to improve economic performance

markedly to ensure broad-based long-term growth for future generations of Basotho.

Refer to Mission document, "Recent Economic Developments and Issues Affecting Long-Term Growth in Lesotho" by Mission Economist S. Vordzorgbe for a more detailed discussion of Lesotho's economic development progress and outlook.

ANNEX B

Lesotho PVO/NGO Assessment

The Potential for an Increased Role In USAID/Lesotho's Transition Strategy

EXECUTIVE SUMMARY

A. PVO/NGO Programs

The Study Team interviewed nearly 40 PVOs during the U.S. portion of this assignment. This included some 31 with no programs in Lesotho and seven with on-going country programs. In Lesotho, 25 formal interviews and numerous informal discussions were conducted with Lesotho NGOs, as well as follow-up interviews with the U.S. PVOs based in the country. In addition, all the major multi-lateral and bi-lateral donors resident in Lesotho were interviewed, as were most of the international volunteer organizations. Finally, several consulting firms and training institutes were visited in order to get their perspective on NGO training needs and available training capacity. In short, the breadth and depth of interviews was sufficient to provide a balanced assessment of PVOs and NGOs, and particularly their capacity and interest to establish and/or expand a Lesotho program.

1. Findings

The nature and structure of the PVO/NGO community in Lesotho is in many ways similar to those in neighboring countries, as well as PVO/NGO communities in other parts of Africa. Its origins date back to the colonial era and strikingly are tied to both English and South African historical precedents. The strong role that the churches play in the Lesotho PVO/NGO community, as in social, economic and political life, is both consistent with the evolution of PVO/NGO movements elsewhere, and yet, something more as well. It is almost as if not having to deal with the divisive nature of ethnicity experienced in many other African countries, and having no other real differences as a people, the religious preference has had a divisive influence on Basotho society. An interesting finding in this regard is that many of the Church organizations interviewed do not consider themselves as NGOs, but rather a separate category of institution with their own status. To some degree they have resisted becoming identified with the fledgling NGO movement, and collaborated only indirectly with the Lesotho Council of NGOs (LCN), an acknowledged representative of the Lesotho PVOs/NGOs.

There has emerged in the past decade, however, a counter-balance to the dominance exercised by the traditional churches within the Lesotho development community. This has been embodied in the rise of a significant number of smaller but quite influential NGOs, both secular and religiously affiliated, with South African origins and some international NGO influence. They have

taken a "liberation theology" view of the Church's role in the material world, and have strongly promoted ecumenism as part of their development philosophy and practice. These NGOs have tended to undertake development activities in the less traditional sectors associated with the older, more established NGOs. Rather than continuing in the well-worn pattern of social welfare oriented activities, including school and health facilities' management, as have the churches, the newer breed of NGOs have embarked on programs with a decidedly economic focus, and in areas of more global concern, such as AIDS education and natural resources management. The hardiest among them have strong links with international NGOs that have provided them with both funding and technical assistance. This international link is an historical pattern demonstrated in most countries where "second generation" NGOs begin to emerge as a critical force in national development.

The majority of Lesotho NGOs however, including those just noted, fit the classic profile of indigenous NGOs in most developing countries, i.e., new and inexperienced organizations, functioning largely with the volunteer labor of their members, and working in development areas with which they have great interest but limited experience. Institutional strength as embodied in management, technical, and hence absorptive capacity, is understandably low. While the volunteer spirit is strong among them, the lack of full-time and qualified staff, permanent offices and basic equipment -- a functioning secretariat in short -- has obviously limited their potential outreach and overall developmental impact. There are thus numerous strengths and weaknesses evident among Lesotho NGOs. They do not, however, operate in a vacuum and the institutional forces with whom they interact offer them both support and examples of how to build on their strengths and address their problems. The following presents a very brief summary of the institutional environment within which Lesotho NGOs interact.

a) The Government of Lesotho

Government has been characterized by NGOs and donors alike as being supportive of NGO and PVO programs. Considering the degree to which NGOs are involved in the provision of education, the management of health care and the delivery of social services, it is no wonder that Government and NGOs have found a way to work together. There are certainly none of the obstructionist tendencies that have been the hall-mark of government-NGO relations in other countries in their recent pasts. Registration for NGOs is a fairly straight forward matter, normally requiring fulfilling documentational requirements. Surprisingly, many Lesotho NGOs (although by no means all) have been able to obtain tax exempt status, a major problem for NGOs in most other countries. For international NGOs, including U.S. PVOs, setting up a program in Lesotho is generally welcomed, and made fairly uncomplicated as such endeavors go. This is not to say that all is sweetness and light between some Government agencies and a number of the more "progressive" NGOs, especially those with agendas of "social transformation and change." While there has been past friction between these parties, what is unique, is the fact that such NGOs have been permitted to operate at all. It appears that there is a well understood point beyond which

certain actions will not be tolerated. However, this point seems not to be static, and has slowly but steadily moved in the direction of greater openness and tolerance. The recently held democratic elections, appear to be an indication of this trend.

b) The Donor Community

If one considers Lesotho's there should be much wonder as to why so many donors are present and why so much financial, as well as technical assistance, has flowed into the country over the past twenty years or so. This effect and its impact, regardless of the reasons, has not been lost on or unfelt by, the PVO/NGO community here. While a number of the leading NGOs, including the churches and local affiliates of international organizations (e.g. the Red Cross and Lesotho Planned Parenthood Federation), have long depended on the good will of their parent or sister organizations abroad, the donor organizations based in Lesotho have also permitted a significant expansion of NGO activities. This again is part of a worldwide trend, in which for a number of reasons, positive and negative, NGOs have become an object of donor support as the realization dawned that their potential contribution and role as partners in national development could be a significant one. More surprising has been the finding that the leadership among the "other" donors in this support to PVOs/NGOs is coming, to a large degree, from the multi-laterals agencies and not the bi-laterals. The justification underlying this assistance has been in the failure of traditional (mainly through government) means and channels of reaching the grassroots level with donor support. Enter NGOs.

Two other important findings are noted. First, the tendency of donors has been to fund a sure thing, i.e., an NGO with a track record. Thus in many instances, the phenomenon of too many donors chasing too few capable NGOs has been all too evident, and not necessarily to the benefit of the concerned NGO(s) (the absorptive problem). Secondly, as most donors like to see tangible results from their granting or lending (as the case may be), little funding has been made available for the kinds of institutional support NGOs need to build up their program capacity. The net result of such practices has been a marked expansion in NGO development activities, but not in NGOs with the capacity to manage and sustain their own programs.

c) U.S. PVOs

As a subset of, and in comparison to, international NGOs, the U.S. PVOs with on-going Lesotho programs are relatively few in number. Strictly speaking, there are only five U.S. PVOs operating in Lesotho, all of them local affiliates of an American parent organization. Four of these five PVOs (CARE, OICI, World Vision and ADRA) are best described within the lexicon of the PVO community as traditional voluntary organizations (VolAg). They represent some of the oldest and largest of the U.S. PVOs, and have significant sources of private funding. They have traditionally developed and implemented their own country programs, characterized by an approach of grassroots integrated community

development. Their perspective is long-term and primarily inward looking, i.e., not necessarily concerned with, or in need of, other donor funding, or in collaborating with other members of the greater development communities in the countries where they work. This generalization obviously masks different needs and approaches among them, including excellent and innovative development work. This brief profile describes in a limited way the Lesotho-based U.S. PVOs interviewed for this study. It should be noted that they were genuinely interested in the objectives of this study and felt that with additional funding they could expand their development programs, although these do not necessarily correspond to USAID/Lesotho's development priorities.

In contrast to the Lesotho-based PVOs, those interviewed in the U.S. with no programs in Lesotho are for the most part a newer breed, specialized providers of management and technical assistance to public and private sector institutions, and in an increasing number of cases, to their counterparts throughout the developing world. As discussed in II.B., the U.S. PVOs interviewed for this study, indicated both an interest and capacity to establish project activities in Lesotho. They have significant experience in Southern Africa, extensive experience in working with A.I.D. in collaborative development efforts in the sectors which are of interest to USAID/Lesotho, and a sincere interest, if limited financial capability, to participate in Lesotho development. Most importantly, these PVOs see their role as one of supporting Lesotho NGO programs, rather than establishing and implementing their own.

2. Conclusions

A number of factors have converged at this particular juncture in Lesotho's evolution to warrant serious consideration being given to an expanded role for PVOs and NGOs in both national development efforts and as a strategy central to USAID/Lesotho's country program. Although there is not a huge pool of capable Lesotho NGOs and U.S. PVOs working in the Mission's focus areas, there is certainly the nucleus or "critical mass" around which a PVO/NGO strategy can be fashioned. There has been a real need to broaden and diversify the base of the Lesotho NGO community in order to dilute what has been a community dominated to a large extent by the churches. This has in fact taken place over the last three to five years, and thus provides a group of NGOs with the sectoral scope and geographical coverage which can be immediately supported while actions are taken to build institutional capability in a "second tier" of NGOs which lack the management, technical and, hence, absorptive capacity to effectively utilize USAID funding.

The conclusion of this assessment concerning the role of U.S. PVOs in USAID's country program is that partnerships between those PVOs without Lesotho programs and Lesotho NGOs would have the greatest long-term developmental impact. While there are a few PVOs that merit support in either establishing or expanding current program activities in Lesotho, the most effective, as well as proper role for U.S. PVOs in the country's development, is a supportive one vis-a-vis Lesotho NGOs. As such, each of the partners brings needed skills

and experience to the relationship that will hopefully increase the likelihood for overall sustainability through building long-term institutional capacity among the local partners. This is a critical issue for a future Lesotho project, and one that has been grappled with in all preceding PVO/NGO Support Projects financed by A.I.D.

Although the justification, i.e., the situation in South Africa, for the unusually high level of donor funding to Lesotho is rapidly fading away, there still seems to be a medium term commitment by both bi-lateral and multi-lateral agencies to maintain previous aid flows. What has changed, and what donors report will continue to be their aid policy, is the shift in assistance from Government to NGOs. Government will still be a direct recipient of donor funding, especially from the multi-laterals, but the ultimate recipients will increasingly be NGOs, both international and local. Thus, funding to NGOs will increase over the next three to five years as it has during the latter years of the 1980s and early 1990s. What is of interest in terms of this assessment, is that the majority of this funding is going to (a) fund NGOs and PVOs which have proven track records, and (b) to fund discrete project activities. The areas in which other donors are not providing assistance to NGOs are (a) to improve the overall institutional capacity of the numerous emerging (second tier) NGOs, and (b) towards building a longer term programming approach and capacity, including sustainability, among the more developed NGOs. One could add a third category, and this includes funding to sectoral activities of particular interest to USAID/Lesotho. This is the niche, and a large one, which is open to a USAID/Lesotho strategy of assistance to NGOs.

3. Recommendations

The following recommendations highlight those issues which are considered the most important in terms of fashioning a PVO/NGO strategy for incorporation in USAID/Lesotho's country program:

- ▶ It is important that strengthening indigenous NGO capacity be considered a central purpose of any new project. Such capacity strengthening is a gradual and evolutionary process, with the emphasis on process. It has taken decades for the religious and health NGOs in Lesotho to establish wide-reaching programs in education, health and social services. The process in new areas of NGO sectoral focus, i.e., agricultural and natural resource management, AIDS and family planning, democratization/governance and enterprise development, can be expected to be similar, except in those cases where long-established institutions have the interest, institutional capacity and outreach to implement them. Donors, including USAID, must be prepared to invest in a long-term program of NGO support, before expecting nascent NGOs to develop sufficient institutional capacity to make measurable contributions in these areas.
- ▶ Building institutional capacity does not mean simply providing technical assistance and training. To establish initiatives in new sectoral focus areas such as agricultural/natural resource

management, AIDS and family planning, enterprise development and democratization/governance may require modest funding to support the staffing of secretariats and related organizational infrastructure. USAID/Lesotho should not preclude this form of support where necessary.

- ▶ Political and social divisions, and resulting tensions based on religious affiliation, are a reality in Lesotho, and must be taken into account when considering grant support to religious development institutions.
- ▶ Caution is in order when thinking of funding the current programs of several of the U.S. PVOs currently operating programs in Lesotho. As discussed, programs such as World Vision International and Adventist Development and Relief Agency, are carry overs from earlier days in PVO program development. Preferring to implement their own programs rather than supporting those of Lesotho NGOs, may not necessarily be the most effective means of advancing USAID's country program objectives. In short, consideration of future funding under a new project of PVOs already based in Lesotho should be approached with a clear understanding of the extent to which they may or may not support USAID development objectives.
- ▶ Most PVOs and NGOs supported the creation of the Lesotho Council of NGOs as a means of fostering communication and information exchange within the NGO/PVO community, and as a vehicle for joint initiatives in management training and technical assistance. However, significant concern was expressed that the LCN is trying to do too much too soon and it should avoid becoming involved in program implementation. Further consideration should be given to supporting the: 1) strengthening of the Council's sectoral focus commissions; 2) coordination and perhaps development of NGO training programs (e.g. financial management and accounting, proposal development, etc. as outlined in LCN's "Management and Technical Assessment Study of Non-governmental Organizations," November 1992); and, 3) undertaking of information exchange through case studies, informal seminars and newsletters.
- ▶ Certain focus sectors of interest to USAID/Lesotho are not receiving sufficient attention from the GOL or the PVO/NGO community. Thus an umbrella project might well wish to attract international technical assistance NGOs (PVOs) in AIDS, family planning, democratic governance, enterprise development and natural resource management through the provision of grants.
- ▶ Whatever decision the Mission finally makes concerning the future of a PVO/NGO Umbrella project, it is suggested that U.S. PVOs

interviewed for this study be kept informed accordingly. They evidenced a genuine interest in Lesotho and this study's objectives, and gave generously of their time in responding to study questions. Many of them indicated a desire for a copy of the final study report or, at a minimum, a debriefing following the completion of the study. Many of them as well, were willing to provide input into the design process, should the situation evolve to that extent. The study team agrees with these requests and encourages the Mission to consult with PVOs and keep them abreast of relevant decisions. Such a collaborative and consultative process with potentially important actors in an Umbrella project is consistent with the DFA legislation, and the principal recommendations coming out of the Desk Study on Umbrella Projects completed under the PVO/NGO Initiatives Project. Finally, it is suggested that InterAction be used as the forum for informing PVOs of evolving events. It could also serve as the proper venue for a discussion with interested PVOs concerning Lesotho, including the suggested debriefing at some point following this assignment.

- ▶ Except in limited cases, it is recommended that U.S. PVOs participate in project activities as partners to Lesotho NGOs providing a range of technical and management assistance interventions. Where there are either few indigenous NGOs, or little or no indigenous experience in a USAID focus sector or subsector, (e.g., enterprise development and AIDS), then this could justify the funding of start-up costs of a full-fledged PVO (VolAg) country program. Otherwise, promoting the concept of partnerships between a U.S. PVO, and one or more Lesotho NGOs, makes the most sense in terms of cost effectiveness and the expertise PVOs have to offer. Such a role as defined here, is consistent with recommendations of the Desk Study and readily demonstrable as a model in USAID/Malawi's SHARED Project, which has a similar set of local conditions to that of Lesotho.
- ▶ As a corollary to the above recommendation, it is suggested that a major purpose of a Lesotho PVO/NGO umbrella project be to strengthen the institutional capacity of indigenous NGOs to provide services in key USAID focus sectors. U.S. PVOs would be a primary resource to provide relevant technical and management assistance for Lesotho NGO capacity building. Having this as one of the projects purposes would in no way detract from the PVOs and NGOs becoming the primary implementors of future projects in the Mission's portfolio. It argues for a two track approach to future programming in Lesotho, and as well, offers the greatest opportunity for sustainability in individual projects, and an overall program that aims at achieving impact at the "people" or grassroots level.
- ▶ Given the significant funding that other donors are already providing to NGOs working in Lesotho, USAID is encouraged to consult closely

with them during the design of a possible PVO/NGO support project. Particular attention should be paid to the GRISP and Micro-Projects Programs of UNDP and EEC respectively, which are employing different intermediary models (NGOs versus Village Development Committees) for reaching grassroots communities. In addition, each of the two donor financed programs have already developed selection criteria and a system for the selection and approval of grantees and projects. In short, there is valuable information to be gained from these on-going activities.

- ▶ In line with the above recommendation, it might be politic to provide the concerned donors with a summary of this report and an indication of the next step, if any.

B. Management Options

Lessons learned from other PVO/NGO Support Projects support the contention that, in most cases, an umbrella intermediary mechanism has been a more appropriate model for the management of project activities than the available alternatives, i.e., direct Mission management or a for-profit contractor. Section B.1.a of Chapter III notes those instances where internal mission management may be more appropriate than the umbrella intermediary. In Section B.1.b a review of different umbrella intermediary modalities is undertaken with the conclusion that a U.S. PVO or Non-Profit Organization has been, by far, the model of choice selected by project designers in both first and second generation umbrella projects. In fact, the last five PVO/NGO support projects designed, have all employed a U.S. PVO intermediary. There is every reason to believe as more experience is gained with the umbrella intermediary mechanism, that it will continue to evolve to meet the needs of missions, PVO/NGO communities and the umbrella managers themselves.

Undertaking a PVO/NGO Support Project with a U.S. PVO intermediary working under a Cooperative Agreement with A.I.D. is both a medium term and long-term solution to current and anticipated management requirements for the Lesotho program. The major difference between this proposed undertaking and previous A.I.D.-financed Umbrella projects is in the magnitude of the endeavor and its centrality to the overall Lesotho Program. It is certainly "doable," and as pointed out in the preceding discussions, sufficient "safeguards" can be built into the Cooperative Agreement to provide the level of oversight necessary to ensure A.I.D.'s mandated responsibility for project outcome.

ANNEX C

HIV/AIDS PREVENTION AND CONTROL ACTIVITIES IN LESOTHO

Recommendations to USAID/Maseru for Mission Transition Strategy

12 February, 1993

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AIDS PREVENTION AND CONTROL ACTIVITIES IN LESOTHO

Executive Summary

This report is prepared at the request of the USAID/Maseru Mission to form the basis for a mission transition strategy which will address the involvement of the mission in AIDS prevention programs in Lesotho. This report outlines the context of AIDS in Lesotho from the perspective of health and socioeconomic conditions in Lesotho. The potential impact of AIDS in Lesotho is great. It is noted here that the impact of AIDS will not be limited to the health sector but has the potential to undermine the very sectors in which USAID is currently concentrating its resources, including agriculture and education.

There are critical gaps in the AIDS program in Lesotho to date which are partly a product of a limited capacity of the government and NGOs to implement projects coupled with a persistent level of denial in the general population and at an as yet undetermined level in government. Because of this denial, the high level of awareness regarding AIDS which seems to be present in the population has not as yet resulted in behavior change. This is clear from the rising number of AIDS cases and STDs as well as low condom use.

Recommendations for USAID to deal with this issue effectively are that USAID continue to support community level targeted projects through NGOs. The populations which should be targeted include youth and women working at the borders and in the LHDA areas. There is a strong recommendation to provide ongoing technical assistance followed by a training project in the area of STD prevention and control. And, finally, it is recommended that an assessment be made of effective strategies to influence policy makers and of the potential for implementing workplace projects at LHDA and at industries in Maseru and Maputsoe.

Proposed Program Interventions

1. Strengthen STD Prevention and Control

Sexually transmitted diseases are the second most common condition presented by outpatient clinic attendees in Lesotho and are the most common cause of morbidity among the sexually active population. The finding of a syphilis rate of 44.8% among antenatal clinic attendees at a major hospital and a 6% rate among student blood donors is alarming.

In contrast to most other African countries, more women than men are treated for STDs in outpatient clinics. Where men receive care is unclear as is the extent to which traditional healers treat STDs.

There is only one dedicated STD clinic in Lesotho. The clinic is located at QEII, the main hospital in Maseru, and is currently not operating because of a delay in the purchase of new equipment. Manpower shortages result in doctors performing administrative duties to the detriment of patient treatment; human resource constraints are the overriding concern of the management of the MOH STD unit. They not only have a negative impact on the availability of services but also impede necessary research on prevalence and resistance patterns required for the development of effective treatment and prevention programs.

In order to provide effective STD prevention and control in Lesotho, several areas should be addressed: implementation of behavioral interventions, strengthening of case management services, and improvement of laboratory services.

Behavioral Interventions

Behavioral interventions are aimed at increasing treatment seeking behaviors, counseling for risk reduction, encouraging compliance with medical prescriptions, teaching symptom recognition and risk assessment and promoting condoms and training for their use. These are difficult to implement without staff to educate and counsel patients at the point of care. Other approaches include programs based in schools and in the community which teach about STDs along with AIDS and reproductive health.

Behavioral interventions for STD patients are currently limited by patient load. It is unrealistic to expect physicians to provide prevention messages, condoms, and counseling, when treating STD patients. In view of this fact, it is generally recommended to have a nurse on site to counsel STD patients. Nurses however, are restricted by government policy to diagnose and treat STDs only at the health post level. If allowed to practice to their full capacity at the hospital level, more patients coming to the OPDs could be adequately treated and counseled for STDs.

Strengthening STD Case Management

Strengthening STD case management services emphasizes the proper management of genital ulcer disease and other STDs most strongly associated with HIV transmission. Management requires the establishment of guidelines which take into account both STD prevalence and availability of appropriate and affordable drugs for treatment. There are currently no standardized treatment protocols developed in Lesotho for the use of clinicians and no policy regarding STD treatment and referral.

Improvement of Laboratory Services

While the laboratory diagnosis of all STD cases is not indicated, it is critical that when tests are done they are appropriately chosen and accurately done. Improvement in the skills of lab technicians and the policies guiding decisions about indications for and choices of lab testing are part of any quality STD program.

The primary focus of USAID/Maseru assistance to STD control and prevention should be the strengthening of the management and delivery of STD services including the development of standardized treatment protocols. To do this will involve work on several fronts as outlined below.

1. MOH policies regarding STD management must be developed at the central level. A committee should be established to develop protocols and suggested guidelines for the case management of STDs at health post, clinic, and hospital outpatient clinic sites. Guidelines for treatment, referral, counseling and follow-up should also be articulated. These must take into account manpower constraints, the access to care and follow-up, diagnostic resources, drug availability and community behaviors and attitudes.
2. In the short-term, algorithms for the syndromic treatment of STDs should be developed in collaboration with clinicians from a representative sample of Lesotho institutions. Once developed, the STD unit of the MOH should design materials for clinician use, complemented by simple patient education materials which emphasizes completion of treatment regimens, partner notification and prevention behavior.
3. While the protocols are being developed, studies of STD prevalence and patterns of drug resistance can be carried out as the basis for refining protocols for syndromic treatment.
4. Policies regarding the use of nurse clinicians as STD care providers at the OPD level also bear review. One approach might be to emphasize the importance of STD control by encouraging nurses to specialize in the area of

HIV/AIDS and STDs through short term courses. While this may cause some internal conflict within the medical profession the magnitude and severity of the STD problem and the attendant increased risk of HIV/AIDS merits such action.

The following USAID technical assistance activities have been identified for AIDSCAP implementation in conjunction with efforts to strengthen STD management:

1. Provide technical assistance to the STD unit in conducting studies of STD prevalence and antibiotic resistance patterns, with an emphasis on the prevalence of chancroid and chlamydia;
2. Provide initial design assistance and periodic support in the development of treatment algorithms using the syndromic approach to STD treatment;
3. Assist in the design and provision of training in algorithms for clinicians from MOH and PHAL facilities;
4. Provide technical assistance in the design of STD management materials for clinicians and patients;
5. Participate along with USAID in discussions with the MOH and the GOL regarding manpower policies which affect the adequacy of services for STD patients, including training in STD care for nurses;
6. Collaborate with WHO in assessing manpower needs and possible solutions via other donor contributions, volunteer resources, etc.; and
7. Enhance the degree to which messages about STDs and their association with HIV susceptibility are integrated in all AIDS prevention programs.

These recommendations are consistent with WHO guidance and should be implemented in collaboration with USAID, the WHO, the MOH, and the NGO community. AIDSCAP has included several of the recommendations in a previous implementation plan for USAID/Maseru and funds are currently programmed to address the first two actions. Initial identification of the MOH and PHAL as primary implementing agents should not be construed as limiting the implementation of these activities to these two groups. Priority should be given to the identification of organizations capable of effectively and efficiently carrying-out the above-mentioned programs. Technical assistance is available to the mission and implementing organizations through AIDSCAP and its STD subcontractors, the Institute of Tropical Medicine in Antwerp, the University of Washington in Seattle and the University of North Carolina in Chapel Hill.

2. Expansion of Condom Promotion Program

A comprehensive condom promotion program must make use of the following channels:

- Commercial channels, with full cost-recovery, plus mark-up, through pharmacists and the formal sector. This channel is primarily for upper income groups and is important to associate condoms with an up-market image and lifestyle. Profits from this sector may be used to cross-subsidize social marketing condoms.
- Social marketing channels, with partial cost recovery, through the mass formal sector, including bars and the informal sector, especially traditional healers and street vendors. Social marketing is generally presented either as a cost recovery approach or as a distributive mechanism which harnesses individual entrepreneurship to flourish in the most difficult environments. The evidence suggests that the latter is closer to the truth. The most successful social marketing program in Africa, Population Services International's program in Zaire, where condom sales rose from 800,000 in 1988 to almost 20 million in 1991, only recovered a quarter of its operating costs. In a review of 16 condom social marketing programs in developing countries, Romer and Hornik present evidence of a strong negative relationship between price and condom sales. They found that the pivotal price per 100 condoms was three days of labor, using per capita GNP. Among established programs, those that charged more than three days of labor per 100 condoms achieved only one-quarter the sales that less expensively priced programs did. In Lesotho's case, this suggests that the price of each condom should not exceed M0.15 each.
- Free targeted distribution to core groups. Intercept research shows that 80-90% of clients of social marketing programs are men, which means that special programs are required to target women. Moreover, social marketing programs omit the very poor, especially in rural areas, where many are completely outside the cash economy. This point cannot be overstressed. Social marketing programs are vital, but social marketing alone, without targeted free distribution, especially to women, can seldom be an adequate response to AIDS.

Condoms must also be targeted where they have greatest epidemiological impact. The drawback of an exclusive reliance on social marketing is that is a relatively blunt targeting device. Romer and Hornik present evidence to show that if condoms are targeted on couples in union, extraordinarily large numbers would be required to reduce STD transmission society-wide. If, in contrast, condoms are targeted toward commercial and casual sex, a much smaller number may have a demonstrable impact on overall STD levels.

Lesotho's fragmentary condom strategy needs to broaden its distribution channels and systematically target core groups. While the free distribution of condoms is occurring simultaneously with a social marketing program neither intervention is providing sufficient numbers of condoms nor appropriate distribution networks to effectively control the continued spread of STDs including HIV/AIDS. It is recommended that USAID consider how best to support condom promotion in Lesotho.

One question that must be asked is whether the successful promotion of condoms for AIDS prevention can be accomplished through a social marketing program with parallel targets of family planning and STD/AIDS prevention; as opposed to an approach with segmented markets recognizing that reaching high risk behavior individuals requires a different message and specific product packaging that distinguishes it from the family planning market.

The constraints to implementing an effective HIV/AIDS condom promotion program in Lesotho are several.

- o **Acceptance** The general lack of acceptance of condoms, especially by men is a primary constraint to successful condom promotion. Overcoming this constraint requires targeted marketing and education campaigns that reach men, especially young men as they are forming their sexual habits. Men must be convinced of the importance and appeal of condom use before effective programs can be implemented.

- o **Religious Objections** The resistance of various churches, particularly the Catholic Church (75% of Lesotho is Catholic) is an important impediment to successful social marketing and promotion of condoms. While the church is not openly objecting to condom use for disease prevention they do not support condoms for family planning. This is one disadvantage of combined social marketing for family planning and disease prevention. It is common knowledge that church-run clinics and hospitals are not rigid in their adherence to church teachings and indeed do request condoms for distribution. These workers cannot, however, be relied upon to implement condom promotion in an enthusiastic manner which is necessary for its success.

- o **Access** Another constraint to successful condom promotion is the lack of adequate distribution points outside the urban areas. While free condoms are available at public clinics in both rural and urban areas, these clinics are not universally used for either treatment or for condom procurement (particularly by males). It is also a perception in Lesotho as it is in many countries, that free condoms are of lesser quality than purchased condoms.

Consequently alternative access to commercially supplied condoms at an affordable price is necessary.

o Government Policy Lesotho policy which requires proof of marriage for condom acquisition at certain government clinics is also a problem which can only be alleviated by a change in both policy and practice. This will best be achieved through intensive education of health workers who, when convinced that AIDS is a threat to the health of the communities they serve, will work as they have in other countries to change policy and improve access. USAID's role in this effort should be to raise awareness of the issue and support policy reform.

o Pricing At 70 muloti a condom, the current pricing of socially marketed condoms is well above the price generally considered to be appropriate for successful implementation of such a program.

o Targeting As discussed above, unless men are convinced that condoms are both sexually attractive and important for their continued health they will be reluctant to use them. Successful condom promotion programs in Africa and elsewhere are based on targeted messages and product promotion that address these issues. The current promotion campaign in Lesotho attempts to bridge the family planning and disease prevention market through a dual "protection" message which we contend fails to attract either market.

It is recommended that USAID segment its condom strategy into two areas: family planning and HIV/AIDS prevention. USAID should consider how best to achieve this segmented program. Current review of the family planning program as well as the articulation of future HIV/AIDS prevention activities presents an opportunity to revise and redirect the current social marketing program.

3. Targeted Interventions

Epidemiological models demonstrate the efficacy of interventions targeting groups which practice high risk behaviors. The same models also suggest that targeted interventions are most effective if they are introduced on a large scale early in an epidemic, underscoring the urgent need for such interventions. However, in Lesotho, a number of individuals working in the areas of STDs and HIV/AIDS prevention argue that there are no high risk behavior groups and that rates of STD/HIV infection are not significantly different from one segment of the sexually active population to another. One HIV/AIDS program manager stated that the rates in youth were the same as prisoners and the high rates of syphilis in antenatal clinic attendees indicated that the "general" population was at "high risk" of infection. If indeed the sexually active population in Lesotho is equally at risk for reasons of absent male heads of household, demands of poverty for compensation for sex, and traditions of multiple partners for men, then targeted interventions may not be appropriate. It would also distinguish Lesotho from any other country facing the AIDS epidemic. Worldwide experience suggests this to be unlikely.

It is our contention that while levels of HIV infection may well be elevated in some segments of the general population for the above-cited reasons, there still exist higher risk behavior groups more likely to be responsible for HIV transmission that can be identified and targeted for interventions. There is sound epidemiologic rationale to target women working key sites including Maseru, the Maseru Bridge and Maputsoe Border posts and the areas affected by the Lesotho Highlands Water project and the male populations they serve.

However, no study has ever sought to explore the rates of STDs and HIV in these women, so it is difficult to be very certain of the conclusion that their rates are no different than a more general population. No one has yet attempted to target the commercial sex trade in Lesotho, however ill-defined it might be compared to countries where there is an identified group of commercial sex workers with whom one can intervene. In the event that their rates are the same as for other women and men then this alone does not eliminate any motivation for exploring targeted interventions.

Three groups have been identified as important for targeting; they are: youth, casual sex workers, and football players.

Youth

The preliminary report on attitudes toward sexuality and STDs/AIDS in the Lesotho Knowledge, Attitudes, Practices and Beliefs (KAPB) reveals that 63% of the youth surveyed had engaged in sexual intercourse, with 69% reporting first intercourse between ages of 15 and 19. Sixty nine per cent said that they had used a condom at some time. With this level of sexual activity among youth there is a sound rationale for the development of behavior change interventions especially while patterns of sexual behavior are still being formed. Other reasons for targeting youth in Lesotho relate to social practices such as older men seeking out younger women/girls (the sugar daddy phenomenon), high levels of sexual activity between teachers and students (particularly in rural settings), the presence of over-aged boys in primary schools (frequently herd boys do not start school until they are 13 or 14 years old), and high rates of unemployed out-of-school youth available to the commercial sex trade.

Out-of-school youth are least accessible to information on STD/AIDS. A recent survey placed teachers as the first source of information on reproductive health and HIV/AIDS among youth; media ranked second and friends third; parents ranked lowest as sources of information while fathers and grandparents were identified as the "most uncomfortable person to approach" regarding STD/AIDS information.

Casual Sex Workers

It is widely known that there are groups of women working in informal sex trade in Maseru, at the borders where they attract returning miners to cookhouses, bars, or their own neighborhoods. This trade has been particularly noted near the Lesotho Highlands Development Authority Project where health workers report that local women at one site have an informal credit scheme with project workers, whereby they line up at payday to receive fees for their services. This group of women is particularly vulnerable by virtue of the level

of high risk sexual activity in which they are engaging and represent a vector for the spread of STDs including HIV.

Programs with commercial sex workers have been shown to produce dramatic increases in both knowledge about HIV/AIDS and behavior changes. In Zaire, for example, HIV incidence was reduced from 18 per cent to 2 percent a year through a combination of education, peer support, counseling, condoms and treatment for concurrent sexually transmitted diseases.

Football Players

This group is recommended because they are accessible as a group, are known for engaging in high risk sexual activity associated with their sports events, and they have the potential to influence a farreaching network of peers. Of the five categories of persons included in the STD KAPB Study questionnaire addressing "type of person with whom students have had sex for the first time," footballers were listed in 12 percent of the responses.

Program Implementation and Management

It is recommended that USAID implement its activities through NGOs capable of reaching communities with appropriate messages and assistance. The challenge in Lesotho is to identify and support NGOs that are able to implement new activities at the community level. Few NGOs are currently involved in AIDS programs and those that are, are severely stretched. It is therefore important to expand the base of NGO involvement. USAID should seek out NGOs willing to integrate HIV/AIDS activities with other programs, so that HIV/AIDS programs can benefit from experienced, credible community based programs of other health or non-health NGOs. The credibility and understanding can enhance the effectiveness of the AIDS interventions, be it integrated with agriculture, primary care, or income generating activities.

Management of projects through NGOs at the community level is intensive and less efficient than simply channeling technical assistance to government agencies or initiating mass media campaigns. However, it is this particular type of intervention that has been effective in recent efforts to control the global epidemic. Experience has shown that national and international institutions are necessary but not sufficient to control the spread of STDs including HIV. Approaches that involve NGOs at the community level have been prominent among successful efforts of AID-funded activities in the past.

In Lesotho, HIV/AIDS activities could be implemented through NGOs could be efficiently managed through a local Resident Coordinator, the AIDSCAP subagreement process, and technical assistance available through the AIDSCAP Africa Regional Office. Constraints to this approach are the limited number of NGOs involved in HIV/AIDS prevention. An approach to resolve this would be to provide technical assistance to the NGOs involved in program implementation to assist with project enhancement, expansion of types of projects

being implemented. Another approach is to engage new NGOs in AIDS work through the efforts of LENASO an AIDS network organization.

Other Potential Programs

Facilitation of Policy Dialogue

The policies which relate to AIDS prevention efforts in any country are many. Examples includes policies regarding taxes on imported condoms, the teaching of reproductive health in schools, HIV testing, and the realm of practice of categories of health personnel. In many countries to date the approach to influencing country policies to support AIDS prevention has been to draw the attention of policy makers to the potentially devastating economic impact of AIDS in terms of both the health funds that will be expended on the care of AIDS patients as well as the drain which the morbidity and mortality due to AIDS will exert on the work force and thus on the economy. This has been done by using either data from the country in question or data from similar countries that have already experienced consequences of the epidemic. The social impact of AIDS morbidity and mortality are powerful motivators to action. The breakdown of the family structure after the death of a mother and/or father from AIDS has a negative impact on the society at large.

It is well known that delays in responding to AIDS in countries with relatively low infection levels has resulted in dramatic expansion of the epidemic once an infection threshold has been reached. Problems exist with government AIDS programs around the world, including the fact that according to a recent survey one-third of national AIDS programs have never been evaluated and two-thirds of national AIDS program managers have been replaced in the past two years.

A major constraint to the implementation of policies supporting AIDS prevention efforts is often the fact that during the stage in a country when there is a low prevalence of AIDS, it is difficult to convince government officials that AIDS will progress to a point where there will be consequences beyond the individual level. And until government officials or those close to them are personally affected, there is often little empathy for infected individuals and a tendency to stigmatize those they perceive likely to be infected, thus placing a comfortable distance between themselves and the problem. One approach which has proven effective in at least an indirect way is to facilitate contact between decision-makers in a low prevalence country and those in a country which has suffered significantly from the epidemic.

In Lesotho this has been done at the level of NGO and Ministry of Health AIDS Control Program staff. This has not occurred as much at the higher levels of government. It would be useful for USAID to undertake an analysis of the potential social, demographic and economic impact of AIDS in Lesotho and sponsor a tour which would be preceded and succeeded by a meeting with key government officials, soon after the upcoming elections.

Another strategy is to influence the media to focus on AIDS from several different perspectives. The perspective usually taken is to occasionally focus on recent statistics, to publish brief educational articles about transmission, or to report on speeches given at workshops. As an alternative, print and radio journalists could be involved in training and dialogue regarding policy perspectives on AIDS prevention. This would be a step beyond the current approach. By pursuing policy analysis, the policies which act as constraints to AIDS prevention could be brought to public light and then hopefully generate public pressure for policy change. Training workshops have been successfully organized for journalists to generate increased and improved work in the area of AIDS. In Lesotho this could be a very small workshop done at the country level or in collaboration with a neighboring country workshops by which the exchange of different perspectives and approaches in countries at varying points in the epidemic might also add to the impact of the training. Journalists from many East and Southern African countries including Swaziland, Botswana and Zimbabwe all participated in a journalism workshop sponsored by Family Health International in 1991 in Kenya.

Workplace Programs

While little exploratory work has been done regarding the feasibility of workplace programs in Lesotho, this is an area worthy of investigation. One site that would be recommended is the Lesotho Highlands Development Authority (LHDA) project. The project's plans for engaging in HIV/STD interventions is not clear at present. The Development Fund, which is designed to use project proceeds to enhance the impact of the project on the economy, has established criteria for the use of funds generated. While the criteria do not specifically indicate health as a priority they do not explicitly exclude it either. There is reason to believe that the combination of men working away from home with disposable income, the presence of women who need income and are exploring commercial sex as a source of favors and revenue are factors conducive to the establishment of a significant commercial sex trade.

This, of course, has the potential to facilitate increased rates of STD and HIV. Preliminary research findings already suggest this to be the case in the area of the LHDA project.

Workplace projects have proven effective in countries such as Uganda. They are efficient in that they can provide STD services, condoms and communications programs at one site with a "captive" audience with some common background in an atmosphere in which social norms can be established. In addition to establishing a workplace program within the structure of the LHDA project, there are other industries in Maseru and Maputsoe which might be receptive. These include a brewery, textile and shoe industry which employ from 450 - 600 men and women. In the brewery the men predominate while women are the largest group in the textile factories. Another area worthy of exploration is the mill in Maseru West where trucks travel with goods from all over the country.

Implementing workplace projects in Lesotho is one way to expand the scope of AIDS prevention activities while avoiding putting more demands on local NGOs of which not many are engaged in AIDS prevention and those who are already stretched. A workplace project would only involve management and selected staff with monitoring by whomever USAID chooses to manage the project.

Plan of Action

As part of the process of designing USAID/Maseru's AIDS strategy it is useful to put the long-term and short-term approaches in perspective. A more detailed plan of action will be developed with the resident coordinator, AIDSCAP and the mission.

Short-Term Activities

In the short-term, USAID/Maseru will proceed with the implementation of currently running projects through AIDSCAP with the Lesotho Red Cross Society and the STD Control Unit of the MOH. The next step is to program another round of funds for 1993 by developing several new projects through AIDSCAP. Potential projects at this time include a peer education project with football players through CARE and a pilot intervention with sex workers at the borders and LHDA area through PHAL. Continuing work in STDs will include moving into the training of clinicians once case management guidelines are developed.

Long-Term Plan

The next phase will include an assessment of what should be done in the areas of policy dialogue and the development of workplace projects. If more NGOs become interested in AIDS work there might also be support in the form of training and technical assistance to LENASO to assist NGOs new to AIDS work as they begin projects. These could all be accomplished through technical assistance from AIDSCAP. This assessment could take place in the next three months and result in a detailed implementation plan followed by the development of several subagreements and plans for further technical assistance.

ANNEX D

**ASSESSMENT REPORT ON LONG TERM
SUPPORT FOR POPULATION ACTIVITIES
IN THE KINGDOM OF LESOTHO**

Prepared for:

**The U.S. Agency for International Development
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6. RECOMMENDATIONS

A. RATIONALE FOR USAID/L INVOLVEMENT IN POPULATION

In periods of diminishing resources, priorities must be set. As USAID/L goes into its transition strategy, it must identify those areas of development for its project portfolio, which it can implement and which will have an impact. There are two factors which should be weighed heavily when considering family planning activities for inclusion in the USAID portfolio. The first is that population and family planning is a key development intervention in Lesotho. The second is that USAID has a predominant capability in the field.

USAID is a leader in the support of the international family planning movement. Its early involvement stems from its recognition that development and improvement in the quality of life were impossible in a rapidly growing population. Every development activity in Lesotho can be described as holding or losing ground due to rapid population growth. None are making significant progress in improving the standard of living. Specific examples might best illustrate the dynamic relationship between population growth and other development sectors.

- Population density on arable land is intense (725 per sq. km.). Efforts to increase arable land are likely to be matched by losses caused by more land being allocated to residential and public service use.
- Arable land is also likely to be lost due to environmental damage caused by more people. Over grazing, wood cutting and cultivation, all caused by more people using less land, will cause greater erosion and land loss. Arable acreage in Lesotho would have to increase a minimum of 4 percent just to keep up with current population growth and land loss due to erosion.
- Educational expenditures must go up about three percent a year to allow for growth in the school age population. Another ten percent inflation factor suggests that a 13 percent annual increase in education expenditures would not increase quality or the availability of education in Lesotho.
- Housing expenditures suffer the same growth and inflation factor that Education does.
- With unemployment estimated at 45% and increasing, population growth will add another one percent per year. The level of investment and job creation required to reduce unemployment is currently beyond the capabilities of the Basotho economy. As the 43 percent of the population under 15 years begins to hit the job market, the situation will become even more desperate.
- Lack of public services, declining quality of life, lack of job opportunities are all common foundations for political and social instability.
- The health system, while not the worst in Africa, is still seriously inadequate. The system can expect to be put under even greater pressure in the near future with AIDS, malnutrition, increasing maternity cases due to high fertility and the rapidly growing base of women in the fertile period, increased high risk pregnancies (younger and older women), increasing demands for pre and post natal care and increasing use of abortion to control

unwanted fertility.

- The GOL indicates that the country's food production capabilities are not keeping up with population growth. This situation combined with climatic crisis has resulted in a net decrease in per capita food consumption in the last few years.
- Population growth is often linked with urban growth. As rural areas send their surplus population into the cities the infrastructure starts to collapse, crime and political unrest increase, and health and social problems arise. Maseru is currently estimated to be growing at more than 5.5 percent per year.
- Efforts to improve the status of women are severely hindered if the women cannot control their own fertility. Entry into the formal or informal economic sectors are limited by childbearing. Male objections towards contraception are often expressed in terms of keeping women in their traditional roles. It is probably safe to say that in Lesotho women's status and the contraceptive prevalence rate are tied together.

The problems described above are not unique to Lesotho. Nor is their articulation by the Assessment Team a new discovery. Very similar consequences to the high rate of population growth are well described in The GOL's Population Planning in the Fifth Five Year Plan. A USAID program supporting targeted maximum impact through family planning could appropriately be titled, the Integrated Agriculture, Health, Education, Housing, Employment, Social Welfare, Nutrition, Women in Development and AIDS Project.

The second reason why population/family planning should be seriously considered for inclusion in the USAID program is organizational capability. No other international donor can match USAID for its technical capability, institutional support structures, pool of expertise, and its capability to integrate technical and financial support through its cooperating agencies. The strong support received by the Assessment Team reflects the continued high regard that the Basotho family planning community holds for USAID and the quality of the support provided under the FHI II Project. There are other donors involved in family planning support, but each has its own constraints, interests, and capabilities. The World Bank provides loan funds, but these are difficult to get through the system and are only available for certain things, primarily facilities, equipment, some training, and infrastructure building. The UNFPA is also active but is limited by a small amount of funds and a lack of technical resources. This document, as does every other donor mission report and study, mentions human resource limitations - management continuity, experience, numbers, skills, etc. USAID is the one donor capable of putting the technical skills and the other elements of a successful development support project in the field.

B. USAID MANAGEMENT ISSUES FOR A POPULATION ACTIVITY

One of the major issues to be resolved before a new population project can be implemented, will be the identification of a management structure consistent with

the down-sizing of the USAID/L Mission staff. The transition strategy, if fully implemented, will limit the in-country project management staff, making management intensive projects impractical. Two ways of responding to this constraint are to develop alternate management systems, and secondly, to take on activities that will require relatively little USAID management inputs. Ultimately, some combination of the two will probably be the most effective approach. In this section, the discussion will focus on management options and their pros and cons.

Mission Management

The traditional USAID project management structure is for mission staff to be involved in the development implementation, supervision, and evaluation of mission projects. The benefits of this approach are that:

- it ensures full USAID involvement;
- the project is less likely to suffer political hindrances;
- there is more likely to be competence in technical areas of the project;
- USAID can make sure the project is operating consistent with its objectives;
- if there are problems USAID is aware of them and can take appropriate action.

The problems with this approach are:

- it is labor and supervision intensive;
- it is more difficult to do in a small mission;
- it is expensive and
- it requires a long term commitment.

A variation of this approach is to use outside specialists, working for USAID. A contractor or specialists under a personal services contract takes on the administrative and supervisory role usually held by USAID. These people are often cheaper, have more specialized skills and can be funded by the project. The negative side is that a person from outside the system has legal and administrative constraints working in USAID, and they will still have to be supervised by a staff member. Depending on the size and complexity of a population project, the options range from a full-time population officer, to a part-time population and other sector officer, to a contractor with or without meaningful technical supervision from USAID.

PVO/Contractor Management Structure

An option being used more frequently is for USAID to delegate project responsibility to an intermediary. The intermediary may be a PVO or a contracted cooperating agency. The intermediary may administer the project in-house or coordinate inputs from a variety of other organizations. Versions of the intermediary management approach in population are currently operating in Tanzania, Madagascar, Yemen, and Nigeria to name a few. ¹The benefits of this approach are:

¹ It should be noted however that these countries have full-time direct hire HPN officers to oversee the NGO activities.

- it more effectively integrates project activities;
- it requires less supervision, especially if the funds are a grant;
- cross country and regional resources and experience are more likely to be available;
- in politically sensitive environments, a non official implementing agency may be more acceptable;
- the intermediaries usually have existing agreements with USAID (contracts or cooperative agreements), that greatly facilitate funding transfers for new activities;
- the project will have stronger support in the U.S. (administrative and political) than an individual or group of individuals without a U.S. based institutional structure; and
- the activities tend to be better integrated because of the singulized management.

The negative aspects of the intermediary approach include:

- the intermediary will have less influence over the host government;
- it is more expensive because of the backstopping costs and the institutional overheads.
- if the project goes astray, the whole project is in trouble;
- the intermediary must still be supervised, although some of the responsibility may taken by the intermediary's cognitive technical officer in Washington.

The previous discussion has not differentiated between PVOs and contractors. However there are some notable differences. Contractors have a much better reputation for sticking to the letter of the agreement. PVOs can more easily receive bilateral funding. Contractors often have better management structures. Contractors do not have to recruit from their own staff, and so can seek the most qualified candidate. PVOs can more easily use other funding (ex. central funds) to augment project funds. Clearly, there are a number of contextual issues which will influence the decision on whether to use an intermediary, and whether it should be a PVO or a contractor. However, it is clearly an approach that is acceptable in many bilateral programs. Examples of PVOs that might be able to undertake project management responsibilities includes Pathfinder International, Care, CEDPA, FPIA. The SEATS Project is currently the only USAID contractor with a mandate to provide broad management support for population programs. Pathfinder also has a fairly broad mandate which includes family planning services, information and education, training and logistics. However, the standard RFP/contracting mode would give the Mission access to a number of other firms with some of the same capabilities.

Cooperating Agency Management of Specific Components of the Population Project

Another option available to the Mission is to design a project with unintegrated components. Each component would be implemented and managed by the most appropriate technical agency. The population project would be, in fact, several projects with separate Project Papers and agreements. This approach is basically the approach used for FHI II. The benefits of this approach include:

- each component can be supported by the most technically competent

organization;

- if well designed, the "projects" can operate independently.

The negative aspects of this approach include:

- components will be competing for scarce local resources;
- the administrative load on the Mission would be significant;
- Each component is too small to justify a resident staff (much needed in Lesotho) or a priority position in the work plans of the implementing agency;
- it is a very costly approach; and
- it is difficult with this management structure to get a unified set of project objectives.

USAID Regional Management

USAID has considerable experience using a project manager with responsibility for several countries. This approach is especially effective in regions like Southern Africa where there are a number of small countries. This approach matched with some elements of the other approaches offers a strong combination of USAID involvement in project management while reducing personnel. This approach does increase operating costs and would still require some local support from the Mission and the local management team.

Such factors as funding levels, project size, project complexity, Mission staff capabilities, similarities to other population activities in the region will have to be considered for the Mission to make an effective decision on the appropriate management structure. There are a number of options and permutations possible. There is also considerable experience in alternate management structures as USAID missions around the world face similar constraints.

C. SUSTAINABILITY ISSUES

All family planning programs which require international assistance are required to address the issue of long term sustainability, in the current environment of increasing demand and diminishing resources. In The case of Lesotho, it is perhaps too early to making sustainability a short term objective. Sustainability is not feasible in the demand creation phase of a family planning program. As demand increases, private sector activity expands, and fertility desires have started their decline, cost recovery and other more sustainable service delivery approaches are feasible.

Sustainability has a second component beyond the financial issue, that is - is the activity technically sustainable. Lesotho has the technical capability to carry on family planning services, but in a very proscribed way. There are insufficient staff to run the program and many of the service providers are not Basotho and can not be expected to stay in the system. Another problem is that there is insufficient systems design and implementation, so the limited staff would not be able to develop the young program and do day-to-day management. In summary, The

team believes that Lesotho has the technical capacity to marginally claim technical sustainability.

The long term potential for sustainability in Lesotho is good. The large role of the NGO sector in health services has created an environment that should make a gradual shift to private sector services easier. Since all health services including family planning, have a fee, the Basotho expect to pay for health services. The potential for greater levels of cost recovery are good once demand for contraception has been established. Also, the Basotho are much more involved in the cash economy, and so they are able to pay for services they value.

D. NGO VS. GOVERNMENT IMPLEMENTATION

The normal strategy in developing a new population project is to identify NGO and government capabilities, design two separate projects with as little overlap as possible and then negotiate/fight over resource allocation, approval authority, etc. The situation is considerably different in Lesotho. The NGO sector is an essential player in the provision of health services. The Government recognizes the importance of the NGOs, respects their contribution, recognizes their own limitations, and delegates considerable responsibility to the NGOs. The collaboration extends to Government funding of NGO clinical staff and staff exchanges. Many specialized activities have been specifically assigned by the Government to NGOs. For example, most IEC activities are assigned to LPPA for implementation. In designing a population project for Lesotho, the activities specified will determine the level of NGO involvement, rather than the more traditional political and financial considerations.

E. POTENTIAL POPULATION ACTIVITIES FOR USAID

The previous chapter has outlined a number of potential areas for possible USAID intervention. The purpose of the following section is to identify those activities that meet the four criteria for being given priority by USAID/L - 1) The activity is needed 2) It will have a large and visible impact 3) It is an activity in which USAID has a technical predominant capability, and 4) It is easily managed or amenable to the use of alternate management structures. It is important to note that the following presentation uses activities as the structure to facilitate presentation. However, several activities can and should be combined to create a full scale project. The recommendations do not focus on projects because of the variety of permutations possible, depending on management structures, funding, technical capabilities, cooperating agency availability, staffing, project period, political interest, Basotho policy development and the priorities set by USAID/L and USAID/Washington.

The recommended activities are broken into three groups. The first group are foundation activities that are essential activities regardless of what other activities are selected. These foundation activities should be an integral part of any larger

project effort. The second group of activities (Intermediate Activities) would move USAID into service delivery, but focus on using existing service structures. The third group of activities (Expansion Activities) would also focus on service delivery but would move service delivery into new areas, target new populations, or use new service delivery strategies. More detailed descriptions of the activities are given in Chapter 5.

Foundation Activities:

Information, Education and Communication

Activity - Lesotho desperately needs a serious national level intervention to break down communication barriers. A number of target audiences, channels of communication, messages, and approaches (mass media, interpersonal, informal network, etc.) would give the activity tremendous scope.

Modality - The first step in implementing the activity would be to do a national IEC needs assessment and use it to update the National IEC Strategy (never fully completed by UNFPA). With this information a technical team could do a more detailed project design, implementation plan, and budget. With approval the activity could then begin implementation. Under the current allocation of responsibility, LPPA would likely be the implementing agency, although some activities would be more effectively implemented through the Health Education Unit of the MOH. The use of a NGO implementer might facilitate efforts, because of the very conservative attitude commonly shown by government (non health) officials over IEC materials. The activity would require a local manager and extensive management and technical inputs during the first one to two years. Depending on the structure of the activities a resident advisor might also be useful to stimulate implementation. Since the major objectives would be desensitization, awareness creation and materials development, it may be possible to achieve the objectives in two to three years and terminate the project. The IEC activities will require considerable management and technical support. The two groups with the technical capability to support this activity are Population Communications Services of Johns Hopkins University and The Program for Appropriate Technology in Health (PATH). Both are currently USAID grantees. Both organizations have experience administering free standing and sub project IEC programs. The management burden on USAID would be moderate because of the potential size of the effort and the technical support requirements. Day-to-day management and technical control could be assigned to the implementing agency.

Commodity Support

Activity: The Lesotho family planning program has an inadequate supply of contraceptives and no secure sources for future supplies. USAID could invest in supplying Lesotho with condoms, IUDs, pills, injectables,

spermicides, and Norplant®. If long term methods support is developed supplies and kits could be purchased either centrally or through the implementing agency.

Modality - The existing USAID procurement system would be used to purchase and ship the supplies (using the PIO/C procedures). The USAID/L management burden would be very minimal. Preparation of PIO/Cs and commodity tracking and clearance would be required.

Research and Evaluation

Activity - The lack of data is a major constraint to effective management and planning. USAID could greatly facilitate this situation by supporting a short term (one year) research intervention to get some basic data available and working with managers and policy makers on effective utilization of data. The types of information needed include The DHS type data (possibly available shortly), attitudinal data, client characteristics studies, provider studies, etc. USAID may also chose to make a longer term intervention with the objective being institutionalization of capability. UNFPA and the World Bank have both included some capability in their programs, but to date their efforts appear to have very limited impact.

Modality - The shortage of data is primarily a function of the lack of skilled researchers. Technical support will be required to identify data needs, design research, oversee data collection and participate in analysis and report writing. Funding to cover local research costs will also be required. potential cooperating agencies would be the National University of Lesotho, LDTC, LPPA and possibly The Health Information Unit of the MOH. The organizations with a background in family planning research include The Population Council, Family Health International, Columbia University and the USAID Office of Population funded Options Project. Since the technical and management support would most likely be one person, it would also be possible to use the personal services contract procedure to recruit a single researcher. The Activity would place some administrative burden on the Mission, but would not require considerable oversight.

Intermediate Activities: (Activities using existing service structures)

Introduction of Long term Methods

Activity - The Lesotho program can be characterized as a two method program, both hormonal and both temporary methods. Permanent contraception is virtually unavailable. Lesotho needs to introduce long term methods into the program. Previous efforts to introduce these methods have been inadequate, relying on training without building any of the required support structures. A full scale effort to introduce Norplant®, surgical contraception, and IUD would require training doctors and surgical support staff, developing

facilities, setting up counselling capabilities, reeducating current providers, setting up financial and reporting systems, creating a medical review and quality control capacity, and using IEC techniques to create demand.

Modality - This activity could be a free standing project or could be subsumed under a larger umbrella project. In either case the implementing agency would be the Association for Voluntary Surgical Contraception (AVSC). AVSC is a USAID grantee. Since this activity is relatively autonomous, except for the IEC component, the activity could be started at any time independently of other activities in the project. AVSC would probably implement the activity using short term consultancies based out of their regional office in Kenya. The local implementing agency would probably be the MOH, but they might also choose to delegate the operational aspects to one of the stronger health NGOs like Scott Hospital. Because AVSC is experienced in fully implementing programs, USAID management burden would primarily be administrative.

Quality of Care

Activity - There are a number of problems in service delivery that are incorporated in quality of care considerations. Improving quality of care is usually a sensitization process. This intervention would require a careful review to identify quality issues, development of materials for providers and train providers, supervisors and managers in quality issues. Periodic reviews or evaluations would also facilitate raising the quality of family planning services in Lesotho.

Modality - This activity could be implemented over a short period, involving some short term consultancies spread out over 6 to 12 months. Latter follow up would be optional. The organizations with a background in Quality of Care technical support are the Population Council, the centrally funded SEATS and FPMD Projects, and JHPIGO. All have USAID grants or contracts. Given the short time frame and the narrow technical scope it may also be possible to carry out this activity with a personal services contract, if the Mission wishes the additional management load. It would also be relatively easy to incorporate this activity into an umbrella management project. Without a local management project to organize this activity, it would require considerable management support from USAID.

Logistics Management

Activity - Logistics management support would require the development of a new system. The current system is in such bad shape that it might be better to salvage those pieces worth saving and then build anew.

Modality - The possible implementing agencies would include the centrally

funded Family Planning Logistics Management Project, of John Snow Inc. Pathfinder and the SEATS Project also have in-house logistic capabilities. The activity would probably be implemented using extended consultancies of two to three months. This activity would probably be best incorporated into a larger management project. It is unclear who would implement locally. The FHD has been trying to take commodity management away from its sister organization the NDSO and assign it to the LPPA. Where logistics will be housed is totally unclear at the time of the Assessment. It is clear that the lack of continuity in logistics management argues for a full time local manager to work with the technical support group. The management burden of this activity is significant. The variety of activities and potential inputs will require considerable administrative and technical support.

Expansion Activities:

Expansion of FP Services (in existing health facilities and through alternate service delivery strategies)

Activity - The widespread problem of the lack of availability of contraceptive services provides USAID the opportunity to have a major impact on the expansion of services in Lesotho. A major proportion of the health care system currently does not provide family planning services. In addition, even in areas where services are available the health facilities are so spread out that women have difficulties getting services. Developing a major service delivery expansion activity would require an indepth review of the current situation and extensive negotiations with the Government. It is also possible to expand services, using limited USAID resources on pilot projects, in selected areas, for specific target populations, or in a phased manner. Probably, the most efficient approach would be to support service delivery extension into existing health facilities, and on a pilot basis test one or two alternate service delivery strategies.

Modality - Moving into service delivery in a major way would justify the development of an integrated population project. The Mission would a implementing organization to manage the project, coordinate inputs, provide ongoing and specialized technical and financial resources and work with the Government to ensure full integration. The MOH would be the lead local operating agency, but much of the expansion into existing facilities would be with NGOs, since most of the targeted facilities are administered by NGOs (primarily the Catholic Church). The major factor in making the decisions on the scope of the intervention will be the availability of funding. There are a number of potential implementing agencies. In the PVO community there is Pathfinder, Care, CEDPA, and FPIA. In the USAID contractor community only the SEATS Project currently has the mandate to do overall project management. But, there a number of consulting groups with experience managing large scale bilateral family planning projects. With the RFP mechanism a management and technical team could be put together. The management burden on USAID would depending on the size of the service delivery expansion exercise, but

traditionally these are complex projects requiring substantial management inputs. With a good implementing agency, much of the day-to-day administration and technical management can be delegated, but USAID recurring involvement would be required.

Other Activities:

The above activities represent those activities the Assessment Team identified as having the greatest potential for USAID support under current circumstances. There are other activities listed in Chapter 5 that would also benefit from USAID intervention if the circumstances were to change. In addition, there may be a few program areas that were not identified as having problems and so have not been discussed in this report. These areas might also use USAID support to speed up completion of objectives, expand the activity, or institutionalize existing capabilities.