



COUNTRY PROGRAM STRATEGIC PLAN

USAID/LESOTHO

BEST AVAILABLE

November 1991

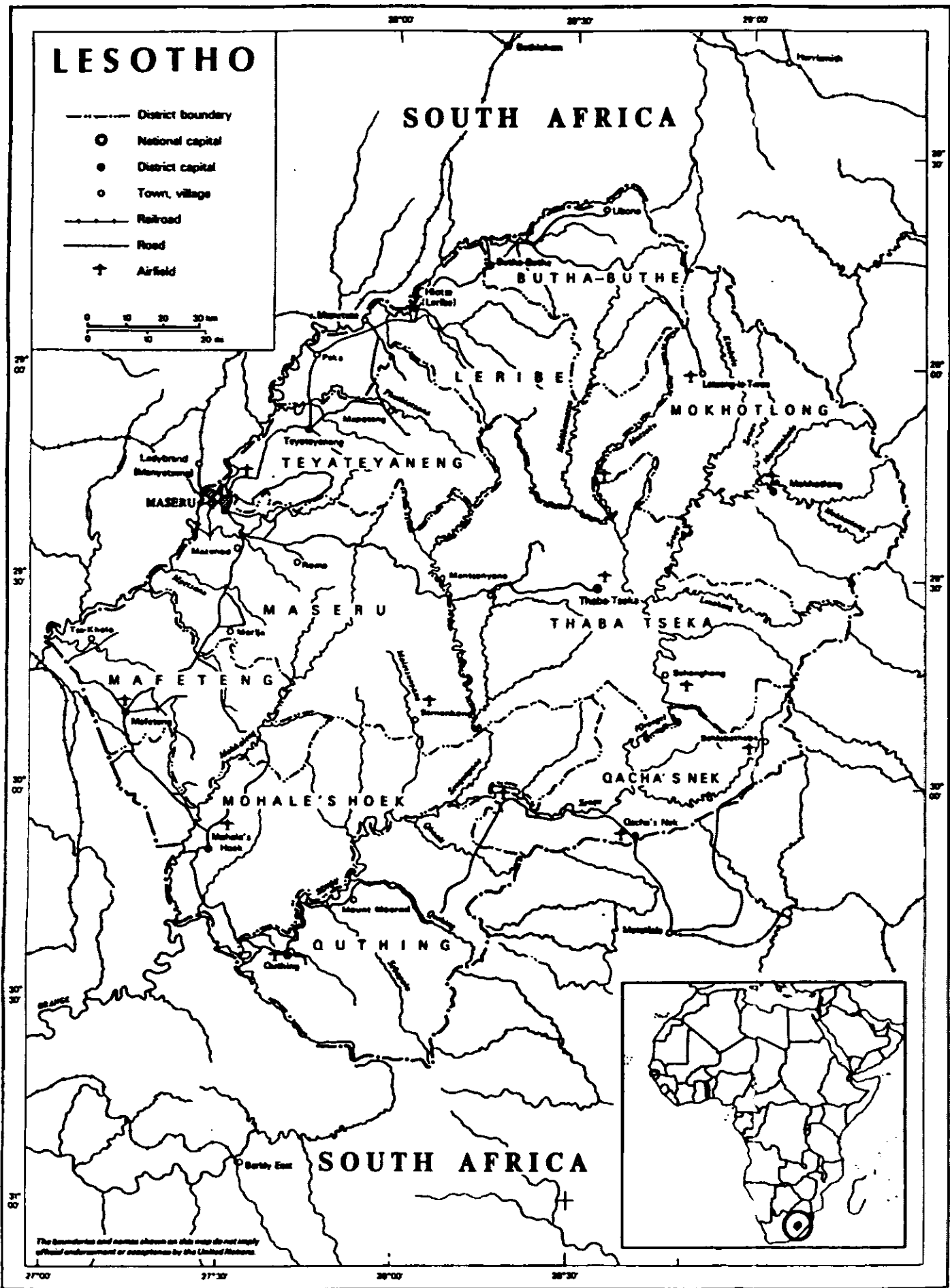
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COUNTRY PROGRAM STRATEGIC PLAN
FY 1992 - FY 1996

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LIST OF ACRONYMS AND ABBREVIATIONS

ADO	Agricultural Development Office
ADF	African Development Fund
AIDS	Acquired Immune Deficiency Syndrome
AFDB	African Development Bank
BANFES	Basic and Non-Formal Education Systems Project
CBL	Central Bank of Lesotho
CCCD	Combatting Childhood Communicable Diseases Project
CMA	Common Monetary Area
CNRM	Community Natural Resource Management Project
CPSP	Country Program Strategic Plan
DFA	Development Fund for Africa
EMIS	Education Management Information System
ESAP	Enhanced Structural Adjustment Program
ESDP	Education Sector Development Plan
FHI	Family Health Initiatives
FY	Fiscal Year
GA	Grazing Association
GDO	General Development Officer
GDP	Gross Domestic Product
GNP	Gross National Product
GOL	Government of Lesotho
HA	Hectare
HIV	Human Immuno-deficiency Virus
HRDA	Human Resource Development Assistance Project
IEMS	Institute of Extra Mural Studies
IMF	International Monetary Fund
KG	Kilogram
KM	Kilometer
LAPIS	Lesotho Agricultural Production and Institutional Support Project
LAPSP	Lesotho Agricultural Policy Support Program
LDT	Lesotho Development Training
LEC	Lesotho Electricity Corporation
LHWA	Lesotho Highlands Water Authority
LHWP	Lesotho Highlands Water Project
LNDC	Lesotho National Development Corporation
M	Maloti (currency unit for Lesotho)
MAPS	Manual for Action in the Private Sector
MOA	Ministry of Agriculture, Cooperatives and Marketing
MOE	Ministry of Education
MOF	Ministry of Finance
MSE	Micro- and Small-Scale Enterprises
MW	Megawatt
NAFC	National Abattoir and Feedlot Complex
NCEP	National Culling and Exchange Program
NGO	Non-Government Organization
NPA	Non-Project Assistance

NTTC	National Teacher Training College
OE	Operational Expense
OYB	Obligating Year Budget
PA	Project Assistance
PASA	Participating Agency Support Agreement
PSC	Personal Services Contract
PEP	Primary Education Program
PID	Project Identification Document
PP	Project Paper
PPSO	Program and Project Support Office
PRM	Program Officer
REDSO/ESA	Regional Economic Development Services Office for East and Southern Africa
RCI	Range Condition Index
RMA	Range Management Area
SADCC	Southern African Development Coordination Council
SAP	Structural Adjustment Program
SOE	State-owned Enterprises
SOMARC	Social Marketing for Change
SQ. KM.	Square Kilometer
SSIAP	Small-Scale Intensive Agricultural Production Project
TBD	To be Determined
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Emergency Fund
USAID	United States Agency for International Development
USDH	U.S. Direct Hire
WID	Women in Development

EXECUTIVE SUMMARY

Lesotho's economy is characterized by its high degree of dependence on that of South Africa. Its economic growth has been significant, averaging an annual 5.2 percent increase in real per capita GNP between 1965 and 1988. Annual real GDP increased at 4.9 percent in 1990, exceeding the 3.4 percent of the 1980s. The quality of life has also shown steady improvement for the expanding population. Nevertheless, the growth achieved thus far is fragile and has been accompanied by increased budget and external deficits, resulting in the country's entry into a structural adjustment program in 1988. In its quest for sustained, broad-based growth, the country faces numerous challenges: limited and degraded natural resources, low domestic productivity, rising inflation, reduced employment opportunities for Basotho miners in South Africa, uncertain foreign inflows and accelerating social demands. Medium-term prospects for growth depend on several factors, including the recovery of the world and South African economies in order to facilitate export expansion, the country's ability to take advantage of major political and economic changes occurring in South Africa, and its improved management of the economy. The International Monetary Fund (IMF) projects an average annual real GDP growth rate of 6.9 percent for the 1991/92 - 1995/96 period.

The country must also address a number of political challenges, such as maintaining political stability as it establishes democratic rule in 1992, transforming the role of its military, providing viable leadership for structural adjustment, improving relationships between business management and labor, and decreasing government centralization. Success will depend on the ability of its leadership to counterbalance social demands and economic restraint while maintaining a mutually beneficial relationship with South Africa.

The USAID program for FY 1992-FY 1996 will address a number of critical constraints to growth, including deteriorated land resources resulting from overgrazing and overstocking, participation by the government in selected agriculture and agro-industry sub-sectors, weak private sector support organizations, limited business management capacity, the lack of a secure supply of cheap energy, and a weak human resource base for participation in the development of the national and regional economies.

AID has been providing assistance to Lesotho since the late-1970s. It is now the lead donor in agriculture and has successfully helped the government develop prototype range management areas, improve its staff capacity and initiate privatization reforms. In education it has assisted the government to expand access to education, improve instructional materials and establish technical capacity. Involvement in the health and population sector has contributed to improved levels of immunization and reduced infant mortality. USAID is now completing its activities in the health and population sector and will be focusing its efforts in fewer sub-sectors in education and agriculture.

The goal of the U.S. development assistance program is to achieve broad-based, sustainable growth. USAID has also identified two sub-goals--to increase

or sustain income and to improve the human resource base. These sub-goals reflect the need to provide, on the one hand, opportunities for income enhancement or sustainability and, on the other, Basotho with improved basic skills to facilitate their participation in economic, social and political development.

The program focuses on three strategic objectives. The first objective, to sustain or improve output and productivity of selected agricultural sub-sectors, represents continued and focused efforts in the agriculture and natural resource sector where Lesotho has comparative advantages and where USAID has experience and established counterpart relationships. Targets supporting this strategic objective emphasize increasing the sustainability of rangeland resource use and increasing business activity in selected agriculture-related areas.

The second objective, to reduce the future cost of energy, contributes directly to economic growth by providing cost savings for the GOL budget. Lower costs also make energy more affordable for consumers and contribute to increased profitability of enterprises. Targets contributing to this objective focus on developing operations and maintenance capacity, building infrastructure and establishing appropriate pricing and distribution policy.

The third objective, to improve the quality and efficiency of primary education, reflects continued support in basic education where USAID has the comparative advantage of long experience and established relationships. Targets reflect government implementation of reforms to increase government financial resources for primary education, expand and upgrade the primary education teaching force, improve the quality and availability of curriculum and instructional materials, enhance the classroom environment and improve educational management.

Overall, the strategy reflects USAID's recognition that the current environment, with recent leadership changes and upcoming democratic elections, is not conducive to initiating sharply diverging policy reforms or project interventions. The current policy agenda under USAID interventions is broadly supported by the structural adjustment program. As the implementation of these reforms proceeds and government directions and capacity become evident, the Mission may need to make appropriate adjustments in the out-years. The proposed hydropower project, implemented by an autonomous authority, has widespread support and is unlikely to be affected by impending political uncertainty. The proposed agricultural enterprise initiative broadens efforts in the sector and provides an opportunity to support small-scale enterprise development leading to increased income and employment.

All of the bilateral and nearly all of the regional program for Lesotho will be financed by Development Fund for Africa resources. The United States and Lesotho have maintained friendly relationships for many years. By continuing to provide the country with needed development assistance, the United States demonstrates its support for the country's performance on economic and social reforms and its move to establish a viable democracy.

I. ENVIRONMENT FOR BROAD-BASED, SUSTAINABLE GROWTH

A. Introduction

The Kingdom of Lesotho is a small mountainous country of 30,444 sq. km. completely surrounded by South Africa. The eastern two-thirds of the country is occupied by the rugged Maluti mountain range. It has the highest low point in the world and is the only country with all its land situated more than 1,000 meters above sea level. The climate is temperate with well-marked seasons and the vegetation is predominantly grassland, with almost no natural forests. The inhabitants, called Basotho, speak Sesotho and English. Presently the country is divided into 10 administrative districts and is under military rule.

This section provides an overview of the potential for the country's growth. Section I.B deals with the evolution of political, economic and social development; Section I.C, with economic progress, equity issues and the political economy of structural adjustment; Section I.D, with major economic, social and political challenges to achieving growth; and Section I.E with medium-term prospects for growth.

B. Development: Background and Status

1. Historical and Political Development

Lesotho's political development reflects its geographical location and broader political trends in the southern Africa region, especially in South Africa. The Basotho nation emerged in the early 19th Century as an ethnically homogenous group when Chief Moshoeshe consolidated tribes fleeing west from Natal into the Caledon Valley and Maluti Mountains. From the 1830s until the Basotho requested and received British protection in 1868, conflict ensued among the Basotho, Zulu, British and Boers. By 1868 the territorial boundaries of the Basotholand protectorate were confined mainly to the Maluti Mountains.

Under the British Cape Colony initially, Basotholand came under direct British colonial administration in 1884. Authority became increasingly centralized under colonial rule. Lesotho's agricultural production originally supplied settlers in the Caledon Valley area; however, as settlers established a government and introduced agricultural subsidies and low wages to reduce production costs, the Basotho farmers were more and more unable to compete in the market. At the same time, the colony became increasingly a source of labor for the expanding South African economy, especially the mining sector. Development was left largely to churches, beginning with the first arrival of the Paris Evangelical Missionary Society in 1833 and followed by the Roman Catholics and Anglicans throughout the colonial period. The churches contributed greatly to the colony's education and health services development. Indigenous political development under colonial rule evolved from the establishment of a Basotholand Council in the early 1900s to an elected Legislative Council in 1965 headed by Chief Jonathan. In 1966 Basotholand gained full independence as the Kingdom of Lesotho, a

constitutional monarchy under King Moshoeshoe II, a direct descendant of Chief Moshoeshoe.

Shortly after independence, a Constitutional crisis ensued and King Moshoeshoe II had to accept a non-political role as constitutional monarch. The role of the monarch in Lesotho politics has remained controversial to the present time. Lesotho's political leadership forged closer ties with South Africa during this period. When Chief Jonathan's party appeared to be losing the elections in 1970, he suspended the Constitution and subsequently declared a state of emergency to quell the erupting violence. Violence broke out again in 1974 and intermittently throughout the 1970s as opposition groups called for multi-party elections.

Opposition to apartheid accelerated across the border in 1982-1983 and South Africa began conducting raids into Lesotho, charging that the country was harboring outlawed African National Congress refugees. In late 1985 South Africa closed its borders with Lesotho, making it impossible for Lesotho to get food to address the emergency resulting from the drought. The South African Government threatened to deport Basotho working in South Africa. In January 1986, the Lesotho military intervened, ousted Jonathan, set up a Military Council and subsequently banned political activity. South Africa re-opened the border and violence dissipated when the Military Council reached an agreement with South Africa that neither country would allow its territory to be used for attacks on the other. The governments agreed to proceed with the Lesotho Highlands Water Project (LHWP) in late 1986 to transfer water from the Lesotho highlands to South Africa. While continuing to support the dismantling of apartheid, the government maintained a mutually beneficial relationship with South Africa.

In February 1990 conflict between the Military Council and King Moshoeshoe developed when the latter refused to rubber stamp Military Council decrees. The Council suspended the monarch's executive and legislative powers and subsequently dethroned the King (self-exiled in London), replacing him with his son King Letsie III in November 1990. Meanwhile, the Military Council had formed a Task Force on Democratization and set up a National Constituent Assembly to prepare a new constitution. A Constitutional Commission is currently seeking ratification for the draft document through village assemblies and the government plans to hold democratic elections in May 1992.

Recent events suggest that political transition may not come easily. In April 1991 Lesotho army elements agitated for a pay increase and called for the dismissal of the Finance and Foreign Affairs Ministers because of alleged corruption. The Military Council Chairman refused to comply and junior officers forced him to resign. Shortly thereafter the new Chairman agreed to a 20 percent pay raise for all government employees, including the military, repealed the 1986 Order No. 4 banning party politics and reconfirmed the Council's intent to move to civilian rule in 1992. In early June 1991, some high-ranking military officers resisted authority and were subsequently dismissed.

2. Economic and Social Environment

Lesotho's annual real per capita GNP grew at 5.2 percent between 1965 and 1988, a rate which only five countries in the world, including Botswana, exceeded. Annual real GDP increased at 4.9 percent in 1990 compared to 3.4 percent in the 1980s. GDP has been much smaller than GNP because of large remittances from Basotho migrant workers in South Africa; in 1990, remittances were about \$416 million (Maloti 1,077.5 million), constituting 43.7 percent of GNP and 77.4 percent of GDP.

Despite the increasing share of manufacturing and construction in GDP, agriculture-related activities and migrant work remain the largest sources of employment and income. (With more than 20,000 new entrants annually, the labor force numbers an estimated 637,000 (1990)). Unemployment, estimated at about 25 percent (1991), would be higher but for migrant employment. Migration of Lesotho labor to South African mines has recently started to decline precipitously: recruitments by the two largest sources for mine employment will decline from 107,000 in 1990 to an expected 97,000 in 1991 and about 85,000 in 1992. These large reductions are exacerbating unemployment.

The Government of Lesotho (GOL) is currently narrowing budget deficits by limiting expenditure under structural adjustment. Foreign borrowing is now the major source of deficit financing. Growth of net credit to GOL turned negative in 1990. The shares of the private sector and production credit of total domestic credit were 45.5 percent and 11.1 percent, respectively, at the end of 1990. But, private sector borrowing could increase given the high liquidity ratio of commercial banks. Banks now have a greater incentive to increase private sector lending since interest on Treasury bills is now taxed. Interest rates move broadly in line with those in South Africa, but the saving deposit rate is currently negative in real terms.

The balance of payments is generally negative, but turned positive in 1988 due to an improved current account balance. Exports began expanding rapidly in 1986, and manufactured goods, especially textiles, now dominate. The share of exports to the southern African region has declined while that to Europe and America has increased. Of the total public debt (\$462.5 million in 1990), external sources hold 77.2 percent, most of which is concessional. Consequently, debt service as a ratio of export revenue is only 4.7 percent. In 1988 total net disbursed aid was \$108 million, and aid per capita was the third highest among low-income countries in the world.

The quality of life has steadily improved for Basotho. Life expectancy has risen from 41.6 years in 1960 to 57.3 years in 1990 while the under-five mortality rate has dropped from 20.8 to 13.6 percent. Access to safe drinking water has also increased, from 17 percent in 1975-80 to 48 percent in 1988. The overall level of education has improved; the adult literacy rate increased from 62 percent in 1970 to 73 percent in 1985 and primary school enrollment has become one of the highest in Africa. Nevertheless, rapid population growth slowed

progress in social development. The population doubled from 0.9 million in 1960 to 1.8 million in 1990, with annual growth increasing from 2.3 percent in 1965-80 to 2.7 percent in 1980-88. The urban population has increased even more rapidly, from 7 to 15 percent over the 1971-91 period, and is now growing at an estimated 5.5 percent annually.

GOL began implementing an IMF-supported three-year Structural Adjustment Program (SAP) in 1988/89, followed by a three-year Enhanced Structural Adjustment Program (ESAP) beginning in 1991/92. Both programs aim to reduce budget and external deficits, achieve price and monetary stability, diversify the productive and export base and enhance the private sector's role in the economy. So far, the program has facilitated increased GDP growth by improving internal and external balances.

External factors largely determine the environment for sustainable growth because of Lesotho's high dependency on foreign markets and investment, especially those in South Africa. The level of national income is greatly dependent upon labor income from a single South African industry, mining. Within the Common Monetary Area (CMA), the Maloti is circulated at par value with and is fully backed by the South African Rand. The Southern African Customs Union (SACU) provides for free exchange of goods and pooling of customs and excise duties for sharing among members. SACU receipts constituted 53.5 percent of total GOL revenue, excluding grants, over the period 1986/87-1990/91. South Africa is providing partial financing and guaranteeing debt service for \$2.4 billion to finance the LHWP, which will become a major source of GOL revenue after 1997. Lesotho also relies on trade with South Africa, especially for food and energy imports and labor export. In 1990, 59.7 percent of all merchandise exports and 94.1 percent of merchandise imports involved the SACU area, mainly South Africa. Prices in South Africa determine the general level of domestic commodity and factor prices. Further, the recent depreciation of the Rand has increased the Rand value of Lesotho's foreign debt.

Dependence on South Africa is part of a wider reliance on overall foreign trade, development assistance, investment capital and technical skills. Foreign participation in domestic businesses, especially in industry and distribution, is pervasive. Donors play a key role in domestic financing: 82.8 percent of the 1991/92 capital budget comes from donor funds. Expatriates supply several critical skills, in such fields as medicine, engineering, agriculture and economics, required to manage the economy.

C. Development: Assessment of Progress

1. Economic

As consumption exceeds real GDP, the country is living beyond its means. GDP growth has been achieved at the cost of increased budgets and balance of payments deficits. Migrant workers' remittances and other foreign transfers finance the dissaving gap. However, reliance on foreign resources has

declined since 1980 because of reduced demand. High GDP growth has not resulted in adequate employment. The growth achieved so far is fragile because of the limited domestic resource and market base. Furthermore, inadequate saving and investment levels impede the generation of sustainable growth. Weather fluctuations affect agricultural and national output. Food security is precarious. Manufacturing growth is not linked sufficiently to domestic resources. The growth rate of manufacturing value-added has also fallen significantly. Furthermore, a major part of manufacturing growth has been linked to sanctions against South Africa and, therefore, is even more fragile. The public sector role in the economy remains large, while the productive private sector faces several obstacles to expansion.

Lesotho's dependency on external markets and capital results from many factors, including its small geographic area, its completely landlocked location surrounded by a more developed economy and its small domestic market. The GOL has little control over the international value of the Maloti and limited scope for direct money and credit policy because of its participation in CMA. Similarly, it has limited control over budget revenues because of SACU and, hence, manages its deficit through expenditure control. Because of indirect restriction on the supply of Maloti under CMA membership, the GOL can finance its budget deficit only by borrowing or reducing foreign assets. Thus, with the high import dependency of the economy, public expenditure expansion negatively affects the current account without necessarily increasing output. The restriction on the Maloti supply should promote fiscal and monetary discipline; instead, it fuels the need for foreign resources and indirectly contributes to public borrowing. On the positive side, the Maloti is stable and convertible because it is underwritten by the Rand. Lesotho also receives more trade revenue under the SACU arrangement than it would from direct collection of duties.

2. Equity and Political Economy of Reform

Real per capita GNP was \$420 in 1988, compared to an average of \$320 for all low-income countries. However, most Basotho are poor, due partly to inequitable income distribution. Sixty-seven percent of all households (71 percent of rural ones) were classified in 1986/87 as low-income (receipt of Maloti 86 or less per month), although 75 percent possessed farming fields and livestock. Approximately, 78 percent of the population has access to health services, but 50 percent and 83 percent had no safe water and sanitation, respectively (1990 figures). About 74 percent of males participate in the paid labor force compared to 29 percent of women.

Given the skewed income distribution, higher income groups may have benefitted disproportionately from the long-term increase in national income. To address this, the GOL has exempted some basic foods and other items on which the poor spend a large portion of their income from the general sales tax.

Structural adjustment reforms affect various sections of the population, including livestock farmers. Some livestock owners perceive the

national grazing fee, about to be levied, as a form of land tax. Successful implementation of this program is expected to enable Basotho to derive sustainable output from rangeland, since the fees are to help reduce the imbalance between carrying capacity of degraded rangeland and national herd size. Successful implementation of land reforms should distribute gains from land more equitably. Legalized land leasing is expected to promote increased private sector investment. However, its impact on private sector lending is likely to be tardy without improvement in leasing administration.

The GOL has eliminated the direct fertilizer subsidy as part of the program to privatize agricultural input marketing. Also, Coop Lesotho, the agriculture input supply parastatal, is unable to procure and distribute adequate inputs in a timely manner. In the short term, until private sector outlets gain an increased foothold, these factors may reduce fertilizer use and increase production costs. Thus, crop yields and output may suffer, leading in turn to reduced domestic supplies and higher food prices. This situation may contribute to higher inflation, thus compounding the adverse impacts of adjustment, especially on the poor. However, the overall direct impact of the adjustment reforms per se on the poor is difficult to assess mainly because the price of food, the major wage good, is determined by food prices in South Africa. Nonetheless, basic food prices have risen in real terms since 1989.

The GOL has reduced government employment, partly through retrenchments. However, it has markedly increased government salaries this year (including those of teachers and the military), although not sufficiently to match cumulative inflation since the last increase in 1988/89. Henceforth, the GOL will review salaries and minimum wages regularly in order to minimize value loss from inflation and sharp production cost increases. Miners are now paying a recruitment levy. As an offset, they now send home 30 percent of their income as deferred payment, instead of 60 percent, and receive higher interest on these payments.

Real social recurrent expenditure has virtually stagnated under adjustment. The education recurrent budget increased in real terms, but mainly to pay for increases in teachers salaries, while expenditure on other social services have barely risen since 1988. Meanwhile, however, cost-recovery has been enhanced through higher user fees. Social spending is programmed to increase under the ESAP, especially to protect the most vulnerable groups. Unless efficiency and targeting of social service delivery visibly improve, however, the poor are likely to suffer.

Higher utility charges resulting from increased cost-recovery in economic services and increased labor costs from higher wages have contributed to higher production costs in manufacturing, slowing employment generation in the sector. However, higher costs are partly offset by increased bank lending to the private sector, including concessionary export finance.

Progress in implementing reforms will depend on the GOL's ability to address the needs of various interest groups and the growing employment

demands. The political costs of adjustment are high, particularly in an era of political change. Adjustment fatigue may set in as GOL employees resist further retrenchments and together with the military and low-wage formal sector laborers demand improved salaries and benefits. To stay the course of adjustment and improve the environment for broad-based, sustainable growth is a major challenge for the future civilian government.

D. Development: Present Challenges

1. Economic development

The development challenge is to sustain and broaden long-term growth in the face of limited and degraded natural resources, low domestic productivity, reduced employment of migrant workers in South Africa, rising inflation, uncertain foreign inflows and rising social demands. The key is to maintain a stable macroeconomic environment, a system of incentives that encourages efficient resource allocation and use in productive enterprises to create employment and a growth pattern that distributes benefits broadly.

Reforms in land access and improved land management are required to sustain and improve agricultural productivity. Successful completion of all phases of the LHWP will ensure that Lesotho exploits optimally its key natural resource, water. It is essential to implement macroeconomic and structural reforms and promote private sector expansion to generate employment. Improved budget management will reduce unproductive expenditures, minimize borrowing and maintain foreign reserves. Long-term growth depends on improved mobilization, allocation and utilization of domestic savings, including miners' deferred payments and LHWP revenues. Opportunities must be identified to increase financing of productive enterprises. Given economic dependency, increasing labor-intensive exports and diversifying markets are important vehicles for future growth, but success depends on the identification of niches of export competitiveness in external markets. Since Lesotho cannot cut economic links with South Africa, it must continue to develop a mutually beneficial relationship and take full advantage of regional opportunities. How the relationship will evolve is difficult to assess. Foreign private investment in Lesotho may decline as foreign investors respond to an improved South African climate and the removal of trade and other sanctions. Basotho migrant workers could face increasing competition from South African labor. Furthermore, South Africa's readiness to share revenues through SACU payments could diminish as it addresses its backlog of social needs. What is clear, however, is that Lesotho must generate as much productive employment as possible through domestic economic growth.

2. Social development

Expanding social participation in development requires shifting public spending from unproductive job creation and social welfare for a privileged minority to basic social services provision for all. Accordingly, financial support for social services in health, safe water, sanitation, family planning and acquired

immune deficiency syndrome (AIDS) management must increase, public sector service delivery must become more efficient and private sector delivery must be promoted. Increased private delivery, however, depends on the Basotho's ability to pay higher fees. Improvements in the overall human resource base are important to enable Basotho to compete more effectively in the national and regional labor markets and to raise their overall quality of life. Lesotho has no option but to continue to export labor; the major challenge is to improve the quality and efficiency of the education system to further increase literacy rates and expand access to appropriate occupational, technical and managerial skills.

3. Political Development and Stability

Lesotho faces major political challenges over the next few years. First is maintaining stability while moving toward elections in May 1992 and installing a democratic government. Encouraging peaceful party politics will be an important government task in the coming months. Stability will be especially important for encouraging and sustaining Basotho and foreign investment in the country. Second is promoting a smooth transition of the military's role as democracy emerges and issues of its changing role, size and salaries surface. Third is the new government's need to provide the vision and will to implement structural adjustment and further the development of the country's resources as unemployment continues to rise. Staying the course will be difficult unless the leadership can convince government employees and the population alike of the need to increase productivity and efficiency in the face of limited financial resources. Fourth is the ability of business management and labor to negotiate reasonable work environments and benefits without resorting to crippling strikes and violence. Recent strikes by Standard and Barclays Banks' employees in Maseru and their eventual dismissal has disrupted financial activity in the country. Strikes in foreign-owned textile factories have also contributed to an image of labor problems in Lesotho. As miners are retrenched and unemployment increases, the potential for continued explosions among the population exists and must be effectively addressed.

Longer term challenges for Lesotho are the establishment of an effective participatory democracy and a more decentralized government. Encouraging greater participation in decision-making at all levels is important not only for increasing accountability but also for generating popular support for economic and social reforms essential for developing the country's resources and decreasing its dependence on South Africa. Traditional local chiefs retain considerable influence among their local constituencies, but they have little authority to make decisions on the use and implementation of government or donor development resources. USAID has been supporting government initiatives in the Ministries of Agriculture, Health and Education to build local capacity and increase responsibility for implementation at the district and lower levels. While these efforts have led to some deconcentration of responsibility from the center over the past five years, they are only initial steps in the decentralization process. Local Village Development Councils have little authority over development resources and their implementation at the local level. The plan for implementing nationwide

grazing fees calls for Village Development Councils to collect the fees locally for use by villages for local development projects. This procedure is now under review as its implementation appears to be inconsistent with statutes regarding revenue collection. The outcome of this issue will be an important indication of the government's commitment to increase responsibility and authority at the village level.

One can only speculate on how well the country will meet these challenges. Success will depend on the ability of the present and future leadership to continue to counterbalance economic restraint with social demands over the next several years while maintaining a mutually beneficial relationship with South Africa.

E. Growth Prospects

Medium-term prospects for economic growth in Lesotho depend on several factors, including recovery of the world economy, especially that of South Africa, to facilitate increased exports; ability to take advantage of major regional political and economic changes that will accompany the demise of apartheid; and improved economic management. The IMF has projected sustained medium-term growth based on these major assumptions: migrant mineworkers' remittances will fall in real terms; the LHWP will be implemented as planned; both exports and imports will rise in real terms; and expenditures on goods, services and transfers will increase. According to ESAP projections, real GDP and GNP growth will average 6.9 and 2.7 percent, respectively, over the period 1991/92-1995/96. Also, the fiscal deficit should turn to a modest surplus, the balance of payments should generate surpluses, and the debt service ratio should decrease. If sustained, these medium-term prospects could generate broad-based and market-oriented growth for the next generation of Basotho. To sustain growth, the country must address critical constraints to development as discussed in detail in Section II.

II. CONSTRAINTS AND OPPORTUNITIES FOR GROWTH

A. Constraints

1. Natural Resources

The amount, quality and utilization of the natural and social resource base determine the feasible set and efficiency of economic activities. Lesotho has few exploitable non-renewable natural resources, with water in river systems being a major natural resource. Diamond mining has been dormant for a decade while other minerals are not available in commercial quantities. Only 13.6 percent of the land area is suitable for crop cultivation and approximately 80 percent is suitable only for extensive grazing. Arable land has decreased from 370,000 HA in 1975 to 300,000 HA in 1988 and an additional estimated 4,000 HA will be lost under the LHWP. Despite limited arable land, nearly one-third remains unutilized each year through fallowing. Grazing land is fragile due to steep slopes, shallow soils and low vegetation cover. Soils are degraded and virtually no forests exist, a situation exacerbated by the communal land tenure system that

encourages overstocking and overgrazing. Carrying capacity of the grazing land has deteriorated to a point where urgent action is required to restore balance with livestock numbers.

2. Infrastructure

Lesotho's mountainous topography renders the development of centralized grid infrastructure technically demanding and expensive, except in accessible lowland areas. Only 2,775 KM (1986) of primary roads exist, with 17 percent tarred; many rural areas, especially in the mountains, have no roads and horses and donkeys are still important means of transport. Despite its limitations, the road network fits population distribution. Rail transportation is limited to a short link between the capital and the South African network. Air transportation, supported by 31 airfields, is costly. Telecommunication links exist only between 16 major population centers. The topography raises rural electrification costs for rural areas: only 0.7 percent (1989) of rural households are connected to the national grid. The unavailability of cheap rural electricity also limits rural industrialization. The lack of marketing centers is an obstacle to increased commercial agricultural production.

3. Human Resources

The high and increasing population growth rate of 2.7 percent erodes gains in income growth, contributes to increasing unemployment and severely limits the availability of social services. Efforts to address population growth are inadequate, as family planning and sex education programs have only recently started. The GOL also lacks a coordinated national population policy and implementation plan.

Human resource development is the key to higher rates of economic growth and equity. Many Basotho have access to basic and secondary education, but quality is low. Secondary education is costly and technical training is inadequate. These factors contribute to reducing the relative competitiveness of Basotho in the domestic and regional economies. Twenty-one percent (1986) of the labor force (36 percent of males and 12 percent of females) have no formal education, while 55 percent have not completed primary education or have only informal training. Women receive more formal education than men, but men receive more technical training and, thus, are better able to obtain wage employment. The inability of the National University of Lesotho to produce business, science, and engineering graduates further limits human resource capacity. Better job opportunities in South Africa attract the more qualified and experienced workers, especially professionals, thereby limiting the government's ability to manage the economy and encourage private sector expansion.

Health factors limit the potential for long-term improvement and utilization of human resources. Alcohol abuse is prevalent; about 22 percent of the population over 14 years have a problem with alcohol and household expenditures on alcohol and medicine appear equal. The male labor force, especially in rural

areas, is also debilitated by widespread incidence of acute respiratory infection, especially tuberculosis. The infection level of sexually transmitted diseases is high and HIV infection is a potential major detriment to human resource utilization. HIV cases are presently believed to be low but are rising and will reach epidemic levels unless Lesotho takes advantage of the current "window of opportunity" to address the problem.

4. Structural Elements

The demographic structure retards rapid economic growth: the population is young with 41 percent in the 0-14 age group. With high male migration, females form a high proportion of the resident population but have a lower formal sector employment rate.

Few output linkages exist between domestic agriculture and industry, partly because of the low productivity and output of domestic agriculture and the dependency on South Africa. Hence, most industries use imported inputs.

Most major agriculture-related enterprises in Lesotho are parastatals. The Lesotho National Development Corporation (LNDC), the governmental equity partner, dominates the investment arena. The public sector also plays a major role in agricultural product pricing and marketing. Lesotho has an open economy but few indigenous private sector productive enterprises, except for basic agriculture and services. The industrial base remains narrow despite new investment promotion initiatives such as industrial parks. Further, the formal private sector is small because of limited indigenous entrepreneurial skills, insufficient investment capital, inadequate technical and managerial skills, limited infrastructure contributing to high transport costs, and lack of inputs. The small domestic market, lack of marketing infrastructure and systems, especially in agriculture, and intense competition from South African firms further limit private sector expansion. Some legal and administrative impediments also exist--e.g, tardy investment approval by LNDC and the Pioneer Industry Board increases enterprise start-up times. The nascent land market has yet to facilitate the securing of credit using land title as collateral. The country's landlocked location also contributes to its international competitive disadvantage. The informal private sector, including small-scale agriculture, is the largest source of employment but receives relatively little resource support.

Most essential formal-sector financial services are available in urban areas but lacking in rural areas. Formal financial markets are highly segmented as each bank focuses on a particular niche with little inter-institutional competition. Few linkages exist between informal and formal financial markets. Finally, the local financial market is limited to treasury bills purchased by banks to finance GOL borrowing.

Economic activity is centralized in very few population centers although the government is now actively promoting the formation of village and district development councils nationwide. Excessive state involvement in production contributes to reduced efficiency of national resource use and increased budget deficits while at the same time sends negative signals to the private sector. Parastatals still set several output prices and provide input subsidies, especially to the agriculture and agro-industry sectors (e.g., subsidies on tractor service charges and producer prices for dairy milk). Despite its stated commitment to a free market-based economy, which is supported by the existing economic policy framework, the government continues to support parastatals and has taken little action to liquidate, commercialize or privatize them. This tardiness discourages private sector expansion.

Policies are often developed at the sectoral level with limited prioritizing at the national level, as occurred with the Fourth Development Plan. Additionally, several sectors, including agriculture, are without comprehensive sector plans. Nor did the government base its macroeconomic policy on a comprehensive macro-framework prior to entry into structural adjustment.

While having many advantages, Lesotho's close relationship with South Africa has a major shortcoming: it seriously restricts policy freedom, especially in the monetary, fiscal and external sectors. For example, Lesotho cannot revalue its currency without forfeiting the benefits of CMA membership. The government has also had difficulty diversifying revenue sources, especially to improve the enforcement of existing taxes to reduce its reliance on SACU revenue. GOL expenditure restraint through financial controls and monitoring is weak, contributing to overspending. The resulting budget deficit contributes to the excess liquidity positions of banks. Excess liquidity has been invested in government securities, increasing the cost or reducing the supply of credit to other sectors. The GOL's recent introduction of a tax on interest earned on GOL debt should help address this problem, however. The asset policy of banks favoring increased asset holding in South African Rand has contributed greatly to a reduction in domestic credit availability. Finally, several factors, including the lack of bankable projects and bankers' reluctance to finance term lending, limit lending for productive activities, especially for small-scale firms.

6. Institutions

Public sector administration, planning, budgetary control and accountability are weak, due in part to the lack of skilled manpower. Development planning remains fragmented without an effective central coordinating policy group to integrate planning and finance functions across sectors. Thus, plans, investment requirements and impacts are seldom linked. While substantial progress has been made in building institutional capacity in various ministries, more needs to be done to improve planning, technical, evaluation and financial management capacity. Low institutional capability limits the capacity to absorb donor aid, with the result that donor program implementation often requires technical advisers.

In general, private sector representational institutions, such as the Lesotho Chamber of Commerce, do not provide marketing information and relevant services for their members, have weak analytical capability and do not play a significant role in influencing policy formulation. Institutions providing economic services and utilities, such as finance, seem adequate although delivery systems for technology, skill training, risk management and social services are inadequate. Lack of coordination between public and private sector health services contributes to ineffective service distribution and fee differentials. Further, ineffective village health committees impede primary health care system development.

7. Technology

The low level of technological adoption is a major cause of low agricultural productivity. Furthermore, crop and livestock agriculture activities are inadequately integrated nationwide. The mechanism for determining national research priorities, while recently strengthened, remains weak because of the absence of a comprehensive agriculture sector and national technology policy. The Research Division of the Ministry of Agriculture cannot retain research specialists because of inadequate budgets and staff incentives. Capacity for maintenance research to ensure the continued relevance and productivity of improved technologies, inputs and management practices is not available. Further, efforts to extend existing technologies are inadequate. Greater attention needs to be paid to extending technologies appropriate to the needs of small farmers within specific agro-ecological zones. Research-extension linkages are especially weak and need to be improved to facilitate extension staff participation in planning, design, implementation and evaluation of research.

In the small-scale and rural industries sector, prospective entrepreneurs lack access to technological packages. The key institution for delivering technical advice for small-scale industrialization, the Basotho Enterprise Development Corporation, has been unable to meet its mandate.

8. South African Factor

Lesotho's membership in SACU and the openness of the economy require producers to compete with those in South Africa with its advantages of natural resources, infrastructure, managerial and technical skills, credit subsidies, transport rebates and a vastly more developed, albeit distorted, economy. In promoting export-oriented growth, Lesotho must also compete with attractive investment incentives offered by South African homeland governments.

The general economic situation in South Africa may improve but reluctance to hire migrant labor will likely increase. The competitiveness of Basotho in the regional labor market will likely diminish over time as South Africa raises the education level of its labor force. Additionally, changes in South Africa's fiscal policy will likely erode Lesotho's revenue base. The recent introduction of value-added tax in South Africa could have adverse impacts on Lesotho's revenue base unless she counteracts the effects through fiscal reforms. Modifications in

SACU arrangements may also be disadvantageous to the smaller member countries, especially if South Africa discontinues the enhanced payments under the revenue-sharing arrangement. A major driving force behind the growth of foreign investment in Lesotho over the last decade has been the desire of some foreign-owned firms to escape sanctions and consumer boycotts. The removal of sanctions as apartheid ends is likely to encourage these "footloose" firms to relocate in South Africa and to discourage investment by new firms.

9. Socio-cultural Aspects

One factor that constrains agricultural expansion is Basotho's perceptions of agriculture. Partly as a result of the availability of jobs in South Africa or in the government in the past, Basotho have not viewed agriculture as offering attractive employment opportunities.

The communal land ownership system has contributed extensively to the depletion of grazing resources by permitting open access to grazing lands. Only now are communities beginning to organize to improve rangeland management. The traditional land tenure system also prevents the establishment of a land market. Programs to initiate land leasing have not yet begun. Customary land laws encourage fragmentation of land into small plots. In theory, land resources should not constrain agricultural development, given the communal ownership system, but access to land is difficult for a growing population and landlessness is increasing; an estimated 30 percent of households are without land.

Discrimination against women is based in culture, religion and law; for example, women are classified legally as "minors" and cannot enter into contracts without the expressed or implied consent of their husbands. Since women play a dominant role in small- and medium-sized enterprises, the requirement that a married female borrower must obtain her husband's approval is an obstacle to increasing private sector lending. Discrimination against women significantly reduces efficient utilization of the better educated half of the population.

B. Opportunities

Attainment of broad, sustained economic growth in the foreseeable future is a major challenge because of the above-discussed constraints. Nonetheless, as discussed in Section I, the prognosis for future macroeconomic growth is favorable. Discussed below are some significant opportunities for growth in income and employment.

Despite resource and other constraints, agriculture offers considerable potential. Agriculture and agriculture-related business are basic to the economy and, despite the falling share of agriculture in GDP, still offer the best opportunity for increasing incomes and generating employment for the majority of the population that lives in rural areas. Potential exists for improving productivity of

traditional crop production, increasing value-added from livestock production, expanding production and processing of high-value export crops, and expanding processing of lower-value crops and other agricultural produce.

While Lesotho's topography limits the scope for large-scale irrigation, great potential exists for small-scale schemes. Water resources abound and need to be tapped to facilitate small-scale irrigation development. Successful development of irrigation schemes will improve both land and labor productivity, increase labor demand, reduce yield variability and support expansion of horticultural crop production. Abundant potential exists to produce high-value horticultural crops for export. The recent significant growth in asparagus production suggests that other high-value crops may also offer opportunities for growth. Provided management and marketing constraints can be eased, Lesotho may be able to gain from its advantage to produce and market high-value crops in the northern hemisphere in the off-season. In addition to export production, Lesotho has a comparative advantage to produce vegetables for domestic consumption. Expansion of this labor-intensive activity holds significant promise for increasing rural employment and incomes.

Livestock production is now the dominant agricultural activity, surpassing crop production. Wool and mohair still offer opportunities for employment and income generation given their high levels of financial and economic profitability. However, yields are low and sustaining or improving them is dependent on the more efficient management of rangeland and livestock resources. Intensive livestock production in the lowlands, such as stall-feeding of cattle and lamb fattening, are potentially profitable. Other animal-based activities with high demand include poultry raising, piggeries and dairy.

Development of selected agriculture-based industries offer potential for employment and income. In recent years, exports of processed goods, mainly tapestry and mohair yarn, have increased significantly: the average annual nominal value of these exports increased by 78 percent between 1988-1990, constituting 14 percent of total commodity export earnings in 1990. Another opportunity is hide and skin processing, which is currently not done.

The rapid growth in manufactured exports in recent years indicates that Lesotho can generate significant growth from manufacturing. However, it is essential to improve productivity in order to halt the declining trend in manufacturing value-added. Generating future growth in this sector depends on successful investment promotion and improved labor relations, including the continued exploitation of opportunities related to a changing South Africa and the creation of a more supportive environment for new investment, especially for export.

At the broader level of national development, vast opportunities exist for the development of Lesotho's water resource to generate export revenue and energy, as is being done under the LHWP. Several associated activities, including agriculture and tourism, need to be developed to enhance employment generation

associated with the project. Although Lesotho may not have as many avenues for growth as do other African countries with larger resource bases and more independent economies, Lesotho can sustain growth. The challenge will be to utilize available opportunities effectively and efficiently while continuing to nurture an advantageous relationship with South Africa.

III. PUBLIC SECTOR, PRIVATE SECTOR AND OTHER DONORS

A. Public Sector

1. Government Expenditure

The GOL budget for the 1991/92 fiscal year totals M957.3 million (\$337.1 million at current exchange rate), of which 59.9 percent is for recurrent expenditure. Among all categories, recurrent expenditure is lowest for economic services (e.g., agriculture, industry, transport), averaging 14.4 percent of total recurrent budget annually between 1985/86-1990/91 compared to 34.6 percent for central government services, including the military. Agriculture received a 40.7 percent share of the annual expenditure for economic services and 5.7 percent of the total recurrent budget, while industry and mining accounted for 1.2 percent of the total. Social and community services received 32.7 percent of the annual recurrent level, with public debt interest and other transfers accounting for 18.3 percent.

On the other hand, economic services receive the bulk of capital spending: at least 71.1 percent (1986-92) of the total capital budget has been allocated to economic services, including agriculture, industries, power and water. Government revenues account for only 17.4 percent (1989-92) of capital expenditures.

2. Contribution to Growth

The GOL recurrent budget as a share of GNP averaged 32.3 percent between 1986/87-1990/91. Excluding LHWP flows, public investment (about 25 percent of GNP currently) is lower than private investment. The public sector contribution is also lower--estimated at 35 percent in 1988. With respect to employment, the government is small at 5 percent (1986) of the labor force (excluding all parastatals). Total government employment (18,908) in 1990 was marginally higher than that of manufacturing (18,693). Further, almost 25 percent of paid employees in manufacturing are in food processing and beverages, which are dominated by parastatals.

Despite its lower contribution to growth, public sector participation in the economy is considerable, as the GOL owns at least 50 percent of the equity in more than 35 enterprises, including financial institutions. The GOL participates principally through LNDC, which holds shares in most large formal sector commercial enterprises.

Public sector contribution to agriculture is mainly in marketing and processing. The GOL dominates agricultural input marketing through Coop Lesotho, now being divested. It also engages in output marketing through several state-owned enterprises (SOEs). SOEs dominate the agro-industrial sector--e.g., Lesotho Brewing Company and Basotho Fruit and Cannery. Government participation in manufacturing is concentrated in pharmaceuticals and non-metal products. Although private construction firms predominate, the GOL finances a substantial portion of construction, especially under LHWP. The government dominates the communications, public utilities, finance and insurance services and has at least 50 percent equity shares in the major large-scale trading enterprises.

3. Strategy and Policies for Private Sector Development

GOL strategy for promoting private sector development aims includes: operating a market-oriented economic system, providing investment incentives and support services, supporting export-oriented and efficient import-substitution industrialization, encouraging foreign investment and actively promoting indigenous small-scale business development.

Lesotho has no history of nationalization. Further, the Maloti is easily convertible under CMA, foreign exchange can be accessed freely, trade policies are relatively free and private sector credit has increased. The GOL is also developing financial and money markets and exploring the establishment of a stock brokerage. It has initiated a program to privatize or liquidate selected parastatals. The government also has an institutional structure to support private sector development and a well-functioning, but under-capitalized, comprehensive export finance scheme. GOL is also re-assessing the feasibility of establishing an export processing zone.

In spite of considerable progress in promoting private sector growth, some policies militate against this objective--e.g, a biased credit policy, low utilization of financial Maloti facility, LNDC equity participation requirement, cumbersome and tardy investment approval, continuing support for inefficient parastatals, work permit requirements, and consumer and producer subsidies.

4. Structural Adjustment

To help improve the environment for private sector growth, the GOL initiated an adjustment program aimed broadly at correcting policy and structural defects, including re-aligning public and private sector roles, to lay the basis for sustained growth.

SAP objectives were to restore a viable balance of payments and domestic balances and to maintain stable price levels. Other objectives were to improve land tenure, expand and diversify agricultural production, further expand manufacturing by encouraging private investment, reduce budget support for SOEs, increase cost recovery and SOE divestiture, limit total domestic and government credit, retire outstanding government debt, and pursue appropriate interest rate

policies. To achieve a viable balance of payments, the GOL planned to contain import demand, expand the export finance scheme and increase remittances.

On the whole, economic performance improved under the SAP: the real GDP annual growth rate averaged 9.1 percent over the 1988-1991 period. Inflation also fell and the current account improved, but neither met programmed targets. The budget position improved, with the deficit meeting programmed targets by 1989/90. Similarly, the growth of monetary and domestic credit aggregates were within targets. But, the government delayed implementation of a number of structural reforms, including the civil service, review of SOEs, land reform, taxation of migrant workers' income, creation of the investment promotion unit.

The GOL is continuing its adjustment process over the period 1991/92-1995/96 through an Enhanced Structural Adjustment Program, with the objective of institutionalizing and consolidating gains made towards achieving domestic and external balances under the SAP. Programmed targets include average annual GDP and GNP growth rates of 8 and 3 percent, respectively, and increased aggregate annual investment of 53 percent of GNP. Agriculture reforms include the introduction of the national grazing fee and legalizing land leasing. Industrial reforms will focus on continued expansion of productive capacity through exports. Public sector reforms focus on improved performance and privatization of selected SOEs and on enhanced civil service performance. Financial and capital market development efforts will continue.

Most foreign investment reflects a response to internal and external economic distortions, mainly internal protection and a high-level of government concessions, and external distortions inherent in the South African economy and created by sanctions. Successful adjustment will facilitate the transformation of Lesotho into a competitive base for efficient export industries, rather than an escape from sanctions, quotas or high protectionism.

B. Private Sector

1. Status

Both the formal and informal private sectors were minimally developed at independence: only four small-scale industrial enterprises operated, employing about 300 workers. By 1989, the LNDC had assisted the establishment of more than 60 major enterprises in various sectors, including manufacturing, agro-industries and services. A 1990 survey indicated the existence of more than 100,000 non-farm micro- and small-scale enterprises (MSEs) (employing less than 50 people each). At least 80 percent of all MSEs and 75 percent of MSE-employment are in rural areas. Women constitute 75 percent of all MSE owners and employees. Beer brewing, garment manufacture, services and vending predominate.

The private sector dominates agricultural production, manufacturing, electronics and specific service industries, such as construction and building, road transport and tourism. Joint private-public firms dominate trading services. Foreigners own most major formal sector enterprises: of the 60 major LNDC-supported ones, only 20 percent are wholly-owned by Basotho and 21 percent are owned jointly by Basotho and foreigners. Foreigners own the remainder, concentrating in clothing and leather products. Basotho own all MSEs.

2. Contribution to Growth

The USAID/Lesotho MAPS Report (1989) estimated that the private sector accounts for about 65 percent of GDP (1988). Considering the major role of workers' remittances in the GNP, private sector contribution to GNP is likewise substantial. Private sector investment is about 21.8 percent of GNP and 50 percent of gross domestic investment (1989/90). While the private sector (including miner deferred payment deposits) accounts for 81.3 percent of total commercial bank deposits (end of 1990), it receives only 45.5 percent of total credit. Business enterprises received 66.5 percent of total private sector credit, while the distributive services received 34 percent (1990).

The private sector is the largest source of employment, with the informal private sector accounting for 90 percent (1985/86) of all domestic employment. The private sector also accounts for 43 percent of the remaining formal sector employment. The 60 major formal private sector companies employ 11,430 workers. MSEs employ more than 150,000, making them the second largest single source of employment next to agriculture. Despite the larger number of enterprises in the small-medium category, employment creation per enterprise is much higher in the large enterprise group, at 187.4 compared to an average of 1.5 for the smaller group. Large textile firms and agro-industries generate the most employment per enterprise, 320 and 241.3, respectively.

The private sector also accounts for almost all export earnings, dominated by wool and mohair which are also the major sources of recent export earnings growth. However, it plays a limited role in relieving the natural resource, policy, institutional and technological constraints discussed in Section II.

C. Other Donors

1. Assistance Levels and Sector Concentration.

Lesotho has received substantial assistance over the past years from a variety of donors. Table 1 summarizes assistance levels by the top ten donors for the past three years:

Table 1

**Summary of Top Ten Donors
External Assistance by Disbursement
(\$000)**

DONOR	1988	1989	1990
1. MULTILATERAL			
IDA	2,900	10,070	6,690
IMF		4,228	6,947
WFP	12,430	10,724	9,082
AFDB		17,007	56,673
AFDF			6,490
EEC	9,860	10,055	11,101
TOTAL	25,190	52,084	96,983
2. BILATERAL			
GERMANY	6,102	369	8,927
SWEDEN	7,950	5,192	5,710
UNITED KINGDOM	8,302	4,233	6,612
UNITED STATES OF AMERICA	14,612	14,194	9,398
TOTAL	36,966	23,988	30,647
GRAND TOTAL	62,156	76,072	127,630

Source: UNDP/Lesotho, except for U.S. assistance

Total donor assistance averaged \$100 million annually over the 1982-88 period. Recent figures indicate an upward trend (estimate of total for 1990 is \$155 million), due in part to increased investments associated with LHWP. The bulk of the recent assistance has been given as technical or project assistance, with an increasing level of program or budgetary assistance provided since 1988. The majority of assistance (approximately 60 percent) is provided in the form of grants, with the remainder provided as concessional loans with grace periods of 5-10 years, fixed interest rates of 0.75-5 percent and 30-year debt-amortization periods. All assistance from the African Development Bank (AFDB), World Bank and IMF and about half of the European Economic Community (EEC) assistance is in the form of loans.

Distribution of assistance by sector was as follows in 1988 (UNDP, 1989): agriculture (including food crops, livestock, agricultural college, natural resources, agro-industry), 41.9 percent; human resources development (including education, training and food aid for primary schools), 25.5 percent; transport and communications, 10.1 percent; health and population, 8.2 percent; economic planning and management, 6.1 percent; and other, 8.2 percent. See Table 2 for sector concentration by the top ten donors.

Lesotho relies on donor assistance to finance a large portion of its capital expenditures. Over the 1989/90-1991/92 period, donors financed 82.6 percent of GOL capital expenditures.

2. Donor Coordination

The Ministry of Planning, Economic and Manpower Development is responsible for aid coordination. However, the volume and diversity of assistance, together with weaknesses in government planning systems, hinder effective coordination. USAID, among other donors, has been urging GOL officials to assume a lead role in donor coordination and some donor assistance targets weaknesses in the planning and financial management system. Resident donor representatives meet monthly and generally share their plans and experiences with other donors more informally at the sectoral level.

USAID has increasingly coordinated its assistance at the sector level with that of other donors. For example, coordination among the World Bank, EEC, the British, other donors and the Ministry of Education resulted in the development of a sector plan in 1991 which sets priorities and resource needs for donor contributions. Under the plan, USAID and the World Bank are providing parallel financing for jointly supported reforms in primary education and will jointly review and evaluate progress over the plan period. USAID has also worked closely with other donors in the health and population sector in recent months as USAID projects have been completed or phased out and other donors have picked up selected activities. Continued coordination on AIDS-related initiatives will be important to integrate USAID's small activities with those of other donors as well as to encourage improved government policy formulation. In agriculture, USAID is increasingly coordinating its range management area development activities with those of the EEC. A final area is the joint support by USAID and the IMF for policy reforms in agriculture--for example, current benchmarks under the structural adjustment program include USAID-supported actions to privatize Coop Lesotho and institute national grazing fees.

IV. ASSESSMENT OF USAID'S PAST ROLE AND EXPERIENCE

This section discusses USAID's experience in the agriculture and natural resource sector, private sector, education sector, health and population sector and training. Annex D includes bibliographic references.

A. Agriculture Sector and Natural Resource Sector

Analytical work. USAID has been involved in the agriculture sector in Lesotho since 1973 and has been the lead donor in the sector in recent years. Serious USAID-sponsored analytical work began in 1974 when REDSO/ESA specialists undertook a sector assessment. Subsequently, the Lesotho Agricultural Sector Analysis Project (1977-82) produced, among others, a 300-page landmark report (Eckert et al., 1982) which extensively analyzed the rural and agriculture sectors and became a foundation stone for subsequent USAID interventions. Analytical work continued under the Agricultural Planning Project (1980-90), which had a modest impact on building planning capability in the Ministry of Agriculture.

In mid-1989, USAID re-evaluated its role in agriculture and natural resource development, reviewing 12 agriculture sub-sectors to identify lessons learned. A more formal sector analysis in early 1990 focused on five specific sub-sectors offering the greatest potential for effective interventions (Howes, rural roads; Guenette, agri-business; Eubanks, high-value crops; Sollod, range/livestock management; and Barrett, financial markets). These analyses form the principal basis for the strategy (see Section V).

Crops. USAID/Lesotho experience in the crops sub-sector began with the Thaba Bosiu (1973-79) and Land and Water Resources Development (1974-82) Projects, which emphasized training, land conservation practices, physical conservation structures, agriculture input supplies and cropping systems. Work in crops continued with the Farming Systems Research Project (1978-86) and certain elements of the Lesotho Agricultural Production and Institutional Support Project (LAPIS) (1985-92). These projects demonstrated considerable success in developing human resource capacity and fair success in institutional development, but only limited impact on production. Lessons learned included:

- Traditional extension may be effective in organizing communities and helping individual farmers plan production improvements, but only demonstration of impressive short-term benefits leads to significant adoption of new practices;
- Subsistence farming in Lesotho does not provide sufficient incentives to farmers to make major labor investments in production improvements, as compared to the cash incentives of wage labor in South Africa; and
- Conventional conservation works are problematic because annual productivity of the land is so low and farms so small that returns are too meager to repay the capital investment and maintenance costs.

Until about mid-1980, crop projects focused on field crops, with a heavy emphasis on land conservation. Analysis (Eckert et al, 1982) indicated that Lesotho had no comparative advantage in field crop production, given the large-scale, mechanized, and efficient production of such crops in neighboring South Africa. Emphasis then shifted to labor-intensive high-value crops (mainly fruits and vegetables), where Lesotho's comparative advantages are clearer.

Beginning in 1986, the LAPIS Project supported increased vegetable and fruit production, successfully demonstrating technical feasibility and potential profitability. However, Basotho farmers were generally unfamiliar with the management-intensive commercial production techniques required for vegetable and fruit growing, thus slowing adoption. Further, some design and implementation shortcomings affected the credit and direct production support components. Another problem was the GOL strategic approach to high-value crop production, especially its investment in costly group production schemes rather than the individual approach of LAPIS. USAID made a mid-course correction and

shifted efforts away from direct production toward the institutional capacity development to sustain activities.

Agricultural education. Through LAPIS, USAID has also made substantial investments in agricultural education (Lesotho Agricultural College), agricultural research and marketing with some notable successes: e.g., development of the highly acclaimed Student Enterprise Program whereby Agricultural College students run an agricultural business in their final year. Impact on production of these investments is difficult to quantify. Nevertheless, one USAID-sponsored agricultural research success stands out: the adoption by farmers of pinto beans, promoted by the LAPIS Project for their higher yield over traditional varieties. Sales of seeds have gone from zero, when LAPIS began, to more than 100 tons in 1991.

Natural resource management/livestock. USAID involvement in the sub-sector began with the Land Conservation and Range Development (LCRD) Project (1981-89). This project successfully initiated and developed the prototype Range Management Areas (RMAs) and local Grazing Associations (GAs), which empowered livestock owners to manage rangelands and adopt technical innovations to reverse severe degradation. GAs use rotational grazing patterns, along with other management techniques, to check overgrazing, thereby greatly improving animal nutrition, health, and value. LAPIS continued RMA development from 1988 and the newly obligated ten-year Community Natural Resource Management Project will expand this effort.

Food aid. USAID has also provided significant Title II food aid during the past CDSS period (food for work and maternal-childcare/school feeding programs), but phased out its program in 1990.

Lessons learned. USAID has learned many lessons over its 15-year involvement in agriculture. One, in particular, is the importance of addressing policy constraints. Consequently, USAID initiated the Lesotho Agricultural Policy Support Program (LAPSP) in 1988, a \$15 million sector reform program aimed at: (1) reducing overgrazing by introducing national grazing fees and improving livestock marketing, and (2) developing a competitive agricultural input supply market by ending the monopoly of and eventually privatizing the national input supply parastatal as well as ending fertilizer subsidies. While direct fertilizer subsidies have ended and more private firms are engaged in selling agricultural inputs, the sector clearly needs more private suppliers. Ultimate program impact has yet to be determined, due in part to delays stemming from GOL reluctance to make and implement tough policy decisions at a time of political instability and impending elections.

Another clear lesson is that investments in human resource development have paid off. USAID has sent more than 200 agricultural professionals for long-term training since the mid-1970s. Lesotho has an excellent track record of academic participants' completing their degrees and returning home to positions of influence. Because of the well-trained staff, the USAID program is

moving sharply away from the large technical assistance teams of the past, in favor of smaller teams of local expertise.

Yet another lesson learned is the need to focus the agricultural program in a few areas where Lesotho can demonstrate a comparative advantage and reasonable prospects for success. Past efforts, while not without impact, have clearly been too diverse, spanning a broad range of sub-sectors and sub-activities. Future investments will be more limited, focused on livestock/rangeland management and the promotion of agriculture-related private enterprise opportunities, including high-value crops, where comparative advantages are clearer.

B. Private Sector

USAID involvement. USAID has decided to limit its future support for private sector development mainly to agricultural activities and support industries (see Section V for rationale). USAID involvement to date has been limited to its policy reform under LAPSP, small-scale efforts under other projects (LAPIS and Human Resources Development Assistance (HRDA)) and some consultancies from the International Executive Service Corps.

Analytical work. Notwithstanding limited project experience, USAID has conducted considerable analytical work in the sector, which forms the basis for the small-scale agri-business strategy (see Section V). The centrally managed Gemini Project conducted an extensive survey (24,000 households) of micro- and small-scale enterprises (MSEs) in Lesotho, which confirmed the important role such enterprises play in Lesotho's economy. Thirty percent of all households were found to be engaged in some form of non-farm MSE activity, providing employment to more than 160,000 people. A large portion of MSE activity relates directly to agriculture (e.g., beer brewing, leather goods processing, mohair weaving, fruit/vegetable marketing).

The 1990 agricultural sector analysis (Guenette; Barrett) examined selected private sector constraints and opportunities, including those related to agri-business and financial markets (both formal and informal finance). While noting several constraints, these studies confirmed the presence of opportunities for greatly increased private sector activity, particularly related to agriculture, and suggested approaches that USAID could take to assist the private sector. In 1989/90, USAID collaborated with AFR/MDI in a Lesotho MAPS (Manual for Action in the Private Sector) exercise which recommended that USAID emphasize commercial agricultural production, marketing and related support industries. USAID also financed a descriptive analysis of the private sector (MB Consultancy, 1989) which documented increasing contributions to GDP by agro-industry. Other analytical work dates back to 1983 when USAID conducted its first private sector survey (McCarthy and Cohen).

USAID also employed a Private Sector Officer in 1989-90 to assess private sector issues and recommend areas for USAID support.

C. Education Sector

USAID involvement. Various trends characterize USAID's involvement in the education sector over the past 15 years: (1) from discreet project interventions to a sector reform approach, (2) from bilateral project to coordinated multi-donor approach, (3) increased focus on basic education, and (4) decreased levels of technical assistance. Details follow:

USAID/Lesotho supported several discreet projects in university extension (Institute of Extra-Mural Studies or IEMS), vocational education (Lesotho Opportunities Industrialization Center) and basic education (Instructional Materials Resource Center and Lesotho Distance Teaching Center). USAID's major effort during 1984-92 has been the comprehensive Basic and Nonformal Education Systems (BANFES) Project, which supported work in education management, primary education, vocational education and literacy. The newly obligated Primary Education Program represents a new approach: it is a sector reform effort to improve primary education.

In contrast to earlier projects where donor-initiated programs overlapped (e.g., Instructional Materials Resource Center versus National Curriculum Development Center), the Ministry of Education led a multi-donor review of the education sector in 1991 to prepare a five-year Education Sector Development Plan (1991-1996). The resulting plan provides the framework for coordinated donor efforts.

Earlier projects reflected donor interests in university and vocational education rather than primary education, which was then viewed as a social expenditure. International studies and experience leading to the "Basic Education for All" world conference in 1990 influenced donors and GOL officials alike to direct efforts toward primary education. The World Bank and USAID, major donors in the sector, are providing the bulk of their funding for primary education where greater economic and social returns may be realized.

USAID has moved from large numbers of long-term advisers (27 under BANFES) to minimal level (4 under the new program). BANFES advisers played a larger than normal role in implementation because many ministry staff (34) were away on long-term study. The success of this and other projects in building national capacity is demonstrated by the ministry's ability to assume major direction of USAID's Primary Education Program with fewer advisers. Further, the ministry will administer most training in Lesotho and only seven long-term study programs will be financed.

Impact. Past education projects have helped expand access to basic education--from 220,000 primary school pupils in 1975 to 351,000 in 1990, now 118 percent of the age group. Primary school completion rates have increased from 28 to 46 percent, and the equivalent years invested per completer have declined from 17.7 to 14.1. Further, the number of primary schools have risen

from 1050 to 1190 (with seven grades, from 38 to 69.6 percent). The portion of qualified teachers has likewise increased, from 69 to 81 percent. Positive results in expanding access and enrollment in basic education are reported in the 1990 Assessment of Program Impact and other donor reviews. The World Bank (1989) noted that Lesotho had achieved notable successes over the past decade in providing access to primary education, but many professionals had become concerned that quality was declining.

The major lesson learned by USAID and other donors was the need to address policy reforms for continued improvement in education. However positive the improvements in education, policy errors of the mid-1980s had begun to seriously affect system quality and efficiency. The under-financing of the education sector, in general, and of lower primary education, in particular, during the mid- to late-1980s led to low quality, which in turn lowered efficiency and finally, resulted in declining completion rates. The recently prepared sector plan, supported by USAID's sector reform program, targets reforms to correct past errors and halt declining quality and efficiency.

D. Health and Population Sector

USAID involvement. USAID has sponsored these activities in the health and population sector: Rural Health Development (1978-84), Rural Water and Sanitation Services (RWSS)(1979-89), Combatting Childhood Communicable Diseases (CCCD) (with a Health Communications sub-project) (1984-90), and Family Health Initiatives (FHI) (1987-92). Additionally, a centrally funded District Management Initiative Project (1987-91) has developed and introduced management strategies for the Ministry of Health and the Private Health Association of Lesotho. USAID also initiated a small condom social marketing activity in 1991.

Impact. These programs have contributed to the improved health status of Basotho and strengthened public and private sector health services. RWSS completed 605 water supply systems serving 322,140 people in rural areas, trained engineers and village water minders and strengthened the Village Water Supply Service, which still constructs water systems. The CCCD Project has contributed to increased immunization coverage: of children aged 12-23 months, coverage for six target diseases rose from 50 percent in 1984 to more than 80 percent in 1990. Oral rehydration units are open in most hospitals and health centers, with the result that childhood diarrhoea admissions and deaths have decreased by 75 percent. The percentage of diarrhoea cases receiving oral rehydration treatment rose from 42 percent in 1987 to 69 percent in 1990. FHI assisted the Ministry of Health and Lesotho Planned Parenthood Association to expand their family planning programs, including information and education programs, but brain-drain of trained and qualified personnel is now limiting rapid expansion of activities. Other donors are picking up most FHI-initiated activities, including the successful radio drama.

Overall, USAID's work in this sector shows an increased emphasis on private sector delivery systems which offer greater possibilities for efficient operations. In 1991, USAID began a Social Marketing Program for condoms (SOMARC) and will limit its future efforts to this and related small activities.

E. Training

USAID involvement. USAID has financed participant activities since the late 1970s. In addition to training numerous Basotho in many fields, USAID developed in-house administrative capacity and an effective management information system. USAID's longest term employee (17 years) is the training specialist whose understanding of human resource development in Lesotho enables USAID to respond quickly to various training requests and assess training programs. USAID also has one of the best Participant Training Management System data bases in Africa, maintaining data on more than 700 participant trainees (see Annex C for a training summary).

USAID has moved from a broad human resource development approach to emphasizing selected technical areas to support strategic efforts. Greater emphasis is being placed on short-term, in-country technical training, with reduced levels of academic training. The recently approved education and agriculture projects reflect this trend.

Impact. Participant trainee data shows that USAID projects helped build the human resource base for many institutions in Lesotho. USAID "graduates" are found throughout the public and private sectors. USAID-funded participants have also helped improve local training capacity--e.g., IEMS now carries out a variety of adult education programs and its Business Training Division conducts various in-country business training activities under HRDA. Further, leaders in the Ministry of Education are using training received under USAID projects as are many staff working in agriculture and health.

The Southern Africa Manpower Development Project (1978-88) also provided 1,936 months of long-term training in various fields and 1,142 months of operational expert personnel for in-country institutional development in manpower planning, agriculture, engineering and roads construction. Eighty Basotho received training in similar areas. HRDA (1988-92), continues capacity building efforts but in private sector development areas; training is usually of short duration and is held in Lesotho or the region. More than 50 percent of trainees have been women. HRDA has also conducted training for the Chamber of Commerce and Industry and numerous small- and medium-sized entrepreneurs.

V. COUNTRY DEVELOPMENT ASSISTANCE STRATEGY FOR 1992-1996

A. Strategy Goal and Sub-goals

USAID's program goal for the FY 1992-FY 1996 period is to achieve broad-based, sustainable growth in Lesotho. While the country faces a number of

economic and political challenges over the next few years, prospects for continued growth as discussed in Section I are good, especially in light of Lesotho's progress on its structural adjustment program. The Mission is optimistic that the country will indeed be able to continue its growth. USAID will use the following indicators to measure progress toward goal achievement: (1) real per capita GDP, (2) real per capita GNP and (3) human development index (UNDP). (See Annex A for a detailed program logframe and objective tree.)

USAID has identified two sub-goals that reflect the need to provide, on the one hand, opportunities for income enhancement or sustainability and, on the other, improved capacity of Basotho generally to take advantage of opportunities and participate more effectively in economic, social and political development. The sub-goals and their respective indicators are:

- **Sustain or improve income**: to be measured by increases in income differentials between range management areas and the national average and by increases in income from agro-enterprises; and
- **Improve human resource base**: to be measured by changes in the percent of population completing primary, secondary and university education.

Sustained or improved output and productivity of selected agricultural sub-sectors (strategic objective) is expected to contribute to increased or sustained income from agricultural and rangeland resources. The income effects will in turn contribute to sustained economic growth. The **improved quality and efficiency of primary education** (strategic objective) is expected to contribute to general improvements in human resources for more effective participation in all aspects of development. An improved human resource base contributes to sustained growth. **Reducing the future cost of energy** (strategic objective) is expected to contribute directly to broad-based, sustained growth by providing a secure supply of electricity at cost savings to the government and customers. These objectives are discussed in detail in later sub-sections.

The Mission has assumed the following conditions will prevail over the program period for successful achievement of the strategy and goal:

- General economic conditions will remain relatively stable;
- No major catastrophes will occur, such as continuing drought or civil strife that the GOL will not be able to manage;
- In-migration of mineworkers will not accelerate to a level or at a pace that government programs and the private sector cannot respond; and
- GOL will continue to successfully implement its structural adjustment program, which includes AID program priorities.

In framing its strategy, USAID recognizes the somewhat weakened status of the government resulting from recent leadership changes and preoccupation with upcoming elections. Therefore, it is not proposing sharply diverging policy initiatives or project interventions beyond those under preparation at the present time. The policy agenda under USAID interventions is broadly supported by the structural adjustment program. As implementation of reforms proceeds and government directions and capacity become clearer, USAID will be more able to judge what additional reforms may be pursued. The proposed hydropower project has widespread support and is unlikely to be affected by impending political uncertainty. Furthermore, the Lesotho Highlands Authority, an autonomous agency with strong implementation capacity, will be the implementing agency for the project. The FY 1993 proposed new start in agricultural enterprise will broaden USAID efforts in the agriculture sector. The challenge here will be to develop an approach that provides supportive services for small-scale enterprise to meet income and employment objectives. Over the longer term, policy initiatives in agro-industry may be initiated.

B. U.S. Interests

USAID's continued efforts to provide development assistance to Lesotho serves U.S. interests in various ways. Most importantly, USAID provides development assistance to Lesotho to help the country develop its natural and human resources to provide for the basic needs of its people. Secondly, the program will provide opportunities for U.S. business participation, including participation as suppliers for commodities financed under the program (Hydropower Project) or as partners in joint ventures in agricultural enterprises (e.g., the U.S. company that has actively marketed in Lesotho a pinto bean tested under a USAID-financed project). Thirdly, Lesotho is committed to move to a democratic government and continued U.S. support could help encourage the country to remain committed to this challenge during the difficult transitional stage. Finally, the government performed well during the past two years of its structural adjustment program. This demonstrated performance increases the likelihood for successful implementation of the enhanced structural adjustment program, which includes many actions directly related to the USAID program.

C. Agriculture and Natural Resource Sector Objective

1. Background

The agriculture and natural resource sector in Lesotho is characterized by:

- Steep mountainous terrain covering two-thirds of the country, which is suitable primarily as rangeland for extensive livestock production;

- Limited arable land for crop production;
- Long-term degradation of the natural resource base resulting from overgrazing and other causes of severe soil erosion;
- Predominance of low productivity in rainfed agriculture with declining production and yields of basic grains;
- Good water resources with potential for small-scale irrigation;
- Relatively little indigenous value-added activity such as processing and marketing, in spite of a large number of micro-level informal rural enterprises; and
- A high degree of dependence on miners' remittances as a key source of income for rural dwellers (although large-scale retrenchments have recently occurred at South African mines).

The serious constraints to agricultural development in Lesotho are discussed in Section II. Time series data show a clear trend toward increased food imports and decreased contribution by agriculture to GDP (although the latter is in part a normal aspect of economic transformation and development). Nonetheless, the agriculture sector can respond to improved conditions, as evidenced by the dramatic 26.5 percent annual increase in growth in the sector in 1988.

Some recent positive trends for the agriculture sector in Lesotho include:

- The successful development of prototype range management areas (RMAs), which have had visible and measurable impact on reversing environmental rangeland degradation (within their limited areas);
- Increased interest in high-value crops, intensive livestock schemes and other commercial and entrepreneurial activity, including progress in the promotion of export crops;
- Increased GOL commitment to agri-business, including the privatization of input supply under the USAID policy program; Impressive progress is also being made by a joint U.S.-Basotho seed company and local entrepreneurs are now starting to enter the input supply market;
- GOL development of a private sector-based marketing plan for agricultural crops; and
- Significant improvements in human resource capacity in agriculture and agriculture-related areas in both the public and private sectors.

2. Rationale for USAID Involvement

USAID/Lesotho has been working in the agriculture sector since 1973 and has a number of reasons to continue this work:

- Agriculture remains a key contributor to GDP and is the single largest contributor if forward and backward economic linkages are considered; for example, agriculturally based industries make up more than half (1988) of the value in manufacturing, currently listed as the most important contributor to GDP;
- Agriculture and agriculture-related businesses are by far the largest sources of domestic employment (at least 60-70 percent, although not necessarily full-time employment) and more than 80 percent of the population live in the rural area;
- As employment opportunities in South Africa decline, domestic agriculture and agriculture-related enterprises may provide the best opportunity for future employment and income. While manufacturing has grown rapidly in the past several years, this growth has resulted largely from investments in the highly mobile textile industry (mainly foreign-owned cut-and-sew operations that move easily into and out of LNDC-provided factory shells). Since this industry is not based upon the domestic resource use (other than labor) and since some of these firms have located in Lesotho in part because of sanctions against South Africa, these firms may not remain in Lesotho over the long term, thereby raising a question on the extent of future sector growth; and
- USAID has been the lead donor in agriculture for a number of years and, consequently, has considerable influence. USAID's past involvement has also considerably strengthened host country institutions and staff as well as provided a number of lessons learned. Therefore, current and future investments in the sector are building upon past interventions and experience, thus increasing the chances for success.

3. Strategic Objective 1.0: Sustain or Improve Output and Productivity of Selected Agricultural Sub-sectors

The central focus of USAID's agriculture, natural resource and private sector strategy is to build opportunities for people, thereby increasing income, employment and economic growth. (See Figure 1 for sector objective tree.)

To sharpen the program focus, USAID will limit private sector development efforts principally to agriculture-related enterprises. This rationale reflects USAID's interest in concentrating its limited resources on a "manageable piece" of the total private sector in order to realize measurable impact.

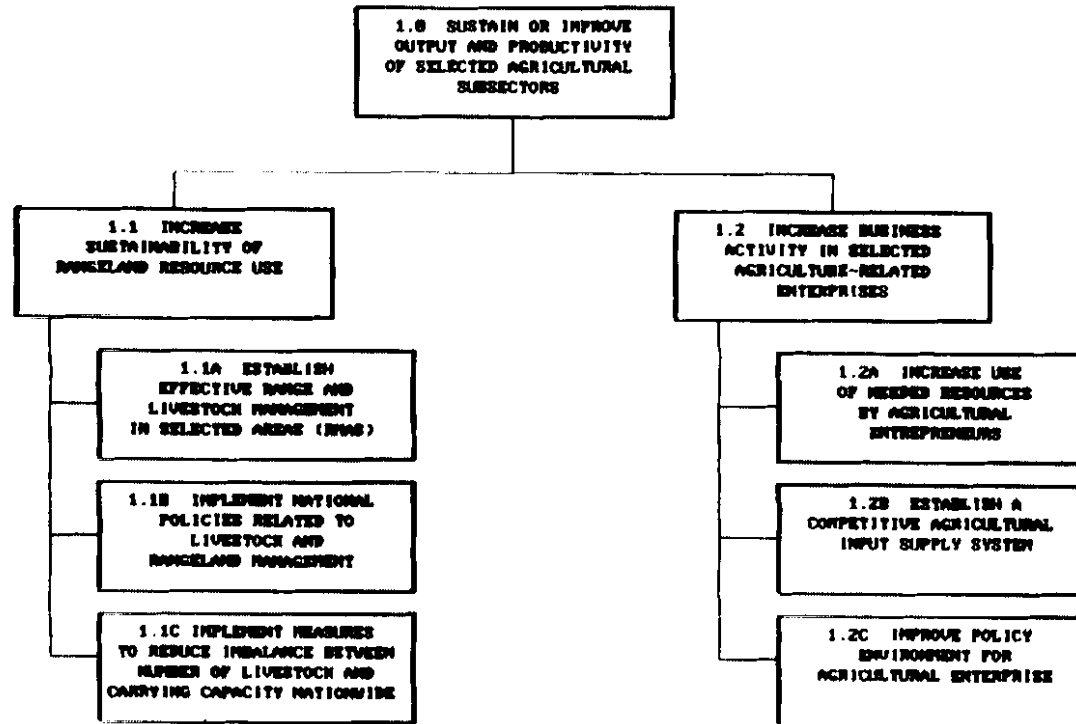
FIGURE 1

USAID/LESOTHO
OUTPUT AND PRODUCTIVITY OBJECTIVE TREE - 1991

STRATEGIC
OBJECTIVE

TARGETS

SUB-TARGETS



Furthermore, the Mission can draw upon past experience with agriculture-related enterprise opportunities and constraints (e.g., LAPSP and student enterprise programs). Analytical work noted in Section IV also indicates opportunities for productive USAID investments in the enterprise sub-sector. Nevertheless, some training and policy-related interventions will likely have a positive impact upon the private sector generally.

The areas of focus exploit Lesotho's distinct comparative advantages (e.g., extensive rangeland livestock production and certain enterprises related to input supply, production, processing and marketing of high-value crops and intensive livestock operations). They also build upon past USAID experience, capitalize upon past investments and flow from extensive analytical work.

Opportunities in agriculture and agriculture-related enterprise suffer constraints noted in Section II: an increasingly degraded natural resource base (particularly the commonly managed rangelands), a low level of management skills, the inability of potential entrepreneurs to gain access to needed resources and skills, and certain policies.

USAID activities to address these constraints are expected to lead to sustained or improved output and productivity in selected sub-sectors. "Sustain" is used because of the currently deteriorated situation nationwide (e.g., rangeland deterioration). While USAID interventions are expected to result in absolute improvements in certain localities, it would be unrealistic to suppose that USAID activities could reverse the deterioration nationwide within five-seven years.

The Mission has identified two targets (sub-sectors of concentration) that can contribute to improved output and productivity in agriculture: (a) increase sustainability of rangeland resource use, and (b) increase business activity in selected agriculture-related areas (Targets 1.1 and 1.2).

At the strategic objective and sub-goal levels, USAID will measure success in terms of impact upon people's lives. For rangeland, the emphasis is maintaining a sustainable level of outputs, thereby arresting the long-term decline in the value of people's animal products. This means long-term improvements in income against what may happen if rangeland deterioration were to continue. As overgrazing and degradation stop or reverse, rangeland will improve, contributing to better animal nutrition. Better animal nutrition will in turn result in higher fleece weights for sheep and goats, and heavier and stronger cattle for draught power, meat, and cash sales, eventually leading to higher incomes and non-cash gains for livestock owners. Indicators will measure fleece and cattle weights, comparing those from within USAID-supported RMAs with the national average.

With regard to increased business activity in selected agricultural enterprises, measurement of success at the strategic objective level will

focus on improvements in capital and labor productivity. USAID plans to conduct baseline work in 1992 to determine current levels of productivity and projected improvements over the planning period. The Mission will also carry out specific studies to quantify links between increases in output and productivity at the strategic objective level and increases in people's incomes at the sub-goal level.

4. Targets and Sub-targets

Target 1.1: Increase sustainability of rangeland resource use.

Continued work on solutions to the severe problem of overgrazing is vital to the protection of Lesotho's mountain rangeland, which is an important natural resource and essential to livestock production. Economically, wool and mohair production is the country's second largest export and cattle are important for draught power, milk, meat, and cash income. Equines provide critically needed transport. Protecting the mountain rangeland also offers potential for tourism and slows erosion of downstream crop land, thereby positively affecting crop production.

Ecologically, protection of mountain rangeland may be even more important to reduce direct soil erosion in the mountains and help protect crop land in the valleys, preserve plant and animal species diversity (several endangered flora and fauna species exist in the highlands), reduce water siltation (important for LHWP) and improve water quality generally, and increase global biomass.

Sociological impacts are also important. The rangelands form the economic as well as the natural resource base for the mountain population. Continued severe erosion of the base raises the specter of large-scale unemployment and out-migration to urban and peri-urban lowland areas. Resettlement of large numbers of mountain dwellers in lowland and urban areas will not only greatly increase pressure on overcrowded lowlands but will also contribute to a variety of other social problems. Urban migration is already changing land-use patterns from agricultural to residential use, and Lesotho can ill afford further reductions in its limited crop land.

At the target level, the focus is on improvement of the natural resource base, the mountain rangelands. Impact will be measured in terms of the amount of Lesotho's rangelands put under improved management and the effectiveness of the improved management programs in reversing rangeland deterioration caused by overgrazing. Approximately 130,000 hectares, or 6 percent of Lesotho's total rangeland, is under an RMA program. This figure is expected to double over the program period. A range-condition index will provide a quantitative biophysical indicator of range improvement and rangeland management effectiveness; this index has been in use for several years.

The recently authorized, ten-year Community Natural Resource Management (CNRM) Project will continue the successful work of previous USAID projects in developing and geographically extending RMAs and local Grazing Associations (GAs), the mechanisms by which improved rangeland and livestock management are implemented. Indicators for sub-target 1.1A will measure the

number of improved management programs established (rotational grazing plans are the key element in reducing overgrazing). While the emphasis is on rangeland management at this level, direct livestock improvement programs (breeding, marketing and culling) are also implemented through the RMAs and GAs to permit participants to realize benefits in a shorter time frame than that required for improving the natural resource base. The sub-target indicators also measure the number of these livestock improvement programs implemented.

National level policies are also important to improve range management (sub-target 1.1B). The most prominent (and controversial) policy in this area is the proposed implementation of a nationwide grazing fee, a key policy condition under both the USAID LAPSP sector reform program and the structural adjustment program. Livestock owners currently incur relatively few costs when they graze their animals on the country's commonly owned rangelands, a practice that encourages overgrazing and overstocking of animals. The national grazing fee (on a per animal basis), with the revenues collected to remain at the local level for community development and livestock improvements, is designed to reduce overstocking by requiring livestock owners to pay at least part of the social costs of overgrazing. While this plan poses some difficult implementation questions, the GOL continues to express commitment to its implementation. Indicators of achievement include the amount of fees collected and the number of stockowners paying fees.

Another USAID-supported national policy encourages improved livestock marketing, particularly efficiency improvements at the state-owned National Abattoir and Feedlot Complex to enable it to cope more effectively with the increased numbers of animals resulting from destocking. Subsidies to the abattoir allow for inefficient management to continue and therefore USAID plans to use the reduction of subsidies as the indicator to measure progress.

In addition to the RMA program and national policy improvements, USAID indirectly supports a number of nationwide programs aimed at restoring the balance between the national herd size and carrying capacity of the rangelands (sub-target 1.1C). Local currency generated through the USAID LAPSP program funds these programs, which involve animal culling, exchanging poor quality animals for fewer high quality animals, market information systems to assist private sector marketing and definition/adjudication of individual grazing rights to specific areas. Indicators focus upon the number of outputs from these programs.

The Range Management Division of the Ministry of Agriculture serves as the implementing agency for the above-discussed sub-target activities and their corresponding USAID-financed projects/programs. Although operating since 1980 only, this Division has well-trained, motivated staff that now have nine years of experience in RMA development. Further, the Division receives a solid share of the government annual budget, which bodes well for the future of the organization.

The above-outlined strategy is a high priority for the government. Reversing rangeland degradation is also the number one priority of the National Environmental Action and National Livestock Policy Implementation Plans.

Target 1.2 - Increase business activity in selected agriculture-related areas. Many opportunities exist for enterprise development related to agriculture, both off-farm and on-farm. Agro-industry activity is also expanding. In input supplies, for example, private sector opportunities have expanded as the GOL has lifted the parastatal monopoly, and additional opportunities should occur as privatization proceeds. Processing and marketing also present many opportunities that are currently exploited only to a limited degree--for example, the lack of a functioning tannery means that hides and skins in Lesotho are simply discarded or sold for a nominal value in raw form, while at the same time local leather goods manufacturers must travel long distances into South Africa to obtain leather. Potential also exists for expanding domestic processing of agricultural crops for export and domestic markets. Lesotho has steadily increased its exports of canned asparagus to Europe through the parastatal canning company and now exports nearly 1,000 tons annually. With solid private sector management and some additional investment, production and processing could be quickly expanded in response to high demand in European markets.

Under-exploited opportunities for commercial on-farm enterprises that fill niches in domestic and regional markets also offer potential for growth. Lesotho's high altitude and climate provide a clear comparative advantage for certain crops (e.g., some vegetables and deciduous stone fruits that require a high chill factor, etc.). Certain types of intensive livestock production operations (e.g., lamb fattening, stall-fed beef, dairy) also show great potential for profitability.

These opportunities are being exploited only to a limited degree for various reasons. Business and management skills are weak. Despite a highly liquid financial system, access to finance is limited by inadequate financial intermediation, lack of understanding by potential borrowers of financial lending criteria, and lack of know-how to develop and present business plans. Competition from South Africa for markets, both domestic and regional, is strong and previously promoted technical packages have often not considered marketing, economic, finance, and sociological issues. Past GOL policies have also been a constraint, with government financial and human resources directed to costly, unsuccessful group production schemes and inefficient parastatals that have crowded out private sector activities.

USAID will address these issues over the program period by developing a new project (currently at the pre-PID analysis stage) which will target micro- and small-scale enterprise related to agriculture and by continuing implementation of its LAPSP sector reform program, which is helping to establish a competitive agricultural input supply system by parastatal privatization.

Indicators of success at the target level will include the numbers of new enterprises and expansion of existing enterprises (measured in terms of sales volume and employment).

With respect to sub-targets 1.2A and 1.2C, the future project will be the key vehicle. This project will first identify and address specific policy constraints, after which it will promote "enterprise opportunities" by linking potential entrepreneurs with needed resources and business skills. Prior USAID and other donor projects have already generated much of the technical information needed to identify the most potentially profitable agricultural enterprises. In addition, USAID has identified some target groups of potential entrepreneurs (many with experience in agri-business) as well as possible institutions to serve as delivery channels for needed technical resources, finances and skills. The term "agricultural enterprises" is used here to include commercial operations encompassing input supply, production (e.g., irrigated high-value crops and intensive livestock), processing and marketing.

USAID expects that most entrepreneurs targeted will be micro- and small-scale businesses (less than 50 employees) who have some requisite qualifications to succeed (e.g., some experience with small-scale agri-business or a commercial orientation, access to a minimal level of start-up capital and a site). These businesses will be targeted since only a few large-scale businesses operate in Lesotho (i.e., in a survey of 24,235 households, the Gemini report found only 25 large-scale businesses as against 7,267 smaller firms) and larger firms can qualify for assistance from LNDC and other resources. Further, foreigners often own large businesses. Finally, USAID already has some experience working with the micro- and small agricultural entrepreneurs.

Indicators of progress for sub-target 1.2A are services utilized (management, technical, marketing) and loans provided.

To promote micro-level agricultural enterprise in an area where Lesotho has a comparative advantage, USAID will continue its successful activity to promote high-value crop production through small home plots, implemented under LAPIS since 1989 with Peace Corps assistance. A small follow-on project will be obligated in FY 1992.

As noted above, LAPSP addresses sub-target 1.2B, the establishment of a competitive agricultural input supply system. The most straightforward indicator of achievement is the number of firms operating in the sub-sector.

5. Relationship to Agency Priorities

USAID's agriculture, natural resource, and private sector strategy relates to some extent to all four strategic objectives of the Africa Bureau's Development Fund for Africa (DFA) Action Plan. The strongest, most direct relationship, however, is to strategic objective three: "developing the

potential for long-term increases in productivity." As discussed above, DFA targets 3-1 ("improved natural resource management") and 3-3 ("expanded skills and productivity on the job") under strategic objective three relate closely to the USAID program strategy. DFA strategic objective one: "improving management of African economies by redefining and reducing the role of the public sector and increasing its efficiency," also relates directly to USAID's strategy, particularly to sub-target 1.2B and the livestock marketing aspects of sub-target 1.1B. In addition, the strategy responds directly to Congressional interests and earmarks for natural resource management and micro-enterprise, as well as more specific Africa Bureau sector strategies such as the "Plan for Supporting Natural Resource Management in Sub-Saharan Africa."

6. Other Donor Activity

Other donor programs in the sector complement USAID's current and planned activities. In rangeland management, both the EEC and LHWP have indicated intentions to follow USAID's lead and finance additional RMA development. Relatedly, the IMF structural adjustment conditionality strongly features livestock destocking and improved marketing policies that directly complement the USAID LAPSP program. British and German aid is also directed to livestock and includes a grassroots animal health training program which is parallel to USAID efforts in improving RMA livestock productivity. Donors are also active in the areas of high-value crops. Both the EEC and Germans are financing high-value crop production, with EEC emphasizing irrigation schemes. The Food and Agriculture Organization works closely with USAID technicians on marketing and agricultural information.

Several donors have small programs in the agricultural enterprise sub-sector. The World Bank, however, funds a sizeable agro-industries project and provides loans to LNDC for financing joint ventures and building factory shells. The British also provide loans to LNDC and several other donors provide minor support to agriculture-related business. The U.N. Capital Development Facility has a loan guarantee fund through the Lesotho Bank to promote new small business, including agri-business. Finally, EEC is contributing to an Export Finance Scheme which provides support for export transactions.

D. Energy Sector Objective

1. Background

Lesotho meets most of its energy needs by traditional fuels such as dung, agricultural residue and some local vegetation, but expanding availability is difficult. The country has been virtually treeless for several decades, and reforestation is difficult because of overgrazing, rough terrain, poor soil and inhospitable climatic conditions. Prospects for production of commercial energy are limited. Some petroleum exploration has been undertaken but available data does not encourage further exploration. The existing coal and peat deposits cannot be exploited commercially.

Development of hydropower is the only promising possibility for Lesotho to expand the supply of locally available energy. Lesotho is completely dependent on imports from South Africa to supply its growing energy needs. The country imports all petroleum, all coal, practically all commercial fuel wood and approximately 90 percent of all electricity.

Only about 2 percent of the population, located largely in Maseru and the few towns served by the transmission network, have access to electricity. Most high-income households have electricity. Thus, lower income households with lower average consumption levels constitute much of the future market. Including domestic users, commercial demand is projected to increase at 5.5 percent per annum.

2. Rationale for USAID Involvement

The main rationale for USAID involvement in hydropower generation is that the 'Muela Hydropower Project makes good economic sense for Lesotho as part of the large water transfer project, LHWP, to convert water into export revenues. The supplies of upstream water in Lesotho's highlands provide an untapped source for power generation, and the LHWP is already building the infrastructure to exploit this renewable resource. The total cost of the first phase of LHWP construction approximates \$2.4 billion. The project is attractive to Lesotho not only for the revenues gained from the sale of water to South Africa but also for the considerable hydropower generation potential for meeting Lesotho's energy needs. The 72 MW 'Muela Hydropower facility, a component of LHWP, is the first project to develop this hydropower generating capability to enable Lesotho to meet energy needs at lower costs. A 32 MW hydropower plant is planned for the second phase. Further, a future potential may exist to produce 2000 MW of power for export from pump storage generation.

The LHWP, the largest capital project in sub-Saharan Africa, is the major development priority for GOL. The Lesotho Highland Development Authority was established to assure good donor coordination and management of the various components of the LHWP.

In addition to the development rationale, the energy project would provide opportunities for U.S. business to become involved in a regional hydropower project by supplying the electrical and mechanical equipment for the 'Muela hydropower plant.

3. Strategic Objective 2.0: Reduce Future Energy Costs

Reducing future energy costs is essential to achieving broader, sustainable growth in Lesotho. (See Figure 2 for sector objective tree.) The availability of cheaper power, or power at lower rates than those in South Africa could give Lesotho a competitive edge in attracting increased numbers of manufacturing and agro-industries. Furthermore, Lesotho must import almost 100 percent of its electricity and reducing energy costs will result in cost savings for

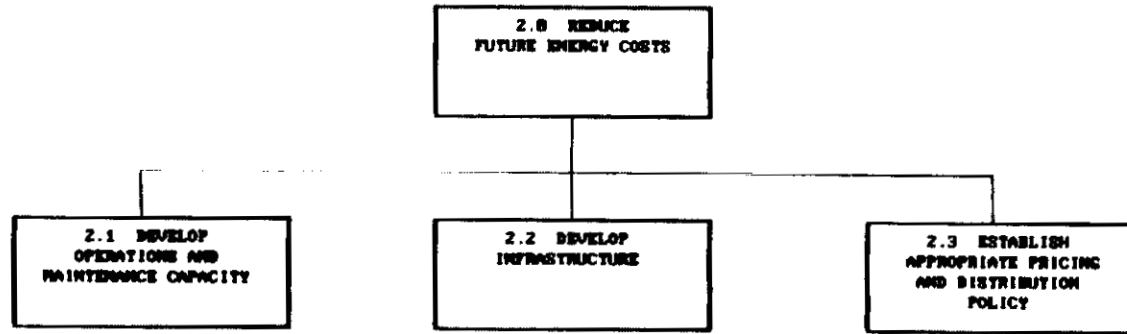
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FIGURE 2

USAID/LESOTHO
ENERGY OBJECTIVE TREE - 1991

STRATEGIC
OBJECTIVE

TARGETS



the GOL budget and reduce Lesotho's dependency on its neighbor. Because Lesotho is at the end of the electricity grid, it is more vulnerable to power failures from equipment breakdowns and storms. Lesotho clearly has no control over its supply or cost of this vital energy source at the present time.

The 'Muela Hydropower Project, the principal vehicle for addressing this strategic objective, would enable Lesotho to begin meeting its future electrical power needs at lower costs. South African power costs will almost certainly increase as the government moves to reduce and eliminate subsidies, as well as make the capital investments to meet increasing environmental concerns. Although South Africa now has surplus power with its 35,000 MW peak capacity, its projected 5 percent annual growth in demand requires that it start building additional generating capacity by 1995 to meet its increased demand by 2000.

USAID has tentatively selected these indicators for measuring impact at the strategic objective level: (a) relative consumer price of electricity in South Africa and Lesotho and (b) GOL budget cost savings realized from generating electricity locally rather than importing it.

USAID has identified the targets discussed below as constraints that need to be addressed in order to accomplish a reduction in future energy costs.

4. Targets

Target 2.1: Develop operations and maintenance capacity.

Achievement of this target will be measured at two levels: first, at the 'Muela generating plant, which will be under the supervision of the Lesotho Highland Water Authority (LHWA); and second, at the electricity transmission and distribution level, the Lesotho Electricity Corporation (LEC).

After commissioning in 1996, the LHWA will manage and operate the facility. Generated electricity will be sold to LEC for transmission and distribution to consumers. AID plans to define indicators for this target in detail during project paper development. However, factors such as the effectiveness of operations, staff and services will be areas for indicator development. For LEC, the initial emphasis is likely to be on measures of staff recruitment and training, installation of improved management operations, and improved maintenance capacity. Over time, measures of operational efficiency would likely include tariff rationalization, improvement in collection rates, containment of cost increases, reduced hook up costs, and categories new users.

Target 2.2: Develop infrastructure. Plant construction, equipment installation, grid connections and transmission system development are components of this activity. Indicators will measure progress in preparing systems for operation.

Target 2.3: Establish appropriate pricing and distribution policy.

The formulation and implementation of appropriate pricing and distribution policies will be important for increasing the number of consumers and sustaining operations. For example, an appropriate policy of graduated rates could enable LEC to deliver power at financially competitive prices for small enterprises and low level users. Indicators will likely focus on the structure and trend of consumers and prices.

5. Relationship to Agency Priorities

This objective supports DFA strategic objective three: "developing the potential for long-term increases in productivity." This focus also supports the GOL objective of improving the security of energy supply at the lowest economic cost. A secure supply of electricity at a competitive cost would provide a necessary element for increasing long-term sustainable productivity in Lesotho, especially for small agro-industries. A secure supply is best supported by reducing the dependence on imports through the harnessing of local energy potential. A first step to accomplishing this objective is through the implementation of the 'Muela Hydropower Project.

The DFA also includes special Southern African Development Coordination Council (SADCC) provisions to provide assistance in the energy sector (including the improved utilization of electrical power sources which already exist in the member states and offer the potential to reduce dependency on South Africa for electricity). Although the 'Muela Hydropower Plant is a new source, a substantial portion of the infrastructure will exist as a result of another capital project (LHWP). The further development of this potential capacity will enable Lesotho to become self-sufficient in electrical power and relieve its almost 100 percent dependency on South Africa.

Development of the hydropower potential in Lesotho also falls within the framework of the Agency Energy Policy (dated July, 1984). A guiding principle of that policy is that AID will conduct programs that affect beneficiaries directly as well as those that affect the entire economy if they have important, even though indirect, effects on the poor. Because of the pervasive role energy plays in all economic sectors, AID policy encourages the development of indigenous energy supplies -- fossil fuels and renewables. A long-term objective of AID's energy program is to replace higher cost imported energy wherever economically justified with that produced from economic indigenous energy sources.

6. Other Donor Activity

A number of donors are contributing to the 'Muela Hydropower Project. USAID is considering financing the electromechanical equipment and installation. The European Development Fund has provided grant financing for the design contract, the LEC investment and tariff study, environmental studies and financial advisory services. The European Investment Bank has given concessional

loan financing for geotechnical investigations. The French Government has also contributed grants and loans for transmission lines, sub-stations and other LEC network improvements. Other donors include the EEC and AFDB, which together with the European Investment Bank, will finance the bulk of civil works contracts and engineering supervision. Multiple donors have also participated in financing the LHWP, including South Africa, EEC, World Bank, France, Germany, Ireland, UNDP and USAID.

E. Education Sector Objective

1. Background

Lesotho's achievements in education rank among the highest in sub-Saharan Africa. Since the mid-1970s, Lesotho has greatly expanded access to education, especially primary education. Primary school enrollments jumped from 244,000 to 351,652 in the 1980s, completion rates increased and years for completion decreased. Further, more girls than boys have completed primary school.

But GOL financing has not kept pace with expanded enrollments. In fact, education's share of the GOL budget decreased from 17.9 percent in 1980 to 13.9 percent in 1986. Furthermore, GOL investment was skewed, expanding upper primary without providing sufficient investment for the lower primary level. Consequently, quality and efficiency began deteriorating and by 1990 completion rates had dropped significantly.

USAID, the World Bank and the Ministry of Education (MOE) jointly conducted analytical work for preparation of the Education Sector Development Plan for 1991/92-1995/96, identifying these key constraints:

- Inadequate sector financing and inappropriate allocation among sub-sectors to the detriment of primary education, especially lower primary. Parents pay a substantial portion of educational costs at primary and secondary levels while university education has been heavily subsidized;
- Deteriorating quality and efficiency of primary education because of too few well-trained teachers, inadequate curriculum and pupil assessment materials, an adverse school environment, inappropriate pre- and in-service teacher training, an overloaded curriculum, limited instructional materials, and overcrowded classrooms (average pupil:classroom size of 100:!) exacerbated by large numbers of over-age pupils and high repetition rates; and
- Weak educational management at all levels, inadequate supervision of teachers, and lack of clarity on roles of churches, MOE, headmasters and parents in school management.

2. Rationale for USAID Involvement

The Mission decided to continue work in the primary education sub-sector for the following reasons:

- Importance for Basotho to acquire basic skills to participate effectively in social, economic and political development;
- Willingness of the government to move ahead with critical policy and institutional reforms necessary to improve the quality of primary education in the context of an overall sector plan; and
- USAID's long-term involvement in the sector as a major donor, which enhances understanding of the sector and increases credibility for engaging in policy dialogue on sector issues.

Despite USAID's successful contributions to the development of the education system through numerous projects, the quality of primary education had deteriorated because of inappropriate policy pursuits and institutional constraints. Accordingly, MOE, World Bank and USAID officials jointly concluded that a broader sector reform approach was necessary to ensure that a priority area such as primary education received the necessary investment and attention.

USAID's Primary Education Program (PEP), a six-year non-project assistance effort, was obligated in September 1991. This program addresses the key constraints to improve primary education identified through the extensive analysis undertaken in the development of the sector plan. USAID and the World Bank will jointly review reform progress with the ministry as well as conduct joint evaluations over the plan period. PEP includes an impact monitoring system that will provide USAID with most of the data to measure results in this sector. MOE officials will play a major role in Program implementation and monitoring, with limited technical advisory support to assist with selected technical and policy areas.

3. Strategic Objective 3.0: Improve Quality and Efficiency of Primary Education

USAID identified this strategic objective as being within the Mission's "manageable interest" to demonstrate people-level impact over the program period. (See Figure 3 for sector objective tree.) Achieving improved quality and efficiency of primary education is expected to contribute to the improved human resource base (sub-goal) as more pupils complete the improved primary education program and participate in economic, social and political development. Education quality reforms take time to implement and thus the results for individual pupils are realized over a long term. Nevertheless, the Mission expects to show progress during the program period on these indicators (see logframe in Annex A for more detail): (1) increase in the percentage of completers of standards 1-7 from 46.3 percent in 1991 to 46.8 percent by 1997, (2)

FIGURE 3

USAID/LESOTHO
EDUCATION OBJECTIVE TREE - 1991

STRATEGIC
OBJECTIVE

3.0 IMPROVE QUALITY
AND EFFICIENCY OF
PRIMARY EDUCATION

TARGETS

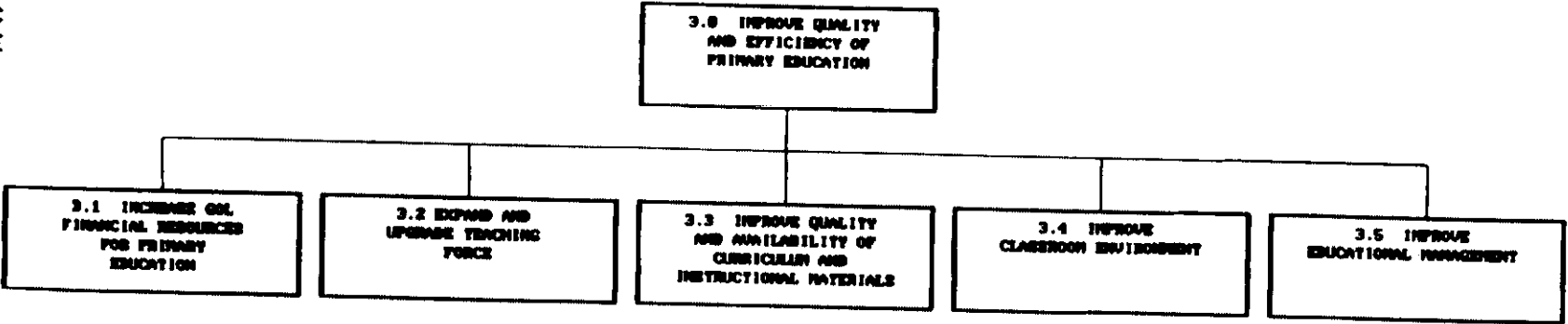
3.1 INCREASE GOV.
FINANCIAL RESOURCES
FOR PRIMARY
EDUCATION

3.2 EXPAND AND
UPGRADE TEACHING
FORCE

3.3 IMPROVE QUALITY
AND AVAILABILITY OF
CURRICULAR AND
INSTRUCTIONAL MATERIALS

3.4 IMPROVE
CLASSROOM ENVIRONMENT

3.5 IMPROVE
EDUCATIONAL MANAGEMENT



sustained or improved standard 3 achievement tests scores through 1997, (3) decrease in the number of years of investment required per completer from 14.1 years in 1991 to 13.0 years in 1997, and (4) decrease in the cycle cost for cohorts of completers from \$56.8 million in 1991 to \$49.2 million in 1997 (1991 prices).

4. Targets

Target 3.1: Increase GOL financial resources for primary education. This target addresses the constraint of inadequate financial resources for education, especially primary education. Increased spending for primary education will enable the MOE to provide reasonable salaries and benefits to teachers, thus reducing the attrition rate to other sectors or jobs in South Africa. Further, increased funding will permit the employment of additional teachers for the especially over-crowded primary classrooms. Indicators to be tracked and expected results include: (1) increase in the MOE recurrent budget of 80 percent in real terms between 1991 to 1997, and (2) 70 percent of annual MOE recurrent budget increases allocated to primary education.

Target 3.2: Expand and upgrade primary teaching force. Effective teachers are a keystone to effective education. Consequently, actions to address teacher quality are an important part of improving the quality of primary schooling. Not only will teacher training programs be upgraded but teachers themselves will also obtain improved skills through training and decentralized professional support networks. Further, additional teachers will be allocated to lower primary education and provided with skills to teach effectively at that level. The Mission plans to use these indicators to measure results under this target: (1) increase in primary education teaching posts of 1,300 (900 for standards 1-3) through 1996, and (2) completion by at least 450 primary teachers of in-service qualification training between 1991-1996.

Target 3.3: Improve quality and availability of curriculum and instructional materials. While text availability is relatively good for primary education overall compared with most other sub-Saharan African countries, texts for lower primary are of poor quality and limited length. USAID financed supplementary reading, radio English and math materials under a project now nearing completion. However, additional and improved materials are needed to enable pupils to increase their reading and knowledge competencies. This target supports this objective. USAID will use the following indicators to measure progress: (1) full implementation of a revised curriculum by 1995 for standard 1-3 core subjects, and (2) increase in standard 1-3 text per pupil ratio from 3.8 in 1991 to a higher ratio (to be determined).

Target 3.4: Improve classroom environment. Increasing pupil achievement requires a supportive classroom physical environment in addition to better teachers and texts. Many standard 1-3 pupils have no desks or chairs and overcrowded classrooms prevail. Improved facilities as well as the assignment of new facilities/teachers to lower primary schools are needed. Teacher-pupil ratios for lower primary classes often exceed 60:1, whereas those for upper primary are

considerably lower. High repetition and excessive numbers of over- and under-age pupils exacerbate the crowded conditions. Indicators to measure progress in this area are: (1) decrease in percentage of pupils without chairs or desks at standards 1-3, and (2) reduction in pupil-teacher ratio from 56:1 in 1991 to 54:1 in 1997.

Target 3.5: Improve educational management. Improved educational management is also needed to improve primary education. Donor funds supported a thorough analysis of the ministry organization, both horizontally and vertically. Recommended measures to improve ministry management effectiveness included the restructuring and decentralizing of functions to clarify ministry/church/parent/headmaster roles in school management and increase responsibility at lower levels. Also required for effective management are improved financial management capacity and strengthened information systems for policy formulation and analysis. Indicators to be used for measuring progress include: (1) full implementation of the restructuring plan by 1996, (2) full implementation of the plan to improve financial management capacity of the ministry by 1996, and (3) full implementation of the plan to improve the management information system of the ministry by 1996.

5. Relationship to Agency Priorities

The USAID Primary Education Program directly supports the DFA Basic Education Action Plan. The strategic objective focus will directly support the reforms called for under the DFA Action Plan (target I-3) including: increased equity in educational services, diversified sources of school finance, decentralized school administration, diversified sources of school finance and improved system management and efficiency to contain costs and boost quality. The Primary Education Program will provide a total of \$25 million in assistance through FY 1996 which supports significantly the Congressional earmark for basic education.

The program also supports improved parental involvement in school committees, which is a key element of the Africa Bureau's Family and Development Initiative. Parents already make a significant contribution to school costs and their involvement in school oversight should help to increase accountability at the school level.

6. Other Donor Activity

USAID and the World Bank are providing the bulk of funding for the education sector investment program (\$25 million each). Approximately \$20 million of the Bank funding is for primary education; the remaining supports other sub-sectors. Other donors include the EEC, Germany, and Ireland, Britain, UNICEF, World Food Programme and AFDB. EEC, Germany and Ireland support technical and vocational education. The British and EEC assist with secondary science and math education. The AFDB is financing secondary schools; the World Food Programme, school feeding and primary and secondary agricultural education; UNICEF, early childhood and out-of-school youth programs; and UNDP, vocational

education and manpower development. Overall, donor assistance is now more integrated through sharing responsibility for portions of the broad sector plan.

F. Cross-cutting Areas

Training, AIDS and democratization do not constitute program strategic objectives but are related to their achievement. Further, the Mission considers the AIDS component to be a target of opportunity. The relationship of each to the program is discussed below:

1. Training

Lesotho has made tremendous strides in building human resource capacity since the mid-1970s. However, the country still does not have sufficient technical and management skills to fill the 1,000 or more government positions occupied by foreigners. In the private sector, practical business and management skills are even more scarce. Further, with the decreasing number of unskilled jobs for miners in South Africa, improved skills are mandatory for employment in the formal sector or self-employment. UNDP and the National Manpower Development Secretariat recently began to design a general national manpower training needs assessment to identify general areas of training for donor support. To complement this assessment and provide a basis for a new training project, USAID will review training needs in the private sector and those segments of the public sector that support private sector development.

USAID's efforts in training will support the overall program strategy. Thus, individual sector projects will identify training needs and provide the specialized training required to develop institutional capacity to sustain project activities. While some long-term degree training will be conducted, much of the training is expected to be of shorter duration and conducted in Lesotho. The planned training project will target scarce public and private sector management and technical skill development that will also directly or indirectly support USAID's strategic foci. Much of the training is expected to build private sector capacity as well as strengthen the capacity of selected training institutions to provide management and business training. The project will support some degree and short-term U. S. training (including internships in private organizations), with the bulk of the training to be of short duration and conducted in the region or Lesotho in business, accounting, and organizational leadership.

The objective of training activities is to improve selected management and technical skills. Indicators to be used for monitoring purposes include: (a) numbers trained, using the Participant Training Management System to track the number trained by long- versus short-term, gender, academic versus technical areas, and public versus private sector; and (b) impact measures (effects on productivity, income, etc.) to be developed during the training project design.

2. AIDS

The Mission is systematically completing a number of health and family planning activities and, where possible, integrating them with those of other donors. Accordingly, the Mission will no longer have a major program focus in these areas. This decision was based on several factors: the need to focus the program, the participation of numerous other donors in the sector and the lack of a well-formulated population policy and plan. Notwithstanding this decision, the Mission has identified an important target of opportunity in the health area as critical to address during the program period: AIDS.

USAID involvement will be limited to a social marketing program for contraceptives and related education and information activities. The Mission has identified a narrow "window of opportunity" for initiating a social marketing program that may help stem the potentially rapid spread of AIDS. Sexually transmitted disease rates are high and increasing as is tuberculosis infection. Unless slowed now, increasing HIV infection rates will negate major progress made in human resource development in the country. The Ministry of Health, with the help of the WHO, has drafted an action plan for AIDS and expects to approve it in the next few months. USAID's AIDS activity will support this plan with other donors, filling a niche where the Agency has particular experience and skills. USAID and ministry officials have agreed to carry out the private sector social marketing of condoms through the central Contraceptive Social Marketing II Project.

The objective of this activity is to increase the use of condoms. Indicators for measuring progress will include: (a) number of condoms sold, and (b) prevalence of sexually transmitted disease. The effort supports the DFA Action Plan by providing improved services to increase access to contraceptives. The activity also supports the African Bureau Family Initiative that emphasizes the male role in family planning and the Bureau's priority to stem the spread of AIDS.

3. Democratization

USAID will support GOL efforts towards democratization by emphasizing increased participation in development activities, encouraging greater decentralization of responsibility and authority from central to local levels, strengthening non-government organizations for implementation and assisting with the improvement of government financial management systems to enhance accountability. The Mission does not plan to develop a separate project in democratization at this time but will emphasize approaches and activities in ongoing and new projects that support these ends. Further, USAID will support small activities to be funded under the Africa Democracy and Human Rights Fund where the proposing U.S. agency can easily manage the activity. USAID plans to develop a longer term strategy in this area in FY 1992 based on the analysis of key constraints and input from representatives of all U.S. Government agencies present in Lesotho.

With funding from the Africa Human Rights Fund, USAID and the Embassy have been supporting various democratization activities: (a) training of court clerks and magistrates under a grant to the Lesotho Law Society; (b) pre-election assessment needs and follow-on consultancies on legal constraints and election computer needs for GOL; and (c) workshops and publications to address legal constraints of Basotho women and increase their participation in democratic processes through a cooperative agreement with the Federation of Women Lawyers. USAID's WID Coordinator manages the latter activity which fits well with encouraging greater participation of women in development activities.

Ongoing projects support greater local participation and government accountability as listed below:

<u>Project</u>	<u>Specific Activity</u>
CNRM	Formation of local grazing associations for managing rangelands
FHI	Support to two NGOs for promoting family planning
HRDA	Strengthening of Lesotho Chamber of Commerce to serve a facilitating role for private sector development
LAPIS	Development of home gardens at the local level using Peace Corps volunteers; decentralization of extension services to district levels
PEP	Decentralization of education management for central to district/sub-district level; improved participation of parents in school management; strengthening of financial management systems; objective to improve basic education to participate in political, social and economic development.

VI. IMPLEMENTATION PLANS

A. Program Management

1. Assumptions and Approach

The program design is based on these expectations:

- The bilateral OYB level will increase from FY 1992 level over the program period, stabilizing at \$12.0 million;

- Lesotho will receive Southern African Regional Program funds in FY 1992 and FY 1993 for the proposed 'Muela Hydropower Project; and
- USAID and GOL will continue to implement successfully the non-project assistance (NPA) initiatives in the agriculture and education sectors.

USAID/Lesotho's strategy is characterized by the following: a more focused program for realizing results, a decreased number of management units, the increased use of NPA for policy and institutional reforms, reduced levels of expatriate technical assistance where possible with greater reliance on GOL officials and local nationals for management and implementation, an increased emphasis on the private sector and, as already discussed, more coordination with other donors in design and parallel support for specific policy reforms.

The USAID program focuses on selected sub-sectors in agriculture and education for measuring program results. In agriculture, the program is moving from multi-sectors (crop production, range management, agricultural education, agricultural research, privatization) to two sub-sector emphases (range management and agricultural enterprise/privatization). The program also reflects the timely completion of health and population activities with no new initiatives planned, except for the small response to a target of opportunity in AIDS. The primary education sub-sector remains an important focus.

While the number of discrete projects in agriculture and education will remain constant, Mission overall management units will be reduced with the completion of several regional health/population activities. The number is expected to stabilize over the program period.

With the authorization in September 1991 of the Primary Education Program, USAID established its second NPA to encourage policy and institutional reform. The Mission expects to maintain at least one NPA activity in each of the agriculture and education areas over the strategy period.

In 1992, two large, multi-component, multi-agency projects will be completed--one in agriculture and the other in education. The projects have had up to 27 - 30 long-term advisers each. Replacement projects/programs have minimal long-term advisers (maximum of five) and rely increasingly on the respective GOL organizations for management and implementation.

The program is increasing its efforts in private sector development and the use of non-government approaches. Ongoing agricultural projects support privatization of agricultural input supplies and a student enterprise program. The new training project will continue an emphasis on private sector training. The implementation of the Social Marketing Program in FY 1992 to provide condoms through the private sector and the proposed Agricultural

Enterprise Initiatives Project in FY 1993 will expand direct efforts to involve the private sector in development.

2. Indicative Program for Strategy Period

Resources from the DFA will continue to finance bilateral and most other efforts. GOL local currency-funded activities under the agricultural and education sector assistance programs will continue to supplement AID direct support. Please see the following page for USAID's indicative program for the FY 1992 - FY 1997 period.

3. New Project Designs

New project designs for FY 1992 include the Small-Scale Intensive Agricultural Production (SSIAP), Lesotho Development Training (LDT) Project and the 'Muela Hydropower Project. SSIAP is a small project with the Peace Corps that extends an ongoing home garden activity under the Lesotho Agricultural Production and Institutional Support Project. The PID is in draft and PP preparation is planned for the second quarter of FY 1992. For LDT, USAID will obtain outside assistance to conduct a broad assessment of training needs and prepare a PID during the second quarter; PP preparation is scheduled for the third quarter. The Mission plans to utilize central or regional assistance to develop small AIDS activities in FY 1992.

The third FY 1992 new start is the proposed capital development project: 'Muela Hydropower Project. The Mission plans to use REDSO/ESA and consultants to assist with preliminary assessment/PID and PP preparation beginning in second quarter of FY 1992.

One new project start is planned for FY 1993, the Agricultural Enterprise Initiatives Project. Preliminary assessment work is scheduled for the second quarter of FY 1992 to be followed by PID preparation through the third quarter. PP preparation is planned for FY 1993.

New projects, one each in the principal strategic areas, will be developed in the FY 1994 - FY 1997 period. Progress in agricultural and educational policy and institutional reform will determine the substantive direction of these efforts.

4. Policy and Institutional Reform Agenda

USAID/Lesotho places a high priority on policy dialogue on selected policy and institutional reform to support the achievement of program objectives. Many of these are directly related to the USAID program, especially the ongoing education and agricultural sector assistance programs. Others are important for establishing or maintaining a supportive environment for growth.

USAID's Indicative Program
(obligations, \$000)

<u>Project No.</u>	<u>Project/Program</u>	<u>FY 92</u>	<u>FY 93</u>	<u>FY 94</u>	<u>FY 95</u>	<u>FY 96</u>	<u>FY 97</u>	<u>PACD</u>
<u>Bilateral Resources</u>								
632-0221	Agri Production & Institutional Support	X*	-	-	-	-	-	8/31/92
632-0222	Basic and Non-Formal Education Systems	X	-	-	-	-	-	1/31/92
632-0224	Ag Policy Support Program (NPA/PA)	X	X	-	-	-	-	5/31/93
632-0225	Primary Education Program (PA)	1,600	1,500	1,000	600	X	X	8/31/97
632-0227	Ag. Enterprise Initiatives	-	2,350	2,200	2,700	2,400	X	7/31/97
632-0228	Community Natural Resource Management	1,950	1,400	1,500	1,600	1,600	1,600	6/27/01
632-0230	Primary Education Program (NPA)	X	5,400	X	3,400	3,618	X	8/31/97
632-0231	Small Scale Intensive Agricultural Production	200	250	300	250	X	X	6/30/97
632-0232	Lesotho Development Training	300	500	900	1,000	1,000	1,300	6/30/97
632-0510	Program Development and Support	250	250	250	250	250	250	continuous
53 632-HRDA	Human Resource Development Assistance	X	-	-	-	-	-	9/30/92
632-ADSP	African Development Support	100	100	-	-	-	-	12/31/93
632-XXXX	Agriculture (follow-on)	-	-	750	1,200	3,132	3,850	TBD
632-XXXX	Education (follow-on)	-	-	-	-	-	5,000	TBD
XXXX-AIDS	AIDS	200	250	100	-	-	-	TBD
	Total Bilateral	4,600**	12,000**	7,000**	11,000	12,000	12,000	
<u>Other Funding</u>								
698-0462.32	Family Health Initiatives	X	-	-	-	-	-	8/31/92
698-XXXX	Muela Hydropower Project	23,000	22,000	X	X	X	X	12/31/96
936-3051	Contraceptive Social Marketing II	145	130	-	-	-	-	9/30/93
	Total Other	23,145	22,130	X	X	X	X	
	PROGRAM TOTAL	27,745	34,130	7,000	11,000	12,000	12,000	

* X indicates project/program is active.

**Adjustments for NPA disbursements has resulted in modification of initial APPLs of \$7 million for FY92, \$9 million for FY93 and \$10 million for FY94.

Agriculture

Related directly to USAID program:

- Privatization of Coop Lesotho, the agricultural input parastatal;
- Implementation of national grazing fee; and
- Espousing grazing association formation as an effective approach to address rangeland deterioration.

Not related directly to USAID program:

- Full implementation of the Environmental Secretariat, based on the National Environmental Action Plan developed with assistance from the World Bank;
- GOL divestiture of the National Abattoir and other agricultural parastatals;
- Development of a national crops production policy along the lines of the national livestock policy;
- Development of a comprehensive integrated sector plan on crops, livestock, extension, technology, marketing, etc.;
- Removal of subsidies of producer prices by government for some agricultural commodities, e.g., milk;
- Approval of a mechanism to permit broader leasing of land for productive use (also applies to private sector below); and
- Development and implementation of a sector monitoring system.

Education

Related directly to USAID program:

- Full implementation of recurrent education budget increases as programmed in the Education Sector Development Plan (ESDP);
- Full implementation of quality and efficiency measures under ESDP that affect primary education, including those relating to teacher allocation and training, improved structure and operation of teacher training college, curriculum and instructional material development and distribution, school-based assessment, school facilities, and age of school entry and attendance; and
- Full implementation of measures to improve overall educational management.

Not directly related to USAID program:

- Budget restraint for the National University of Lesotho and improvements in operational efficiency per objectives in the sector plan; and
- Rationalization of the location and number of secondary schools in accordance with school mapping; maintenance of quality and efficiency of secondary education.

Private Sector

Not directly related to USAID program:

- GOL divestiture of holdings in a wide range of enterprises; GOL implementation of ESAP program of parastatal reform, including privatization;
- Development of a capital market, including development of a stock brokerage firm and venture capital company;
- Streamlining of business licensing processes and review of Pioneer Industries Board investment criteria.
- Full operation of the Investment Promotion Centre; and
- Consideration of the development of an export processing zone.

Hydropower

Related directly to USAID program:

- Increasing access to electricity by reducing hook-up costs.

Not directly related to USAID program:

- GOL development and implementation of an effective investment plan for LHWP revenues included in the Special Development Fund.

Health/Population

Related directly to USAID program:

- GOL promotion of public education/information on diverse methods to prevent spread of AIDS; and
- Increased GOL leadership role in AIDS policy formulation and greater involvement of NGOs in AIDS implementation activities;

Not directly related to USAID program:

- Formulation of population policy and development of action plan for policy implementation; and
- Increased emphasis on NGOs for delivering population training and services.

Democratization:

- Greater local level participation in development activities; decentralization of responsibility and authority for development wherever sufficient capacity exists.

B. Monitoring and Evaluation Plan

1. Objectives

Objectives of the monitoring and evaluation plan are to:

- Assess program performance;
- Appraise specific interventions;
- Inform AID, GOL, other donors and Lesotho public of impact of U.S. development assistance at project and program levels;
- Strengthen GOL capacity in monitoring and evaluation; and
- Modify the strategy, program or project activities.

2. Planned Activities

Activities to be carried out for monitoring and evaluation include: (a) annual preparation of Assessment of Program Impact report; (b) annual identification and execution of evaluations for projects/programs/activities; (c) semi-annual preparation of Project Implementation Reports, with periodic project committee meetings to review progress of each major project/activity; (d) annual identification and implementation of studies to develop data base, identify appropriate indicators or assess program impact; (e) annual identification and execution of research studies to provide analytical bases for policy dialogue or to inform Mission on program-related macro- or inter-sectoral topics; (f) annual identification and implementation of activities for developing GOL and NGO capacity for improved impact monitoring; and (g) preparation of periodic special reports or briefing materials for informing AID/Washington, GOL officials, other donors or the general public on program impact.

Most data collection and analysis for overall program monitoring and evaluation will be included as part of project/program monitoring (see the

program logframe in Annex A for data needs, etc.). Nonetheless, some special surveys or analyses to establish baselines or assess progress periodically at the goal and sub-goal levels will be necessary. During FY 1992 USAID plans to conduct the following special studies:

- Agricultural enterprise survey to establish baseline for measuring progress on sub-goal, strategic objectives and targets; survey will be incorporated into project design analyses;
- Analysis of GOL census and education data to derive population and school completion projections for measuring progress on the sub-goal to improve the human resource base;
- Survey to establish baseline for comparing income derived from within the range management areas and nationwide average; this survey may be partially or wholly funded under the Community Natural Resources Management Project;
- Survey for establishing baseline for assessing people-level impact of the proposed 'Muela Hydropower Project, to be conducted during project development or shortly thereafter; and
- Training needs assessment and identification of indicators for use in assessing impact under the new training project.

3. Implementation Responsibilities

The Program and Project Support Office (PPSO) will have overall responsibility for coordinating the preparation of plans and reports on program impact and for developing the annual plan of studies to be conducted. Technical offices will be responsible for data collection and analysis related to project implementation and results. But, PPSO and technical offices will share responsibility for project/program evaluation.

C. Staff and Financial Requirements

1. Organization and Staffing

The Mission will follow these general principles to use staff to manage and monitor the program more effectively in collaboration with the GOL: (1) "Basothization" of positions where feasible, (2) increased use of program-funded personal service contractors (PSCs) or Participating Agency Support Agreements (PASAs) to provide implementation support for USAID, (3) integration of private sector activities with technical office programs, (4) inclusion of program monitoring function in the newly established Program and Project Support Office, and (5) expanded use of project committees for periodic implementation reviews.

Effective management of the USAID program will require a minimum of seven U.S. direct hires (USDHs) over the program period (see organizational charts in Annex B). USAID attained this level with the May 1991 departure of the Mission Assistant Director and PASA-funded CCCD Project manager. The recent Mission reorganization provides for USDHs in key staff and technical positions to be supported increasingly by FSNs as feasible, or U.S. or third country PSC specialists where necessary. Basotho staff now serve in key program assistant positions throughout the Mission. Further, the Basotho training officer has assumed increased responsibilities for in-country training activities and is expected to assume WID responsibilities in May 1992. The improved salary and benefit adjustments should enable the Mission to attract or retain qualified Basotho staff.

Program-funded U.S. PSCs are expected to assist the Supervisory General Development Officer to monitor the education and hydropower projects. At least one program-funded third-country PSC will assist the Agricultural Development Office (ADO) and possibly more as one USDH position is eliminated in FY 1992. With the transfer of private sector activities to ADO upon departure of the U.S. PSC, Basotho staff in ADO have assumed greater implementation responsibilities in this area. A PASA with the Peace Corps will minimize ADO's management role for their FY 1992 start.

The newly established Program and Project Support Office will be responsible for traditional functions of program planning and budgeting, project development and evaluation, and coordination of project reviews. Additionally, this office will oversee program assessment and reporting, with support from the technical offices on project-level impact. The Mission is planning to hire a PSC to assist USAID and the GOL with the establishment of impact monitoring systems.

2. Operational Expense (OE) Requirements

Estimated OE requirements for the program period follow, showing an estimated 10 percent annual increase:

<u>FY</u>	<u>Amount (\$000)</u>
1992	970
1993	1,067
1994	1,175
1995	1,290
1996	1,400

USAID plans to use trust funds to offset some OE expenditures. Trust funds are expected to become available later in FY 1992 through the Primary Education Program. While OE levels for FY 1991 and FY 1992 jumped dramatically as a result of the revised salary and benefit structure for local employees, the Mission does not anticipate similar increases beyond FY 1992.

Table I: Goal and sub-goal indicator matrix

Statement	Indicator	Source	Responsibility	USAID Data Collection/Analysis Method
GOAL				
Achieve broad-based sustainable economic growth	A. Real Per Capita GDP	GOL/IMF data	PRM/ECON	CBL Annual report/IMF Status Report on ESAF
	B. Real Per Capita GNP	GOL/IMF Data	PRM/ECON	Status Report on ESAF
	C. UNDP Human Development Index	UNDP HDI report	PRM/ECON	UNDP Annual Human Development Report
SUB-GOALS				
Improve human resource base	A. % of population, by gender, over age 10 or 12 (depending on data availability) who have: Completed primary school Completed secondary school Completed university	GOL Bureau of Statistics; MOE EMIS	GDO/ECON or TBD	Derived from population projections (based on 1986 census) and MOE data on school completers
Sustain or improve income	A. Increase in income differential between RMA and national average* B. Increase in income from agro-enterprises	Inferred from agricultural enterprise surveys and other sources	ADO/ECON	Comparative income analysis of RMA and national average data Aggregate income obtained from functional relationship with enterprise output and productivity variables

* Feasibility to be determined

Table II: Output and productivity strategic objective indicator matrix

Statement	Indicator	Source	Responsibility	USAID Data Collection/ Analysis Method
Strategic Objective				
<p>1.0 Sustain or improve output and productivity of selected agricultural sub-sectors</p>	<p>A. Average fleece weight in RMAs increased from _____ in 1991 to _____ in 1997</p> <p>B. Ratio of average fleece weight within RMAs to average fleece weight national average increased from _____ in 1991 to _____ in 1997</p> <p>C. Average animal weight within RMA increased from _____ in 1991 to _____ in 1997</p> <p>D. Ratio of average animal weight within RMAs to average animal weight outside RMAs increased from _____ in 1991 to _____ in 1997</p> <p>E. <u>Capital productivity</u>: return to and of capital measured by enterprise internal rate of return</p> <p>F. <u>Labor productivity</u>: value added per employee in target enterprises</p>	<p>data from RMD wool sheds or LPMS</p> <p>"</p> <p>RMA advisors</p> <p>"</p> <p>Ag. enterprise survey</p> <p>"</p>	<p>ADO/CNRM</p> <p>ADO/CNRM</p> <p>ADO/CNRM</p> <p>ADO/CNRM</p> <p>ADO/PRM</p> <p>ADO/PRM</p>	<p>)</p> <p>) Measured annually by LPMS: wool in August; mohair in January</p> <p>) Report published in March</p> <p>) RMA technical assistance could be used to assure timely publication</p> <p>)</p> <p>)</p> <p>) Collected at auction sites; analyzed quarterly, report published in December</p> <p>)</p> <p>)</p> <p>) Data collection to be included in the scope of work for Ag business project design and implementation. Enterprise investment analysis to compute indicators</p>
Target 1.1				
<p>1.1 Increase sustainability of rangeland resource use</p>	<p>A. % of rangeland under improved management increased from 0% in 1983 to _____ in 1997</p> <p>B. Ratio of range condition index (RCI) within RMAs to the RCI outside RMAs increased from _____ in 1991 to _____ in 1997</p>	<p>RMD/MOA</p> <p>RMD/MOA</p>	<p>ADO/CNRM</p> <p>ADO/CNRM</p>	<p>RMD measures; report published annually in August</p> <p>RMAs and control sites measured by RMD every April/May. Analyzed by RMD in staggered longitudinal series of 4-5 years, with indicative reports every 1-2 years.</p>

Statement	Indicator	Source	Responsibility	USAID Data Collection/ Analysis Method
Sub-Targets for 1.1				
1.1A Establish effective range and livestock management in selected areas (RMAs)	<p>A. No. of grazing plans implemented and enforced increased from 0 in 1983 to ___ in 1997</p> <p>B. No. of households participating in RMA livestock programs increased from ___ in 1983 to ___ in 1997</p> <p>C. No. of RMA animals culled increased from ___ in 1983 to ___ in 1997</p> <p>D. No. of RMA animals sold through marketing programs increased from ___ in 1983 to ___ in 1997</p> <p>E. No. of improved breeding programs in operation in RMAs increased from ___ in 1983 to ___ in 1997</p>	RMD/MOA	ADO/CNRM	<p>Qualitative on site review by tech. asst. team completed in March, report published in April</p> <p>Annual tech. asst. team report published in March (review of Grazing Assn. records); project evaluation will refine review</p> <p>) Series of RMA surveys by) outside local contractor,) reported every 1-2 years;) combine with annual Dec. auction) report prepared by RMA TA team</p> <p>Project evaluation scheduled for Jan 1996, compared to baseline from new RMAs</p>
1.1B Implement national policies related to livestock and rangeland management	<p>A. Amount of grazing fees collected each year increased from 0 in 1991 to \$ ___ in 1997</p> <p>B. No. of stock owners paying fees each year increased from 0 in 1991 to ___ in 1997</p> <p>C. Changes in subsidies to national abattoir, e.g.: GOL subsidies and loan guarantees, tax/dividend payments to GOL, donor funding</p>	RMD/MOA	ADO/LAPSP	<p>Reported annually in March by LAPSP technical assistance team</p> <p>Annual LAPSP tech. asst. team report published in March</p> <p>Audited accounts of NAFC</p> <p>Public finance analysis of subventions, tax and dividends payments, loan guarantees and donor funding</p>

Statement	Indicator	Source	Responsibility	USAID Data Collection/ Analysis Method
<p>1.1C Implement measures to reduce imbalance between livestock and carrying capacity nationwide</p>	<p>A. No. of hectares adjudicated or # of stock owners issued permits through adjudication program per year and cumulatively [increased from ___ in 1991 to ___ in 1997]</p>	<p>RMD/MOA</p>	<p>ADO/LAPSP</p>	<p>Established at initiation of each RMA by RMD; measured by RMD and published annually in March. RMA tech. asst. team updates in quarterly reports.</p>
	<p>B. No. of animals culled per year through NCEP increased from ___ in 1991 to ___ in 1997</p>	<p>Animal Production Division /MOA</p>	<p>ADO/LAPSP</p>	<p>))))</p>
	<p>C. No. of animals exchanged per year through NCEP increased from ___ to ___</p>	<p>*</p>	<p>ADO/LAPSP</p>	<p>) LAPSP-funded long- or short-term) TA)</p>
	<p>D. No. of livestock market information radio programs and No. of bulletins disseminated per year increased from ___ in 1991 to ___ in 1997, recorded separately</p>	<p>Marketing Division /LPMS</p>	<p>ADO/LAPSP</p>	<p>) Monitoring and evaluation from) nationwide marketing data)))</p>

Statement	Indicator	Source	Responsibility	USAID Data Collection/ Analysis Method
Target 1.2				
1.2 Increase business activity in selected agriculture-related areas	For selected subsectors: A. Change in annual sales volume (3-year reporting) B. Change in annual person-years of employment, by gender (3-year reporting) C. No. of new enterprises, by gender of owner and gender of operator (3-year reporting) D. Total No. of enterprises, by gender of owner and gender of operator (3-year reporting)	Ag. enterprise survey " " "	ADO ADO ADO ADO))))) Design into project))))
Sub-Targets for 1.2				
1.2A Increase use of needed resources by agricultural entrepreneurs	A. No. and volume of loans made to enterprises B. Management, technical, and marketing services utilized (precise indicators TBD as project is designed)	Ag. enterprise survey "	ADO ADO))) Design into project))
1.2B Establish a competitive agricultural input supply system	Number of agricultural supply firms operating	LAPSP survey/ TBD	ADO/LAPSP	LAPSP-funded consultant TBD
1.2C Improve policy environment for agricultural enterprise	TBD	LAPSP/ TBD	ADO	LAPSP-funded consultant Design into project

Table III: Hydropower energy strategic objective indicator matrix

Statement	Indicator	Source	Responsibility	USAID Data Collection/Analysis Method
Strategic Objective				
2.0 Reduce future energy costs	A. Relative consumer price of electricity in Republic of South Africa and Lesotho B. GOL budget savings realized from local generation rather than imports	TBD	GDO	
Targets for 2.0				
2.1 Develop operations and maintenance capacity	A. Factors of effectiveness of operations, staff and services B. LEC: factors related to management improvements, maintenance capacity, staffing and operational efficiency	TBD	GDO	
2.2. Develop infrastructure	Measures of progress on plant construction, equipment installation, grid connections and transmission system development	TBD	GDO	
2.3 Establish appropriate pricing and distribution policy	Structure and trend of consumers and prices	TBD	GDO	

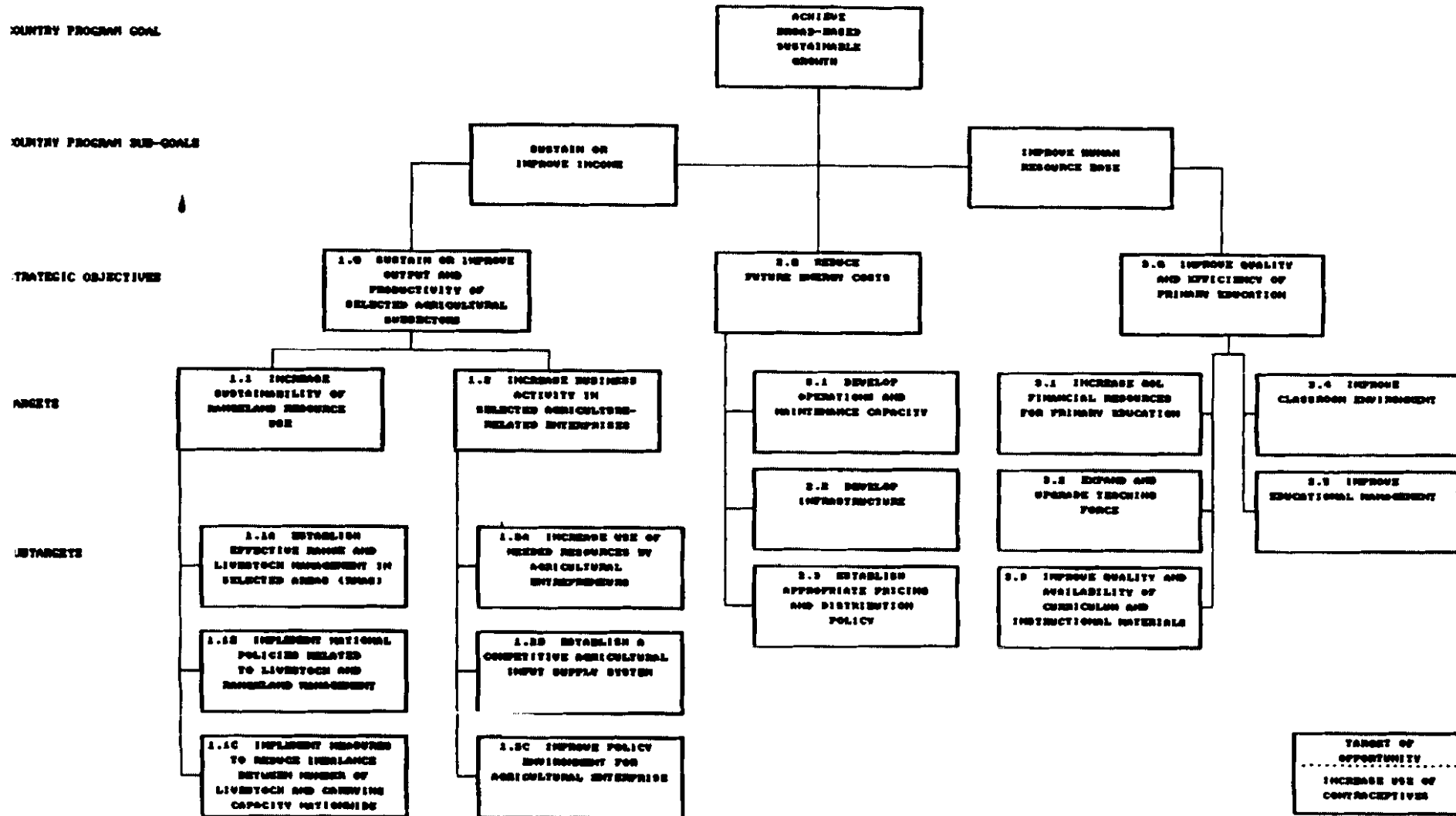
Table IV: Education strategic objective indicator matrix

Statement	Indicator	Source	Responsibility	USAID Data Collection/ Analysis Methodology
Strategic Objective				
3.0 Improve quality and efficiency of primary education	A. % of completers for standards 1-7, by gender. Overall (sexes combined) increase from 46.3% in 1991 to 46.8% by 1997	MOE/EMIS	GDO/PEP	EMIS report published unofficially annually (March) for previous school year. PEP to fund technical asst.
	B. Maintained or increased standard 3 achievement test scores, by gender	MOE/PEP	GDO/PEP	Primary Education Program Report, tentatively to be published in Jan. for previous school year. AID project to fund technical assist.
	C. Equivalent years per completer, by gender. Overall, decreases from 14.1 years in 1991 to 13.0 years in 1997	MOE/EMIS	GDO/PEP	EMIS report published unofficially annually (March) for previous school year. AID project to fund technical asst.
	D. Cycle cost for cohort of completers decreases from \$56.8M in 1991 to \$49.2M in 1997 (in 1991 prices)	MOE/ EMIS/ ECON	ECON/PEP	Computed from MOE and MOP data (September for prior GOL fiscal year)
Targets for 3.0				
3.1 Increase GOL financial resources for primary education	A. MOE recurrent budget increased by 80%, in real terms, from 1991 to 1997.	MOE	GDO/PEP/ ECON))) Computed from MOE and MOP
	B. 70% of the annual MOE recurrent budget increase is allocated to primary education.	MOE	GDO/PEP/ ECON) data (September for prior) GOL fiscal year)))
3.2 Expand and upgrade teaching force	A. 1,300 additional teaching posts established in primary education system (900 of them assigned to standards 1-3) by 1996	MOE	GDO/PEP	Teacher Service Unit PEP-funded TA
	B. 450 teachers complete in-service qualification training from 1991 to 1996	MOE	GDO/PEP	NTTC report PEP-funded TA

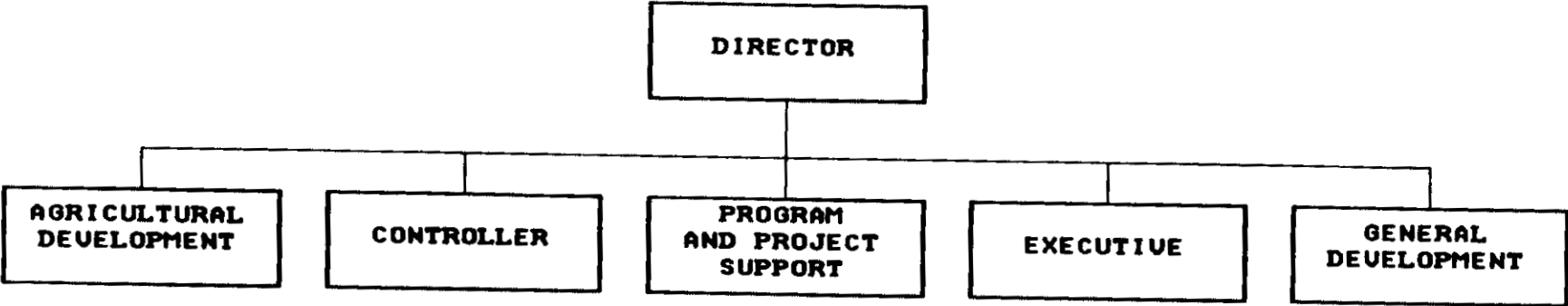
Statement	Indicator	Source	Responsibility	USAID Data Collection/ Analysis Methodology
3.3 Improve quality and availability of curriculum and instructional materials	A. Revised curriculum implemented by 1995 for standards 1-3 core subjects	MOE/PEP	GDO/PEP	Education Sector Development Plan Annual Report (earliest probable publication is June)
	B. Standards 1-3 text per pupil ratio increased from 3.8 in 1991 to in 1996	MOE/EMIS	GDO/PEP	EMIS report (March)
3.4 Improve classroom environment	A. % of pupils without chairs or desks decreased from 63% to 30% in standard 1; from 56% to 28% in standard 2; and from 43% to 22% in standard 3 from 1991 to 1996	MOE/EMIS	GDO/PEP	EMIS report (March)
	B. Standards 1-7 student/teacher ratio reduced from 56 in 1991 to 54 in 1996; standards 1-3 ratios TBD	MOE/EMIS	GDO/PEP	EMIS report (March)
3.5 Improve educational management	<p>A. MOE restructuring plan fully implemented by 1996</p> <p>B. MOE financial management plan fully implemented by 1996</p> <p>C. MOE MIS plan fully implemented by 1996</p>	<p>MOE/PEP</p> <p>MOE/PEP</p> <p>MOE/PEP</p>	<p>GDO/PEP</p> <p>GDO/PEP</p> <p>GDO/PEP</p>	<p>)</p> <p>)</p> <p>)</p> <p>) Education Sector</p> <p>) Development Plan Annual</p> <p>) Report (earliest probable</p> <p>) publication - June)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p>

1/24/91

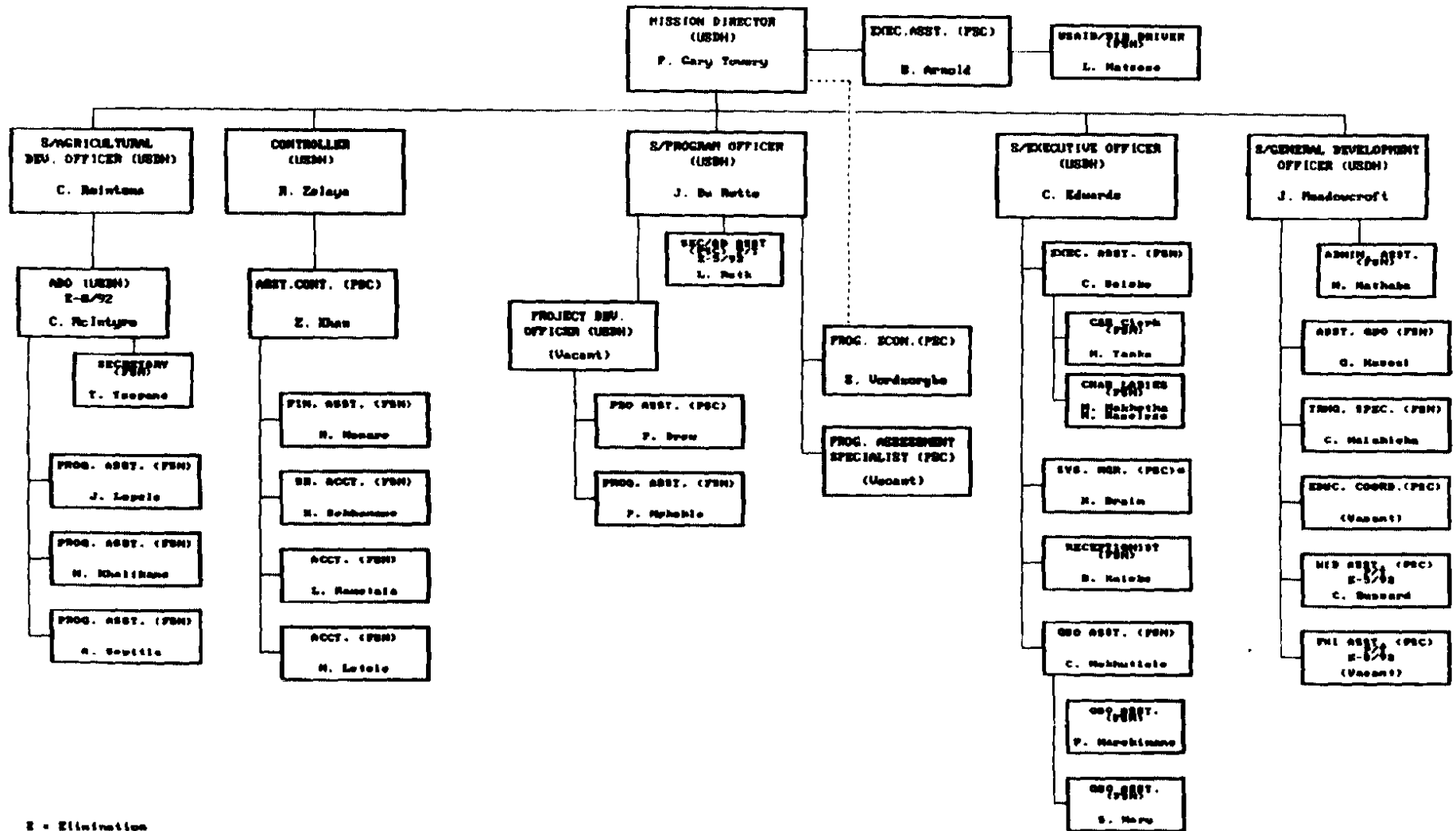
USAID/LESOTHO OBJECTIVE TREE - 1991



**USAID/LESOTHO
ORGANIZATION**



USAID/LESOTHO - OCTOBER 1991



E = Elimination
 P/T = Part-time
 * = Jointly funded by 2 USAIDs

LONG - TERM TRAINING 1978 - 1991

Project No.	Name of a Project	Health & Family Planning		Education		Agriculture /Conservation		Engineering		Business		Public Administration		Economics		Other		TOTAL	
		M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F
698-0455	African Graduate Fellowship Program (AFGRAD) (1974-1991)			2	2	1	0	1	0	1	0	1	0	2	0	6	3	14	5
931-1054	Lesotho Distance Teaching Center (LDTC)			12	4													12	4
632-0061	Instructional Materials Resource Center (IMRC)			8	6													8	6
632-0064	Lesotho Agricultural Sector Analysis (LASA)					3	5											3	5
632-0065	Farming Systems Research					8	12											8	12
632-0069	Manpower Development and Training	0	4			14	0	9	3	3	1	7	5	0	1	1	1	34	15
632-0080	National University of Lesotho/UEMS			3	3					1	1					2	7	6	11
632-0088	Rural Water and Sanitation							4	0									4	0
632-0215	Land & Conservation & Range Development					25	7											25	7
632-0218	Agricultural Planning					6	3			1	1	1	0			0	1	8	5
632-0221	Lesotho Agricultural Production & Institutional Support (LAPIS)					40	23			5	2					2	3	47	28
632-0222	Basic & Non-Formal Education Systems (BANFES)			18	14													18	14
698-0421.32	Combatting Childhood Communicable Diseases (CCCD)																		
698-0471.32	District Management Improvement Project (DMI)	0	1															0	1
698-0462.32	Family Health Initiative (FHI)																		
	TOTALs	0	5	43	29	98	50	14	3	11	5	9	5	2	1	11	15	188	113

IN-COUNTRY TRAINING 1984 - 1991

Project No.	Name of a Project	Health & Family Planning		Education		Agriculture /Conservation		Engineering		Business		Public Administration		Economics		Other		TOTAL	
		M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F
632-0069	Manpower Development & Training									21	15	2	14					23	29
632-0221	Lesotho Agricultural Production & Institutional Support (LAPIS)			81	83	2985	575			91	56					175	183	3332	897
632-0222	Basic & Non-Formal Education Systems (BANFES)			3605	5408											169	283	3774	5691
698-0421.32	Combatting Childhood Communicable Diseases (CCCD)		750														500		1250
698-0471.32	District Management Improvement Project (DMI)	20	280														10	20	290
698-0462.32	Family Health Initiative (FHI)	8	96																8 96
698-0463	Human Resource Development Assistance Project									134	292			3	15	4	2	141	309
	TOTALs	28	1126	3686	54911	2985	575			246	363	2	14	3	15	348	978	7298	8562

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**Women in Development Action an
USAID/Lesotho**

Prepared by:

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Maseru, Lesotho**

leadership positions and makes policy and planning decisions? (For example, although primary teachers are overwhelmingly female, there are more male headteachers than female.)

Again, in an education project, one must be concerned about the content of the training and instructional materials provided. Do the training and materials help to refute or reinforce gender stereotypes? When there is a conflict between gender sensitivity and cultural sensitivity, how is this resolved?

Finally, what example is provided by the project itself, contracting organizations and USAID? Looking beyond the numbers of project employees in various categories, what positions do males and females hold? What constraints do males and females encounter because of their gender?

HRDA

We seem to be training more and more women - above 50% target.

USAID/LESOTHO
WOMEN IN DEVELOPMENT ACTION PLAN

I. WID OBJECTIVES

A. WID OBJECTIVES FOR USAID/LESOTHO

The overall gender goal for the USAID/Lesotho Mission is to increase the involvement of women in the economic development of Lesotho. WID Objectives for USAID/Lesotho are summarized in Table 1 and are listed below:

1. To increase women's participation in economic activities
2. To increase income of women involved in the agricultural sector
3. To improve the primary education in Lesotho
4. To encourage family planning
5. To reduce risk of contracting AIDS

B. BACKGROUND

1. General

Lesotho is predominantly a rural society with more than 85% of the total population residing in rural areas. The livelihood of rural Basotho depends primarily on remittances from migrant labor, subsistence farming, raising of livestock, and cash crops. Because the landscape is predominantly mountainous, only a small proportion of land is arable (approx. 13%). Uncontrolled grazing has contributed to soil erosion and degradation, and the country has become increasingly reliant on food imports from South Africa. Population pressure has led to an increasing amount of landless individuals and scarcity of jobs, leading to increasing reliance on the non-formal business sector to provide income for families.

Basotho women have played a significant social and economic role in Lesotho. Basotho men have traditionally spent their childhood as herdboys tending livestock, and then left to work in the mines in the Republic of South Africa (RSA). Women, in the absence of their husbands, have borne primary responsibility for the daily management of the household, agricultural production, and decision making. Many women have turned to entrepreneurial activities such as egg or poultry production, vegetable or fruit production, market vending, as well as more traditional female activities such as knitting, sewing, etc. as a way to supplement the often sporadic migrant labor remittances. Today these activities take on even more importance. The dismantling of apartheid in the RSA coupled with the decline in gold prices has led to large numbers of migrant mine workers returning home to Lesotho. Their return brings high unemployment rates, increased poverty due to lack of remittances, and social upheaval.

TABLE 1: WID OBJECTIVES FOR USAID/LESOTHO

Objective	Constraint	Planned activity	Project/Program
I. To increase women's participation in economic activities	A. Lack of business training addressing special concerns/problems of women	1. Training of trainers at BTD to develop new curriculum for women entrepreneurs	HRDA
		2. Training for women entrepreneurs using new curriculum	HRDA
	B. Lack of access to credit and knowledge about credit availability and application procedures	1. Institutional strengthening of BTD to enable collaboration with credit facilities and credit availability for BTD trainees	HRDA (or new training project)
		2. Inclusion of credit application procedures and availability as instructional materials in BTD training courses	HRDA (or new training project)
	C. Lack of legal rights including lack of ability to independently enter business contracts, apply for credit, own property etc.	1. Support efforts of the Lesotho Federation of Women Lawyers to initiate law reform	Human Rights Grant

	D. Women have many demands on their time including subsistence farming activities, fuel and water gathering, food preparation, responsibilities to family, etc.	1. Schedule training sessions at those times when women are likely to be more available (i.e. not during harvesting, planting) and in close collaboration with rural women	All projects/programs
II. To increase income of women involved in the agricultural sector	A. Lack of resources for agricultural entrepreneurs	1. Increase number and volume of loans made to ag-related enterprises	Ag project in design stage
		2. Increase utilization of management, technical and marketing services utilized	Ag project in design stage
		3. Offer integrated package of training, financial services and appropriate technology	Ag project in design stage
	B. Agricultural training reaching a low percentage of women compared to their involvement in the sector	1. Make agricultural training more accessible to women by considering timing and location of training sessions.	SSIAP Ag Project in design stage
		2. Attempt to include women as trainers/technical advisors/role models	CNRM SSIAP

	C. Lack of involvement of women in and benefit from livestock management.	1. Specific courses developed for women in livestock husbandry and management skills	CNRM
		2. Improvement of animals and livestock products leading to higher family incomes	CNRM
	D. Lack of marketable products in rural areas	1. Increase production of fruits and vegetables in remote mountain areas for home consumption and sale	SSIAP
	E. Legal and/or cultural inability of women to own or inherit land, livestock, property, etc.	1. Support Federation of Women Lawyers efforts to initiate law reform	Human Rights Grant
III. To improve the primary education in Lesotho	A. Length of time currently needed to complete primary school	1. Decrease equivalent years per primary school completer	PEP
	B. Low percentage of primary school completers	1. Increase % of completers for Standards 1-7	PEP
	C. Not enough qualified teachers in schools	1. Increase number of primary teaching posts in Lesotho	PEP
		2. Provide in-service qualification training for teachers	PEP
	D. Inadequate classroom environment	1. Increase percentage of pupils with desks and chairs	PEP

		2. Reduce student/teacher ratio	PEP
IV. Encourage family planning	A. Public uninformed or misinformed on family planning	1. Provide family planning information and education	FHI
	B. Men not involved in family planning; often won't allow wife to use contraceptives	1. Target the male population (as well as the female) for education and information	FHI SOMARC
	C. Inadequate contraceptive distribution	1. Improve contraceptive delivery system ability to provide contraceptives to the individual Mosotho	FHI SOMARC
V. Decrease risk of contacting AIDS	A. Women (and men) not educated about AIDS transmission	1. Provide educational information about AIDS	SOMARC
	B. Condoms not readily available	1. Social marketing of condoms to increase availability	SOMARC

2. Women in Agriculture

Women weed, hoe and harvest crops and prepare them for storage, consumption or sale. In addition they raise pigs, dairy cattle and poultry. According to the Gender Resource Awareness in National Development Report (Women Managers: the Key to Lesotho's Development 1989), women contribute about 39% of the agricultural labor in Lesotho. Men contribute about 32% in planting, preparing the soil, harvesting crops and managing livestock. Children, especially boys who herd livestock, contribute 29%. Although women are very involved in agriculture, their potential has not been realized because many women are denied independent responsibility and the traditional work women do is considered of little economic importance.

3. Education and employment of Basotho women

Basotho women are better educated than men at all levels except that of university degree. Many boys are unable to attend primary school because of their herding responsibilities, and girls comprise the majority of students at primary and secondary schools as well as at the National Teacher Training College. Fifty-two percent of those attending technical/vocational schools are women. Most primary and secondary school teachers are female, although males tend to predominate in administrative/supervisory positions.

The majority of civil servants in the public sector are women. They usually remain at mid-level positions, and seldom reach upper-level, decision-making positions. Women are also employed in the private sector in areas such as large-scale industries, retail sales, service companies, and cottage industries, as well as in other income generating activities mentioned above.

4. Legal status and cultural constraints

The legal situation of Basotho women is complicated by the dualistic legal system in Lesotho: Roman-Dutch Law, and the Law of Lerotholi (customary law). Women are constrained by civil laws which designate married women as minors, unable to enter into a contract, seek credit or employment without the approval of their husbands. They are also governed by the customary law. This is even more binding for married women; typically, if they are widowed they do not become majors, as under civil law, but rather a dependent of the family heir. An unmarried woman, once she reaches major age, is at liberty to make her own decisions about her life if she is deemed as having abandoned tribal custom and adopted a Western mode of life. The same is not true if an unmarried woman is regarded as still leading a traditional lifestyle. Such a woman remains a dependent of her father or her father's family until such time as she marries.

A returning migrant worker may feel the need to assert his dominance upon return. This can lead to severe abuse which a woman often suffers in silence due to the traditional belief that men have the right to inflict harsh punishment upon their wives and children. There is legal recourse for these women under civil law, but the majority do not seek protection from the law because the abuse is culturally acceptable.

Women are also constrained from becoming fully involved in development by their family responsibilities, the traditional division of labor, and Basotho custom. Women are the primary family caregivers and are responsible for family nutrition, the illness of a family

member, and the care of young children. Rural women are also responsible for managing the household, transporting water and fuel, tending the fields during the cultivation, weeding and harvesting periods, and caring for poultry or small livestock. This often leaves very little time for activities other than those devoted to basic subsistence.

II. DESCRIPTION OF WID ACTIVITIES

A. USAID/LESOTHO PROJECTS AND PROGRAMS

A project-by-project description of WID activities is included in Attachment 1.

B. NON-PROJECT ACTIVITIES

1. Human Rights Cooperative Agreement July 1991 - June 1992

USAID/Lesotho has entered into a cooperative agreement with the Federation of Women Lawyers (FIDA) to administer a joint State/AID Human Rights Grant. The grant provides for funds for the organization to translate, print, launch and distribute their book "What Every Mosotho Woman Should Know About the Law", and conduct a public awareness media campaign on human rights and the rights of women. As described in Section I.B.4, the legal situation of women in Lesotho affects their ability to contribute to economic development. Women are unable, for example, to independently enter a business contract or obtain credit. The grant will also provide funding for two training workshops: 1) FIDA Organization Strengthening and 2) Leadership Training for Democracy. In light of the upcoming elections scheduled for June 1992 and return of the country to democratic rule, it is extremely important that women become involved in the democratization process at this time.

2. Women in Development Library

USAID/Lesotho continues to maintain a library containing over 280 volumes that deal with women in Lesotho and/or gender issues. The library is one of the few places in Lesotho where one can find under one roof a collection of literature pertaining to women, and is often used by researchers and project personnel from local organizations and donor agencies.

3. Bimonthly WID working group meetings

USAID/Lesotho initiated in a bi-monthly meeting of donors and interested persons, including GOL personnel, university staff, and non-governmental organizations to discuss gender-related issues in Lesotho. The meetings have continued on a regular basis for over two years and have dealt with such issues as the legal situation of women in Lesotho, report on the laws of maintenance, women in business, alternative technology, women in forestry, media and communication, etc. They provide a good forum for exchange of ideas and raising of gender awareness as well as promoting collaboration and avoiding duplication.

4. Gender Resource Awareness in National Development (GRAND)

GRAND was an activity designed to assist developing countries in integrating women and girls more fully into their national economic development efforts and was carried out by Research Triangle Institute and the International Center for Research on Women under contract with PPC/WID. In Lesotho, the GRAND team in 1989 developed a microcomputer WID rural household model and presentation which articulates the economic advantages of women's contributions to agricultural production, conservation, and income generating activities and describes strategies and recommendations to improve their participation in these areas. The presentation discusses the legal, institutional and customary constraints which impede women's participation in development activities. The GRAND Project worked with three counterparts in the Bureau of Statistics (BOS) in the Ministry of Planning and Economic Affairs. A video version of the computer presentation, which was later produced, proved to be a useful tool to catalyze discussions on the situation of women in Lesotho and was distributed to key government personnel and institutes in Lesotho.

III. MISSION'S STRATEGY FOR IMPLEMENTING AND MONITORING PERFORMANCE UNDER WID ACTION PLAN

A. LINKAGE OF WID OBJECTIVES WITH MISSION PORTFOLIO

1. Mission Gender Database and Gender Report

A Gender Assessment Questionnaire is distributed by the WID coordinator to all USAID/Lesotho Projects and programs each year. All information reported by USAID projects and programs in response to annual Gender Assessment Questionnaires is stored in a DBase file created for this purpose. The file includes the following information broken down by gender: 1) number of project/program employees and counterparts, 2) Numbers of short-term and long-term trainees and subject of training, 3) Gender-related constraints to project/program participation, 4) General comments on project/program gender issues, 5) Project beneficiaries. These figures are summarized in an annual Gender Report which is distributed to USAID staff and to project/program personnel.

2. Mission's Management and Information System

Gender has been listed as a cross cutting issue in the 1991 Program Information System for Strategic Management (PRISM). A cross-cutting issue is a central concern that permeates most programmatic activity but which does not constitute a program focus. Gender impact of projects/programs is determined through the Mission's Management and Information System and through the Gender Assessment Questionnaire. Program data collection will include the disaggregation of data by gender. When monitoring and evaluation components of new projects require additional data collection systems to be developed, and/or original surveys must be installed, gender will be integrated into such systems. The USAID/Lesotho WID Coordinator is involved in new project design and ongoing project review to ensure that gender issues are addressed.

3. Monitoring of Performance under WID Action Plan

All new USAID projects/programs (PEP, CNRM, SSIAP, Ag project in planning stage, training project in planning stage) have gender integrated into their designs, and progress towards reaching gender targets should be possible to monitor using data collected under the Mission's MIS, especially in cases where a good baseline survey is conducted. For all projects, progress toward WID objectives and targets will be reviewed through the periodic project reviews, program impact reviews and project evaluations.

B. IMPLEMENTATION

Many of the gender considerations discussed above have already been implemented by USAID/Lesotho. Disaggregated data collection by gender has increased, WID considerations are included in CPSP, project design and evaluation activities, members of the sex less traditionally uninvolved in an activity have in many cases been targeted for involvement (i.e. men in family planning) and gender awareness by Mission staff seems high.

Management steps to ensure gender integration are outlined below. These will focus the implementation of the WID Action Plan and help defray any setback due to the departure of the WID Coordinator in May 1992.

MISSION MANAGEMENT OBJECTIVES	BENCHMARKS	STARTING DATE
1. Integrate Gender into Project/Program design and evaluation	a. Include WID Coordinator or graduate of the PPC/WID gender considerations workshop on each new project design team and during project and impact reviews.	1991
	b. When designing baseline and project monitoring systems, incorporate collection of data by gender.	1991
	c. Identify gender in project/program indicators (i.e., number of new businesses started by gender of owner)	1991
2. Integrate Gender into Mission data collection and analysis	a. Collect gender specific data when referring to numbers of persons. If not possible to collect data by gender an explanation should be given.	1991
	b. Include information broken down by gender in reports, not just in those instances where it seems relevant, but in all reporting documents.	1991
	c. Continue to monitor progress of projects and programs with gender assessment questionnaires (started 1990)	Since 1990
3. Sensitize USAID staff and contractors to gender issues	a. Provide gender awareness training and information to Mission staff as possible.	Since 1989
	b. Distribute Gender Report with recommendations for improving gender performance to Mission staff and project/program COP's annually	Since 1990
4. Modification of activities where gender targets not being met	a. When data analysis shows that women/men are not being included in proportion to their involvement in the sector, conduct a gender analysis using GIF to identify and recommend modifications.	1991

ATTACHMENT I

DESCRIPTION OF WID ACTIVITIES USAID/LESOTHO PROJECTS AND PROGRAMS

**DESCRIPTION OF WID ACTIVITIES
USAID/LESOTHO PROJECTS AND PROGRAMS**

1. Health/Family Planning

698-0462.32 Family Health Initiative II Project (FHI)

Life of Project: August 3, 1987 - August 30, 1992

LOP Funding Amount: \$1,175,000

The FHI Project purpose is to strengthen the capacity of government and selected non-governmental organizations to implement effective family planning information, education and communication programs and to improve the delivery of family planning services in ways compatible with the culture, resources and development objectives of Lesotho. To accomplish this, the project activities include: 1) Information Education Communication (IEC) whose goal is to increase the Basotho population's knowledge of family planning and to develop a family life education program; 2) Operation Research which provides information to the GOL on Community Based Distribution (CBD) of contraceptives; 3) Contraceptive Logistic Management and User Statistics which focuses on improving the contraceptive delivery system; 4) Family Planning Management Training whose goal is to increase management skills of staff members of the Lesotho Planned Parenthood Association, MOH, and the Lesotho Catholic Secretariat. Close to ninety percent of the training conducted through FHI goes to women, and the overwhelming majority of participants receiving information and contraception at the clinics are women. The importance of male participation in the family planning process has been recognized and IEC materials targeting males are being designed.

New Project: 936-3051 Social Marketing for Change (SOMARC)

Life of Project: July 1991 - July 1993

LOP Funding Amount: \$149,658 (in country)

The SOMARC regional project will offer a condom social marketing program through the private sector, to distribute and promote the use of condoms. This project will help fulfill two of the Mission WID Objectives: 1) reduce risk of contracting AIDS and 2) family planning. Condoms will be donated by USAID and supplied to a contracted wholesaler, who will distribute and sell the condoms at an agreed mark-up to various stores and shops throughout Lesotho. The retailers will in turn sell the products to the public. The product, called "Protector", will be promoted in Sesotho utilizing the mass media, point of purchase and person to person means of marketing information. All the messages will be carefully designed and pre-tested to assure the general public's acceptance. Effort will be made to involve key informants such as church and civic leaders and service providers to increase project effectiveness. In Basotho society it is common for men to have more than one sexual partner, and wives may unsuspectingly become infected by their husbands. The media campaign under SOMARC will help inform and educate women and men on the dangers of AIDS.

698.0471.32 District Management Improvement Project (DMI)

Life of Project: August 31, 1987 - December 31, 1991

LOP Funding Amount: \$1,877,589

The DMI Project's purpose is threefold: 1) to conceptualize, design, and field test a comprehensive management development technology for strengthening district-level management of health programs in Lesotho; 2) to institutionalize this management development technology within the Ministry of Health; and, 3) to contribute management methods and materials developed in Lesotho to prototype management development technology for strengthening operations-level management of health programs throughout Africa. The majority of managers in the health system in Lesotho, and thus involved with DMI, are women.

2. Training

698-0463.32 Human Resources Development Assistance Project (HRDA)

Life of Project: July 22, 1988 - September 30, 1992

LOP Funding Amount: \$1,200,000

The HRDA Project provides non-project training to strengthen 1) the Government of Lesotho's ability to implement its private sector and economic growth; and 2) the private sector's capacity to contribute to economic growth. Over 50% of the training funded by HRDA goes to women. Priority areas of training are: (1) improving labor and economic planning skills within key GOL ministries; (2) increasing the GOL capacity to manage labor resources; and, (3) increasing private sector employment capacity to reduce unemployment and dependency on migrant labor remittances.

Women benefit from HRDA training programs by acquiring business and other skills and becoming better managers. As of April 1991, HRDA provided incountry training to over of 450 person (69% women) in business, administration and computer skills. Others attended regional conferences and/or received on-the-job training. Basotho women are available for training, especially since so many Basotho men are away, and are keen to learn.

Under HRDA, 426 persons received in-country training in business alone, the majority (69%) of whom were women. In order to adapt the business training classes more to the needs of Basotho women, a technical advisor was engaged in September 1991 specifically to train trainers at the Business Training Division and to develop a non-formal curriculum focusing on women entrepreneurs. The curriculum will be tested on women graduates of the Lesotho National Council of Women vocational school, who often have learned how to produce a product, but not how to market it effectively or run a business. The finalized curriculum will be used for courses throughout Lesotho.

3. Primary education

632-0222 Basic and Nonformal Education Systems Project (BANFES)

Life of Project: March 1, 1985 - January 31, 1991

LOP Funding Amount: \$25,022,713

The BANFES project was developed to strengthen the Ministry of Education capability to provide more efficient and effective education to primary age children

and income generating skills for the rural poor. The project was divided into four components: 1) MOE strengthening, 2) curriculum and instructional materials development, 3) teacher training and 4) rural skills training. At the National Curriculum Development Center several new programs were developed including "Breakthrough to Literacy", item writing for the Primary School Leaving Examination and institution of an annual Education Day fair. The Thaba Tseka rural skills Training Center was established with BANFES funding, and 230 full-time students graduated from the center. Training of Ministry of Education and other educational institution personnel was undertaken, and several have completed their degree training in the US and are back in senior positions.

As part of the BANFES project, many Basotho women received training in education. BANFES contributed the highest number of in-country trainees of any USAID/Lesotho-funded program, namely 9013 persons, 61% of whom were females. Short term regional educational training was attended by 169 participants, (52% females, 48% males), 33 persons (55% females, 45% males) attended short-term overseas training, and 32 (44% females, 56% males) received long-term training in education in the U.S.A.

The BANFES Project is coming to a close and most activities have already been phased out. The new Primary Education Program (PEP) will provide continuity of USAID involvement with primary education in Lesotho.

632-0225 Primary Education Program (PEP)

Life of Project: September 3, 1991 - August 31, 1991

LOP Funding Amount: \$25,000,000

The goal of PEP is to contribute to the economic and social development in Lesotho by providing Basotho with improved basic education without reducing access. The purpose of the program is to improve the quality and efficiency of primary education through the establishment of a new policy framework and reformed institutional structure. By the end of the six year program, requisites to improve primary education will be in place and some improvements in efficiency and quality will be emerging. In the longer term, a greater percentage of Basotho children enrolled in primary school will complete it, and students will have acquired more basic skills. Since girls comprise the majority of primary school students in Lesotho, they will be the major beneficiaries of PEP. The main gender-related problem affecting access to primary education in Lesotho affects boys, not girls -- many boys do not attend school in order to carry out their responsibility to herd and care for livestock.

Primary school teachers, the majority of whom are women, will benefit from the training and qualifications they receive under PEP. In the long term, school fees, which are a considerable expense to families, will be paid for less years per primary school completer, as efficiency increases.

4. Agriculture/Range Management

632-0221 Lesotho Agricultural Production and Institutional Support (LAPIS)

Life of Project: May 15, 1985 - August 31, 1992

LOP Funding Amount: \$27,711,159

LAPIS was scheduled to end in August 31, 1991, at which time the scope of activities was significantly reduced. Final end of project is now scheduled for August 1992. The Community Natural Resource Management project (CNRM), the Small Scale Intensive Agricultural Production (SSIAP), and an agriculture project now in the design stage will continue many of the LAPIS activities. These new projects are described below.

Basotho women have benefitted from LAPIS through training, employment, receipt of goods, such as improved seeds, and services. Under the LAPIS project twenty-eight women have been sent for longterm overseas training in the following subjects: Home Economics (6), Agriculture (12), Natural Resource Conservation (1), Range/Wildlife (4), Business (2), Communication/media (2), Social science (1), and many more received in-country training (see Gender Report, Attachment). Additionally, the LAPIS Project helped support four research consultancies which focused on women, three of which were centrally funded under the CID/WID and Nutrition in Agriculture (CA) Cooperative Agreements and the fourth, funded directly by the LAPIS Project.

New project 632-0228 Community Natural Resource Management

Life of Project: June 27, 1991 - June 26, 2001

LOP Funding: \$14,086,000

The Community Natural Resource Management (CNRM) project purpose is to establish effective grazing associations which will manage Lesotho rangelands at sustainable carrying capacities for livestock. It is expected that under this project an additional 180,000 hectares (ha) of rangeland will be brought under improved management through community organizations affecting about 42,000 inhabitants of the participating mountain communities. The targeted beneficiaries are individual livestock owners who have grouped themselves in associations for the purpose of managing their range resources for the common good of participating stock owners and other members of Lesotho's mountain community.

The project aims to provide a six-person TA team consisting of host country and expatriate professionals, training and commodities. The TA team is to work in close collaboration with the Ministry of Agriculture, Director of Livestock Services, in establishing the new Range Management Associations. Training will be provided to suitable government personnel and grazing association officers and employees.

Specific courses will be developed for women and herdboys in livestock husbandry and management skills under CNRM to improve their contribution to and the benefit they derive from improvements to rangeland conservation and livestock productivity. An estimated 160 males and 100 females in all will receive training from the CNRM project. Spouses and family members of livestock holders will benefit indirectly from higher incomes from improved animals and livestock products. Women's groups using livestock products, such as mohair and leather, should also benefit from the improved quality of livestock herds, and a more regularized supply of products.

New Project: Small Scale Intensive Agriculture Production (SSIAP) Project

Life of Project: May 1992 - May 1997(?)

LOP Funding Amount: \$1,000,000 approximately

The SSLAP project purpose is to increase production of fruits and vegetables in these remote mountain areas for home consumption and sales. This is to be achieved through promotion or extension of improved gardening techniques and production systems.

The project will be implemented jointly by the Ministry of Agriculture Nutrition Division and Peace Corps Lesotho. The strategy is to pair a Peace Corps volunteer with a Nutrition assistant (who in every case is a female), from the Ministry's Nutrition Division to live in identified remote mountain areas where the population has had only limited exposure to vegetable and fruit production techniques. Using a low input, "sustainable agriculture" approach, each field team works with as many as 100 individual farmers and gardeners (90% of whom are women), to promote small-scale high value crop production.

Expected project outputs include the establishment of several thousand self-sustaining small fruit and vegetable plots, with similar number of beneficiaries.

632-0224 Lesotho Agricultural Policy Support Program (LAPSP)

Life of Project: June 14, 1988 - May 14, 1993

LOP Funding Amount: \$15,000,000

The LAPSP Program involves policy reforms which are aimed at increasing the availability, diversity and efficient delivery of agricultural inputs in order to increase overall agricultural productivity. They are also aimed at the enforcement of new policies in the livestock sub-sector for range conservation, livestock marketing, livestock production and animal health. In particular, LAPSP is expected to benefit women, who are the dominant group of farmers of small land holdings and home garden plots, by increasing the availability of agricultural inputs.

ATTACHMENT II

**USAID/LESOTHO GENDER REPORT
OCTOBER 1991**

**USAID/LESOTHO GENDER REPORT
OCTOBER 1991**

Candace H. Buzzard, Women in Development Coordinator

I. Introduction

This Gender Report is the second to be issued by USAID/Lesotho. The material contained in this document is based on a Gender Assessment Questionnaire completed in April 1991 by representatives from each of 7 USAID-funded projects and programs in Lesotho. A DBASE computer file has been established at the Mission to keep a permanent gender database. The data is used to help assess current projects/programs, identify gender constraints and opportunities in Lesotho and analyze the implications of significant gender differences for development design or adaptation. It is expected that the Gender Assessment Questionnaire be completed by USAID projects and programs at regular intervals as part of project/program evaluation. USAID's Women in Development Policy stresses that gender roles constitute a key variable in the socioeconomic condition of any country - one that can be decisive in the success or failure of development projects.

II. Results

A. Projects and Programs Reporting

Gender Assessment Questionnaires were administered to all seven USAID projects and programs in April 1991 (Table 1), one project fewer than in the previous gender report since the HEALTHCOM project ended in 1990. It should be pointed out that BANFES, DMI and CCCD projects, although included here, are also ending in 1991.

**TABLE 1: USAID PROJECTS/PROGRAMS RESPONDING TO GENDER ASSESSMENT
QUESTIONNAIRES - APRIL 1991**

USAID PROJECT/PROGRAM	ACRONYM	TYPE
FAMILY HEALTH INITIATIVE II	FHI II	FAMILY PLANNING
LESOTHO AGRICULTURAL POLICY SUPPORT PROGRAM	LAPSP	AGRICULTURE
COMBATTING COMMUNICABLE CHILDHOOD DISEASES	CCCD	HEALTH
HUMAN RESOURCE DEVELOPMENT ASSISTANCE	HRDA	TRAINING
DISTRICT MANAGEMENT IMPROVEMENT	DMI	HEALTH
LESOTHO AGRICULTURAL PRODUCTION AND INSTITUTIONAL SUPPORT	LAPIS	AGRICULTURE
BASIC AND NON-FORMAL EDUCATION SYSTEMS	BANFES	EDUCATION

Table 2: Personnel Associated with USAID Projects/Programs (April 1991)

Project/Program Personnel Information														
Project/ Program Title	TA's (M)	TA's (F)	Prof LHire (M)	Prof LHire (F)	Non-prof LHire (M)	Non-prof LHire (F)	Counter- parts (M)	Counter- parts (F)	GOL empl (M)	GOL empl (F)	PCV (M)	PCV (F)	Other (M)	Other (F)
FHI II	0	0	0	2	0	0	0	0	0	0	0	0	0	0
LAPSP	2	0	3	0	0	2	0	0	13	4	0	0	0	1
CCCD	1	0	0	0	0	1	3	15	0	0	0	0	0	0
HRDA	0	0	1	0	0	0	0	0	0	0	0	0	0	0
DMI	1	0	0	0	1	0	0	1	0	0	0	0	0	0
BANFES	3	0	0	1	0	0	2	0	0	0	0	0	0	0
LAPIS	18	1	3	1	7	11	16	2	0	0	10	8	0	0
*** Total ***	25	1	7	4	8	14	21	18	13	4	10	8	0	1

TA = Technical Advisor

Prof LHire = Professional local hire contract

Non-prof LHire = Non-professional local hire contract

GOL empl = Government of Lesotho Employees funded by project/program

PCV = Peace Corps Volunteers

Other = Project/Program employees not listed in other categories

TABLE 3:

USAID PROJECT/PROGRAM TRAINING INFORMATION
TOTAL USAID-FUNDED TRAINEES REPORTED IN GENDER ASSESSMENT QUESTIONNAIRES
BY SUBJECT AND GENDER - APRIL 1991

SUBJECT	IN-COUNTRY		SHORT-TERM REGIONAL		LONG-TERM REGIONAL		SHORT-TERM OVERSEAS		LONG-TERM OVERSEAS	
	MALES	FEMALES	MALES	FEMALES	MALES	FEMALES	MALES	FEMALES	MALES	FEMALES
Health	20	1030	0	11	0	0	0	0	0	1
Family Planning	8	96	0	25	0	0	0	3	0	0
Home Economics	0	105	0	7	0	0	0	0	0	6
Agriculture	592	331	77	40	0	0	5	1	28	12
Natural Res/Con	22	7	6	0	0	0	2	0	0	1
Range/Wildlife	2225	132	178	32	0	0	3	0	12	4
Business	225	348	24	14	0	0	5	0	5	2
Education	3686	5491	84	89	0	0	24	19	18	14
Computer	79	136	0	2	0	0	0	0	0	0
Secretarial	0	8	0	0	0	0	0	0	0	0
On Job Training	165	793	3	1	3	1	0	0	0	0
Admin/Mgmt	262	99	2	2	0	0	4	3	0	0
Commun/Media	100	41	5	3	0	0	2	1	2	2
Electronics	0	0	2	0	0	0	0	0	0	0
Social Science	0	0	0	0	0	0	0	0	0	1
Conferences	0	0	3	5	0	0	0	0	0	0
TOTAL	7383	8617	384	231	3	1	46	27	65	43

Project/Program Training Information - April 1991

TABLE 4:

Number of Males/Females Receiving In-Country Training

Project/Program	Health		Family Plan		Home Econ		Agric		NatRes Conser		Range Wildl		Busi-ness		Educa-tion		Compu-ter	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
PHI II	0	0	8	96	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LAPSP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CCCD	0	750	0	0	0	0	0	0	0	0	0	0	134	292	0	0	4	2
HRDA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
DNI	20	280	0	0	0	0	0	0	0	0	0	0	0	0	3605	5408	0	0
BANFES	0	0	0	0	0	105	736	331	24	7	2225	132	91	56	81	83	75	134
LAPIS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
*** Total ***	20	1030	8	96	0	105	736	331	24	7	2225	132	225	348	3686	5491	79	136

Project/Program	Secre-tarial		On Job Trng.		Admin Hgmt		Comm/Media		Elec-tronics		Social Science		Confer-ences	
	Male	Female	Male	Female	Males	Female	Male	Female	Male	Female	Male	Female	Male	Female
PHI II	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LAPSP	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CCCD	0	0	0	500	0	0	0	0	0	0	0	0	0	0
HRDA	0	0	0	0	3	15	0	0	0	0	0	0	0	0
DNI	0	0	0	10	0	0	0	0	0	0	0	0	0	0
BANFES	0	0	169	283	0	0	0	0	0	0	0	0	0	0
LAPIS	0	8	0	0	259	84	100	41	0	0	0	0	0	0
*** Total ***	0	8	169	793	262	99	100	41	0	0	0	0	0	0

TABLE 5:

USAID Project/Program Training Information - April 1991

Number of Males/Females Receiving Short-term Regional Training Outside of Lesotho

Project/Program	Health		Family Plan		Home Econ		Agric		NatRes Conser		Range Wildl		Busi-ness		Educa-tion		Compu-ter	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
FHI II	0	0	0	25	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LAPSP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CCCD	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
HRDA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
DHI	0	11	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
BANFES	0	0	0	0	0	0	0	0	0	0	0	0	0	0	81	88	0	0
LAFIS	0	0	0	0	0	7	77	40	6	1	178	32	24	14	3	1	0	2
*** Total ***	0	11	0	25	0	7	77	40	6	1	178	32	24	14	84	89	0	2

Project/Program	Secre-tarial		On Job Trng.		Admin Mgmt		Comm/Media		Elec-tronics		Social Science		Confer-ences	
	Male	Female	Male	Female	Males	Female	Male	Female	Male	Female	Male	Female	Male	Female
FHI II	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LAPSP	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CCCD	0	0	0	0	0	0	0	0	0	0	0	0	0	0
HRDA	0	0	3	1	0	0	0	0	0	0	0	0	3	5
DHI	0	0	0	0	0	0	0	0	0	0	0	0	0	0
BANFES	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LAFIS	0	0	0	0	2	2	5	3	2	0	0	0	0	0
*** Total ***	0	0	3	1	2	2	5	3	2	0	0	0	3	5

TABLE 7:

USAID Project/Program Training Information - April 1991

Project/Program	Health		Family Plan		Home Econ		Agric		NatRes Conser		Range Wildl		Busi-ness		Educa-tion		Compu-ter	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
FHI II	0	0	0	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LAPSP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CCCD	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
HRDA	0	0	0	0	0	0	0	0	0	0	0	0	2	0	0	0	0	0
DMI	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
BANFES	0	0	0	0	0	0	0	0	0	0	0	0	0	0	15	18	0	0
LAPIS	0	0	0	0	0	0	6	1	2	0	3	0	3	0	9	1	0	0
*** Total ***	0	0	0	3	0	0	6	1	2	0	3	0	5	0	24	19	0	0

Project/Program	Secre-tarial		On Job Trng.		Admin Mgmt		Comm/Media		Elec-tronics		Social Science		Confer-ences	
	Male	Female	Male	Female	Males	Female	Male	Female	Male	Female	Male	Female	Male	Female
FHI II	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LAPSP	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CCCD	0	0	0	0	0	0	0	0	0	0	0	0	0	0
HRDA	0	0	0	0	0	1	0	0	0	0	0	0	0	0
DMI	0	0	0	0	0	0	0	0	0	0	0	0	0	0
BANFES	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LAPIS	0	0	0	0	4	2	2	1	0	0	0	0	0	0
*** Total ***	0	0	0	0	4	3	2	1	0	0	0	0	0	0

TABLE 8:

USAID Project/Program Training Information - April 1991

Number of Males/Females Receiving Long-term Overseas Training

Project/Program	Health		Family Plan		Home Econ		Agric		NatRes Conser		Range Wildl		Busi-ness		Educa-tion		Compu-ter	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
FHI II	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LAPSP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CCCD	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
HRDA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
DNI	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
BANFES	0	0	0	0	0	0	0	0	0	0	0	0	0	0	18	14	0	0
LAPIS	0	0	0	0	0	6	28	12	0	1	12	4	5	2	0	0	0	0
*** Total ***	0	1	0	0	0	6	28	12	0	1	12	4	5	2	18	14	0	0

Project/Program	Secre-tarial		On Job Trng.		Admin Mgmt		Comm/Media		Elec-tronics		Social Science		Confer-ences	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
FHI II	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LAPSP	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CCCD	0	0	0	0	0	0	0	0	0	0	0	0	0	0
HRDA	0	0	0	0	0	0	0	0	0	0	0	0	0	0
DNI	0	0	0	0	0	0	0	0	0	0	0	0	0	0
BANFES	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LAPIS	0	0	0	0	0	0	2	2	0	0	0	1	0	0
*** Total ***	0	0	0	0	0	0	2	2	0	0	0	1	0	0

B. Project and Program Personnel Information

Numbers of personnel currently associated with USAID projects/programs, broken down by category, are shown in Table 2. Total personnel for all projects and programs numbered 134, 37% of who were females. Of the total technical advisors hired by projects/programs, 97% were male and 3% were female. LAPIS employed 1 female technical advisor and all other projects/programs employed only male technical advisors as of April 1991. With the end of most BANFES activities in February 1991, BANFES technical advisors, several of whom were female, completed their employment. Locally hired professionals included 64% males and 36% females, while non-professionals hired locally constituted 36% males and 64% females. Among Basotho project/program counterparts, 54% were males and 46% females. Government of Lesotho personnel employed by USAID programs were 76% males and 13% females. Peace Corps volunteers, associated with the LAPIS project only, comprised 56% males and 44% females.

Personnel data shows that, of the locally hired project/program staff, males outnumbered females in professional positions, while females outnumbered males in non-professional positions. Basotho counterparts were overwhelmingly male for agricultural and educational projects, and predominantly female for health projects. Peace Corps volunteers and GOL project employees were mostly male.

C. Training Information

The Gender Assessment Questionnaire requested project/programs to list numbers of trainees by category. The figures listed as project/program-funded trainees represent the life of project totals as of April 1991 for each project/program. Numbers are not corrected for repetition, so the same persons may have attended several different training sessions and have been "counted" as more than one trainee.

Table 3 shows the total numbers of males and females receiving project/program supported training, broken down by in-country, regional, and overseas training and by subject matter. The majority of all training funded by USAID project/programs was in-country training, totalling 16,005 (46% males, 54% females). Those receiving in-country training in health, family planning, home economics, business, education, computer, secretarial, and on-the-job training were primarily females. Males were the main recipients for in-country training in agriculture, natural resources and conservation, range/wildlife/livestock management, administration/management and communications/media. Females slightly outnumbered males for in-country training, while males dominated regional and overseas training.

Training information is further broken down by location and duration of training in Tables 4 - 8. The BANFES project contributed the highest number of in-country trainees: 9013 persons, 61% of who were females, were trained (Table 4). Under the LAPIS project, over 2300 persons (94% males) received in-country training in range, wildlife or livestock management. More than one thousand persons (98% females) received in-country training in health through the CCD and DMI projects.

Table 5 shows numbers of persons receiving project/program-funded short-term regional

training within Africa, but outside Lesotho. The highest numbers of trainees in this category were for range/wildlife/livestock management (210 participants, 85% males, 15% females) through LAPIS, followed by educational training (169 participants, 48% males, 52% females) through BANFES. Predominantly males participated in training sessions in agriculture, range/wildlife/livestock management, business, natural resources and conservation, and electronics, while females predominated in classes in family planning, home economics, computer, and education. Regional training courses were mostly attended by males (61% males, 39% females). Only 4 persons attending project of program-funded long-term training within Africa outside of Lesotho (Table 6).

Numbers of males and females receiving short-term overseas training of six months or less are shown in Table 7. Of the 70 participants in short-term overseas training, 44 (63%) were males and 26 (37%) were females. The majority of short-term overseas trainees (45) attended education sessions.

Table 8 shows project/program-funded long term overseas training, by gender and subject. Most trainees who received long-term overseas training studied agriculture (70% males, 30% females), education (56% males, 44% females) or range/wildlife/livestock management (75% males, 25% females). Of the total 108 trainees sent overseas for more than six months, 60% were males and 40% females.

D. Participants receiving other project/program outputs

Each project or program was asked to report the numbers of participants directly involved in USAID-funded projects and programs in ways other than training or employment. These numbers are estimates given by project personnel and in some cases cannot be documented. This category was established to report those receiving goods or services from the project, e.g., farmers who have been supplied with seeds of a new variety, ranchers who have joined grazing associations, women who receive birth control pills, radio listeners of a health or education program, school children participating in an education project, etc. Spouses and families were not included in these figures unless they themselves directly participated. Results are shown in Table 9.

Table 9: Number of Participants in USAID Projects/Programs who Receive Goods or Services OTHER THAN Training or Employment

PROJECT/ PROGRAM	MALES	FEMALES	TOTAL
FHI II	NOT AVAILABLE	NOT AVAILABLE	
LAPSP	0	0	0
CCCD	0	0	0
HRDA	0	0	0
DMI	0	0	0
BANFES	158,482	197,242	355,724
LAPIS	1,526	1,889	3,415

BANFES figures included primary school pupils (156,975 boys (45%), 191,854 girls (55%)) and primary school teachers (1507 males (28%) and 5388 females (78%)). FHI reported that it was impossible to determine numbers of those receiving goods or services because, although family planning trainees have impact on many health areas, numbers are not available. LAPIS reported 3841 participants of which 39% were males and 61% were females. LAPSP had no numbers to report at this time, and remaining projects/programs reported no participants in this category.

E. Constraints to Project Participation

Table 10 summarizes constraints to project participation. For the purposes of the questionnaire, constraints were defined as anything that hampers men/boys or women/girls from receiving goods or services from the project, from attending training sessions sponsored by the project, or from being employed by the project. Project representatives circled either YES, NO or DK (don't know whether it is a constraint or not) for each gender and category.

Data collected to show constraints to project participation indicate only whether project representatives perceived that a constraint was present. It does not indicate the degree of constraint, or whether males and females experienced different constraints within the same category. Those filling out Gender Assessment Questionnaires were asked to comment on major constraints to project participation. Comments are listed in Appendix 1.

F. Baseline, Recorded and Reported Data

Baseline Surveys were conducted by LAPSP, CCCD and LAPIS. Each of the baseline surveys collected gender specific information. The remaining four projects/programs reported that no baseline surveys were conducted.

Each project/program was asked whether the data that they record pertaining to their project was separated by gender. Two projects reported that they did separate data by gender, two projects sometimes disaggregated data and 3 projects/programs did not record data separated by gender.

When asked whether project/program reporting documents separate data by gender, two programs reported that they did, and 3 projects/programs (43%) did not, two projects sometimes disaggregated data. A breakdown by project of the above information can be found in Table 11.

G. Gender Strategy

Representatives from each project and program were asked to comment on gender issues in their project/program. Comments are listed in Appendix 2.

Table 11:

USAID Project/ Program Gender Information

Project/Program Title	Gender Specific Funding Y or N	Estimate % Total Funding Females	Gender Specific Hiring Guidelines Y or N	Gender Quota for Trainees Y or N	Same Trainee Benefits for Each Gender Y or N	Baseline Survey Conducted Y or N	Baseline Gender Specific Y or N	Recorded data sex-disaggregated Y or N or S	Reported data sex-disaggregated Y or N or S
FHI II	Y	70 N		n	y	n		n	n
LAPSP	N	50 N		n		y	y	n	y
CCCD	N	80 N		n	y	y	y	s	s
HRDA	N	50		y	y	n		y	y
DMI	N	85 N		n	y	n		n	n
BANFES	n	50 N		n	n	n		s	n
LAPIS	n	60		n	y	y	y	y	s

Y = Yes
 N = No
 S = Sometimes

and trainers in agricultural projects may seriously affect project involvement by women.

In range/wildlife/livestock management, the high number of male training participants, in comparison with female participants, is probably due to the cultural practices of the Basotho, which generally dictate that men or boys handle cattle, sheep and goats. The overall numbers receiving in-country training in range/wildlife/livestock management increased considerably since last year.

Male participation in family planning and health projects remained very low, with most project or program training supplied to women. Especially in light of the increasing threat of AIDS, men should be encouraged to take much more responsibility in these areas, and training programs should include them. A USAID strategy should be devised to target the male population in any future health or family planning projects/programs.

C. Participants receiving other project outputs

BANFES included primary school children as project participants receiving goods or services other than training or employment. Numbers therefore reflect the high percentage of girls who attend primary school compared to boys, who are often kept out of school to herd and care for livestock. New policies to be instituted under the upcoming Primary Education Program (PEP) may have an effect on enrollment rates. It is expected, however, that as long as boys are the primary herders their formal schooling will suffer. Primary school teachers included in the BANFES figures of project beneficiaries reflect the predominantly female teaching population.

LAPIS reported that most participants receiving goods or services from the LAPIS project (61%) were females. Although these numbers are estimates, they reflect the high female involvement of women in agriculture and the scarcity of men in rural areas. One would expect a proportionate amount of training to be supplied to women when they receive goods or services. Unfortunately training figures (Section IIC) do not substantiate this, as the vast majority of trainees in these subsectors were males.

D. Constraints to Project Participation

1. Legal constraints

Legal constraints were listed by half the projects as a limitation to women's participation. Much more needs to be learned about the legal rights of women in Lesotho and the how they affect their participation in development. The dual legal system in use in Lesotho is extremely complicated. The limitation of women's legal capacity depends in part on

III. Discussion

A. Project/Program Personnel

As reported in the 1990 Gender Report, technical advisors hired by USAID projects and programs were overwhelmingly males (Table 2). This carried through for all projects in all sectors. Since the majority of Basotho involved in crop farming, horticulture, poultry, pig-raising and fuel wood gathering are women, it is highly recommended that more women be employed as technical advisors/consultants in agricultural projects. Similarly for primary education projects, where the overwhelming majority of both teachers and pupils are female, an effort should be made to employ more women as project/program technical advisors or professional contractors. Health projects deal primarily with Basotho women, yet again are staffed mainly by male technical advisors. If we as donors are to develop the potential of Lesotho, we must develop the women, and this means making sure that there are women involved in the planning, executing and evaluating of USAID projects, and that women are present among professional contractors.

Numbers of locally hired professional and non-professional employees, Government of Lesotho employees, counterparts and Peace Corps volunteers are summarized in Table 2.

B. Training

The number of female regional or overseas trainees and the ratio of female to male trainees is generally lower at the regional or overseas level than at the in-country level. This may reflect the cultural values of the Basotho society which is more likely to accept training of women at home. On the other hand, it may mean that qualified female candidates for overseas and regional training are bypassed in nomination procedures. USAID should encourage the nomination of women for all types of training programs, including regional and overseas programs.

The gender ratio for trainees in agriculture seems to be the opposite of what would be expected. Only 29% of the in-country trainees were women, despite the fact that women practice much of the agriculture and, in fact, comprise the majority in Lesotho, due to the large number of male migrant workers absent in South Africa. As recommended in the 1990 Gender Report, USAID should investigate constraints which prevent women from attending in-country training sessions in agriculture, and adjust the courses accordingly. Perhaps timing of the training is not coordinated with the work schedule of women, who may be unable to attend due to their planting, weeding, harvesting, household or other activities. Alternatively, the locations of the courses may be problematic, as some women may not be able to leave their children or may not be allowed to spend the night away from home. The almost exclusive presence of male technical advisors

whether women are ruled by common (Roman-Dutch) or customary (Basotho) law, their age and marital status, and where and how they married. A woman subject to customary law, for example, is a perpetual minor. She cannot own property, enter into a business or credit contract, undergo a medical operation, or enter into an educational institution without the consent of her husband. It is clear that current laws discriminate against Basotho women. The extent to which these laws limit women's contributions to economic development in Lesotho is not known.

USAID should support local efforts to educate women about their legal rights and efforts to introduce legislation to improve the legal situation of women in Lesotho. Legal constraints hamper women in every sector of the economy. In agriculture, women cannot become effective farm managers until they have the legal right to own property and have some control over the land they farm. In family planning, women should have the right to choose birth control to space their babies. USAID does not currently have a private sector project in operation, so no data was collected on legal constraints to business or entrepreneurial activities. However, it is suspected that unless women can independently enter into business contracts, sign legal documents and negotiate credit, the business growth of Lesotho will be under tremendous constraint, and economic growth will remain stunted.

2. Other constraints

Cultural practices or beliefs were cited by all projects and programs as a constraint to women's participation and by 75% of the projects/programs as a constraint to men's participation. Recognizing and understanding of the cultural constraints can lead to increased effectiveness of USAID projects and programs. USAID should use the Gender Information Framework at all levels of project design and evaluation to help incorporate gender and cultural considerations into all development activities.

Time constraints affect both genders. Constraints may include lack of time to participate in projects/projects or inability to participate because of timing that conflicts with duties. Scheduling of project/program activities, training and meetings should consider daily and seasonal schedules of target population. Project activities should be carefully planned to take into account the existing workload of the participants, and be careful not to add more duties to already overburdened schedules.

Migrant status was cited as a constraint to both male and female participation in projects/programs. Migrant status probably includes both migration outside of Lesotho, as well as migration to cities within Lesotho, although this cannot be determined from the questionnaire. The rate of rural-to-urban migration in Lesotho is currently increasing.

Education was listed as a constraint to project participation for both genders

by 75 % of the projects/programs. The educational level of participants should be kept in mind when planning projects, training programs, and seminars. For example, a business training class conducted in the rural areas which operates in English or at a level above Standard 7 is highly unlikely to succeed, unless participants are carefully screened, which would restrict project benefits to fewer people. The new Primary Education Program (PEP), with its emphasis on good basic education, will hopefully make a difference in the overall literacy and numeracy rates in Lesotho.

Unfortunately only 50% of the projects/programs commented on the major constraints that prevent or limit project/program participation (Appendix 1). The next Gender Assessment Questionnaire should require a reply to every applicable question.

E. Baseline, Recorded and Reported Data

Of the USAID/Lesotho projects and programs, 63% reported that they did not separate data by gender in reporting documents, and 50% did not record data separated by gender. Gender Requirements for USAID are very clear in stipulating that sex-disaggregated data should be collected in all research or data-gathering. Because all policies, even those seemingly unrelated to gender, may have significant impact on both sexes, it is important to keep records separated by gender. All projects and programs should separate data by gender, not just in those instances when there seems to be a significant gender difference, but in all reports and documents. The Mission will maintain a gender data bank with data supplied by Gender Assessment Questionnaires.

F. Gender Strategies

In the Gender Assessment Questionnaire, project/program representatives were given space to "comment on gender issues in their projects/programs". Seventy-five percent of the projects/programs responded with comments (Appendix 2). Insights into gender issues by project/program personnel, strategies used to overcome gender constraints and benchmarks established to measure progress are not easily collected in the quantitative portion of the Gender Assessment Questionnaire. Perhaps in the future, there should be a few more narrative questions included to obtain this type of information. Also, in the next Gender Assessment Questionnaire, a reply to every applicable question will be mandatory.

IV. Conclusions

Specific recommendations have been made throughout this report, and are repeated below:

It is recommended that USAID/Lesotho projects and programs:

1. Encourage the involvement of women in the planning, executing and evaluating of USAID projects and programs;
2. Encourage more women to be employed as technical advisors in USAID-funded projects/programs;
3. Advocate the nomination of Basotho women for all types of training programs including regional and overseas programs;
4. Investigate gender constraints to participation by women in agricultural project training sessions;
5. Develop a USAID strategy to target the male population in any future health or family planning projects;
6. Address the lack of participation by boys in primary schooling, and ensure that these boys have access to formal or non-formal education in Lesotho;
7. Support local efforts to educate women about their legal rights and efforts to introduce legislation to improve the legal situation of women in Lesotho;
8. Use the Gender Information Framework at all levels of project design and evaluation to help incorporate gender and cultural considerations into all development activities;
9. When scheduling project/program activities, consider the daily and seasonal schedules of the target population, and take into account the existing workload of participants;
10. Consider the educational background of participants when planning training courses in any sector;
11. Separate data by gender, not just in those instances when there seems to be a gender correlation, but in all reports and documents.

APPENDIX 1

COMMENTS ON THE MAJOR CONSTRAINTS THAT PREVENT OR LIMIT PROJECT/PROGRAM PARTICIPATION TAKEN FROM GENDER ASSESSMENT QUESTIONNAIRES 1991

LAPIS

The major constraint is the general perception that crop agriculture is not a primary economic activity, and thus does not warrant significant investment in improved technology. It is therefore left largely to the women who face severe constraints in regard to money, time, access to land and credit, and decision-making authority. Livestock (cattle and small ruminants) are primarily a male domain, but minimizing investment rather than maximizing production is still the rule.

DMI

Married women are not pensionable within the civil service which means they often retire (no incentive to serve until retirement age) or don't retire until they are very elderly (cannot retire because they need to keep earning).

CCCD

Time constraints and lack of access apply to rural areas where clinics are less numerous. Cultural practices and beliefs include misconceptions about the cause and cures for target childhood diseases. Economic constraints are evidenced by a dropoff in clinic attendance due to higher user fees and termination of food distribution.

In addition, staff turnover and unavailability have caused severe problems for the population's access to health care (especially the large number of doctors and nurses leaving for the Republic of South Africa)

BANFES

It is important to note that while males and females may experience constraints in the same category, the specific constraints may be quite different, e.g. cultural practices/beliefs. Similarly, while both genders may experience economic constraints, these may be more severe for women than for men.

FHI

Cultural practices/beliefs are a constraint since modern family planning is condemned by most Lesotho churches and is still a "new" concept for many. Migrant labor is also a constraint since the men who are away do not want their spouses to use family planning and many women are not free (or simply do not feel free) to do so without their husbands' consent.

HRDA

It seems for workshops, attendance is good for the first few days. Some people can't seem to afford being away from their business for a whole week.

APPENDIX 2

GENERAL COMMENTS ON PROJECT/PROGRAM GENDER ISSUES TAKEN FROM GENDER ASSESSMENT QUESTIONNAIRES

LAPIS

The LAPIS project was designed in recognition of the importance of women in Lesotho's agricultural economy and of the gender-related constraints they face. Our approach has been to work around or help alleviate these constraints as practical. Progress to date indicates that the approach has been successful, as women have been at least as successful as men in taking up and profiting from the various types of technology put forward.

DMI

Women within the Ministry of Health feel discriminated against -- senior policy-making positions are held largely by men, while women occupy mid-level positions. Therefore, women are reluctant to choose the administrative cadre as a career (leaving nursing), because they believe they will not be promoted within this cadre. It is difficult to attract good women to administrative/management positions.

FHI

The major gender issue in Family Planning in Lesotho is the need to involve the males in the project, ie. targeting them in Information, Education and Communication programs and determining male attitudes through Operation Research projects.

CCCD

Project focus is on young children and their caretakers, who are usually women. Health education messages are disseminated nationwide for both men and women. But action is mostly taken by women, who have the greatest say in their children's health care.

More attention will be given to men's role in determining treatment of serious illnesses. Research found that men have an important role in determining where children will be treated for acute respiratory infections and for helping arrange transport for severely ill children (i.e., providing taxi fare). Hopefully the Ministry of Health will consider this as it develops health education messages.

BANFES

In assessing gender issues in a primary education project in a country in which there are more females than males in primary school and primary teachers are predominantly female, it is important to look not only at the numbers of males and females involved, but also to examine the levels and type of involvement by gender. For example, who holds

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COUNTRY PROGRAM STRATEGIC PLAN

LESOTHO: BACKGROUND ECONOMIC ANALYSIS

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USAID/LESOTHO

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1/6

I. INTRODUCTION

The Kingdom of Lesotho, a small mountainous country of 30,444 sq. km. completely surrounded by the Republic of South Africa (RSA), achieved independence in 1966. It has the highest lowlands in the world and is the only country with all its land situated more than 1,000 meters above sea level. The climate is temperate with well-marked seasons and the vegetation is predominantly grassland, with almost no natural forests. Poverty is widespread due partly to a highly skewed income distribution: in 1986, 67 percent of all households, and 71 percent of rural ones, had income below the poverty level of Maloti 86.00 per month. The population doubled from 0.9 million in 1960 to 1.8 million in 1990, with annual population growth increasing from 2.3 percent in 1965-80 to 2.7 percent in 1980-88. The urban population, which increased from 6 percent of total population in 1965 to 19 percent in 1988, has been growing at about 7.3 percent annually. Life expectancy at birth was 57.3 years in 1990 and the under-five mortality rate was 13.6 percent. The adult literacy rate was 73 percent in 1985 and primary school enrollment is one of the highest in Africa. In 1988, 48 percent of the population had access to safe drinking water. The key feature of the economy is its linkage with and dependence on RSA.

II. AGGREGATE SUPPLY AND DEMAND

A. Income Trends

Lesotho's annual real per capita GNP growth rate of 5.2 percent between 1965 and 1988 was exceeded by that of only five countries in the world, including Botswana (World Bank, 1990). National income grew fastest during the 1970s: real GNP and real GDP increased annually at about 7 percent and 8 percent respectively during 1970-1979. Many factors accounted for this, including high agricultural production, expanding construction and service sectors, increased migrant workers' remittances and the start of diamond mining (Matekane 1990). Growth was much lower during the 1980s. Between 1980-1983, drought, closure of the Rand accounted for an annual decline of 0.7 percent in real GDP, although real annual GNP rose at 5 percent. Over the period 1984-1989, real GDP and real GNP increased annually at 5.7 and 2.2 percent respectively. From 1985 to 1989, real GNP per capita dropped by 1.1 percent annually. Thus, economic performance during the last decade was disappointing. However, the 1990s seem to offer brighter prospects: in 1990, real GDP and real GNP rose at 7.3 percent and 4.1 percent respectively. Indicators of domestic output and national income from 1984 to 1990 are given in Table 1.

The GOL revised its national account data in 1990/91. Hence, discrepancies exist between these and other statistics computed from the earlier series.

Table 1
National Income Indicators, 1984-1990

<u>Indicators</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
<u>Current Prices</u>							
<u>(000)</u>							
GDP per capita	308	366	388	461	598	679	800
GNP per capita	639	709	757	8975	1097	1225	1416
<u>Constant 1980 Prices</u>							
<u>(Percent Annual Changes)</u>							
GDP	8.3	3.5	-0.3	7.3	11.4	4.1	7.3
GNP	4.6	-2.3	-2.6	6.7	9.1	-2.2	4.1
GDP per capita	5.8	1.5	-5.4	4.6	8.4	1.8	4.9
GNP per capita	1.8	-4.3	-7.4	4.0	6.6	-4.6	1.9
<u>Constant 1980 Prices</u>							
<u>(Percent)</u>							
GDP share in GNP	51	54	55	55	57	60	62

Source: Central Bank of Lesotho (1991 B); 1990 data are provisional estimates.

B. Aggregate Supply Structure

Combining real GDP at market prices and imports of goods and non-factor services, real aggregate supply has shown an increasing, albeit fluctuating, trend since 1986. In constant 1980 prices, real aggregate supply rose by 20.1 percent in 1990, from Maloti 659.7 million in 1986. During the 1980s, real resources grew by 1.8 percent annually. Domestic output formed 45.0 percent of real aggregate supply during the 1980s, increasing from 44.9 percent in 1980 to 51.5 percent in 1990. In contrast, imports of goods and non-factor services formed 55.1 percent of the supply of real resources, but their share fell from 55.1 percent in 1980 to 48.5 in 1990. Since independence, GDP has been much smaller than GNP because of net factor income from abroad, mainly remittances from Basotho migrant workers. The contribution of domestic output to real national income from 1983 is shown in Table 1 while the share of workers remittances to both nominal GDP and nominal GNP is given in Table 2. In 1990, remittances were about \$416.0 million (Maloti 1077.5 million), constituting 43.7 percent and 77.4 percent of nominal GDP and nominal GNP respectively. Because the domestic base to generate a sustainable level is limited, the growth achieved so far is fragile.

Table 2
Contribution of Migrant Workers Remittances to GDP and GNP
 (Percent of Current Prices)

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
GDP	95.2	96.2	85.1	82.9	77.4
GNP	48.5	49.5	46.3	46.0	43.7

Source: Computed from Central Bank of Lesotho (1991 B).

C. Aggregate Demand Structure

Consumption absorbs a large proportion of available resources, greatly exceeding investment in the utilization of real aggregate supply. During 1985-1990, real consumption was 87.8 percent of real GNP, but exceeded real GDP by 54 percent of GDP, resulting in a dissaving gap. Real final consumption expenditure increased by an annual average of 1.2 percent during the 1980s, accounting for three-quarters of total supply. In 1990, aggregate consumption was 67.5 percent of total real resources and 68.6 percent of national nominal disposable income. During 1985-90, household and government expenditures accounted for 75.9 percent and 17.4 percent of total real consumption, respectively. During the same period, the ratio of gross saving to gross national disposable income averaged 23.8 percent and has shown an increasing trend. In 1990, gross saving was 38.0 percent of nominal GNP. The structure of aggregate demand is in Table 3.

Due to slower growth in the early years of the decade, real investment increased by 5.8 percent annually during the 1980s, although real investment grew by 8.8 percent during 1985-90. However, as a ratio of total supply of real resources, real gross investment was 24.1 percent in 1990, the same as in 1980, although the ratio has increased in the last two years. Real gross investment formed 12.2 percent of real GNP over the period 1985-1990. Building and construction, fuelled in recent years by the establishment of factory shells by the Lesotho National Development Corporation (LNDC) and construction under the Lesotho Highlands Water Project (LHWP), dominate gross fixed capital formation. Private sector share in nominal gross investment has risen in recent years, from 75.2 percent in 1988 to 81.0 percent in 1990. Excluding LHWP flows, public investment, which was about 25 percent of GNP in 1990, is lower than private investment.

Table 3
Structure of Aggregate Demand for Real Resources
(Constant 1980 Prices - Percent Shares)

	1985	1986	1987	1988	1989	1990
Final consumption in GDP	1.71	1.67	1.62	1.66	1.31	1.31
Final consumption in demand	75.4	77.4	75.9	74.8	67.4	67.5
Households (final consumption)	77.6	75.1	75.8	78.2	74.4	74.5
Government (final consumption)	16.1	18.3	17.7	16.0	18.3	17.7
Gross investment in demand	19.0	16.1	15.9	16.6	22.1	24.1
Saving ratio (nominal)	20.9	19.4	20.1	16.6	34.4	31.4

Source: Computed from Central Bank of Lesotho (1991 B); 1989 and 1990 data are provisional.

III THE DOMESTIC ECONOMY

A. Sectoral Structure of GDP

The first major feature of the structure of GDP is that agriculture declined, the secondary sector expanded and services

maintained their share in GDP. At independence, agriculture accounted for 70.3 percent of nominal GDP at market prices, but its share dropped to 40.7 percent by 1970/71 and reached 15.1 percent in 1990. See Table 4.

Table 4
Evolution of Sectoral Structure of GDP at Market Prices
(Percent of Current Prices)

<u>Sector</u>	<u>1966/67</u>	<u>1970/71</u>	<u>1980/81</u>	<u>1990</u>
Primary	70.3	40.7	25.7	15.1
Agriculture	68.2	40.7	19.3	14.7
Secondary	3.8	7.3	13.9	32.3
Manufacturing	0.7	2.6	4.6	13.0
Construction	1.7	2.6	8.8	18.7
Tertiary	25.9	52.0	43.9	38.6

Source: Computed from IMF (1972), IMF (1976), IMF (1986) and Central Bank of Lesotho (1991 B).

On average, agriculture contributed 15.7 percent of real GDP during 1985-1990, compared to 11.9 percent for manufacturing and 54.7 percent for services. The sectoral contribution to real value-added in recent years is shown in Table 5.

Table 5
Sectoral Contribution to Real GDP at Market Prices
(Percent)

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Primary	17.9	16.5	16.4	17.3	15.2	14.8
Agric.	17.0	15.8	15.9	17.1	14.0	14.2
Secondary	23.0	21.5	23.2	24.4	29.2	31.1
Manufac.	9.5	10.8	11.6	12.5	13.7	13.5
Constr.	12.7	9.9	11.0	11.1	14.7	16.7
Tertiary	52.7	56.2	55.2	53.7	55.8	54.4

Source: Computed from Central Bank of Lesotho (1991 B).

The contribution of value-added in agriculture to real domestic output continues to decline due in part to highly adverse weather conditions, diminishing arable land and degraded grazing land. Nonetheless, agriculture employed at least 50 percent of the domestic labor force in 1990, although it provides less than 40 percent of all households with their main source of income. However, a significant percentage of income and employment in manufacturing comes from agriculture-related business such as processing. Livestock production is now the dominant sectoral activity, contributing 51.4 percent of total real value-added by agriculture to GDP in 1990.

Mining was a significant source of income and employment with the opening of the diamond mine in 1977. Since the closure of the main mine in 1983, diamond mining has been dormant while other minerals are not available in commercial quantities.

The manufacturing sector, consisting mainly of agro-industries, especially food mills, breweries, canneries, textiles and leather, increased its contribution to growth in the last decade. Most manufacturing activity is undertaken by private sector firms. Public sector participation in the manufacturing sector is concentrated in pharmaceuticals and non-metal products. Manufacturing value-added (VA) increased its contribution to aggregate real GDP at factor cost from 6.4 percent in 1980 to 13.5 percent in 1990. The textile, clothing and leather sub-sector has increased its share of VA from 14.7 percent in 1982 to 39.8 percent in 1990 and is now the largest export earner. Most of this expanded activity is due to the relocation of RSA firms and some Far East investors in Lesotho to take advantage of the investment incentives and escape sanctions. Manufacturing growth is not linked sufficiently to domestic resources and is of relatively low labor content. Also, the growth rate of manufacturing value-added has fallen significantly from 19.1 percent in 1984 to 5.6 percent in 1990. Industrial development policy focuses on improving the investment climate and strengthening the institutional base.

The building and construction sector share fluctuated in the 1980s, but was at 12.7 percent of real GDP at factor cost in 1990. The prospects for increased growth are strong due to construction activity being generated under the Lesotho Highland Water Project (LHWP). The potential is also bright for the electricity and water sub-sectors due to the LHWP. This \$2.54 billion project, aimed at diverting surplus water from the Senqu (Orange) river system to RSA and generating electricity for Lesotho, was initiated in 1986/87 and would provide several spin-offs for the Lesotho economy, including increased industrial development, tourism and employment.

The service sector was the second largest contributor to domestic output at independence, but is now the largest. The sector is dominated by finance and insurance.

The second major characteristic of domestic output is that private sector contribution is dominant, accounting for about 65 percent of GDP in 1988 (Labat-Anderson 1989). Considering the major role of workers' remittances in the GNP, private sector contribution to GNP is likewise substantial. The private sector dominates agricultural production. Public sector contribution to agriculture is mainly in marketing and processing through several parastatals such as Coop Lesotho, National Abattoir, Lesotho Flour mills and Basotho Fruit and Canners. Although private sector firms dominated construction, GOL finances a substantial portion of construction activity, especially under the LHWP. The GOL is predominant in communications, public utilities, finance and insurance.

B. Employment

High economic growth has not been translated into adequate employment. The total labor force of 623,385 (1985/86), with a participation rate of 56 percent (76 percent for males and 37 percent for females) was projected to increase by about 20,000 annually to 754,000 in 1990. However, the 1990 labor force was estimated at 637,000 (Central Bank 1991 B). In 1985-86, 66.2 percent of the labor force was employed in agriculture, 7.3 percent in the secondary sector and 25.6 percent in services. The private sector is the largest source of employment: in 1985/86, the informal private sector accounted for 90 percent of total domestic employment; of the balance, the private sector accounted for 43 percent. The 60 key formal private sector companies currently employ 11,430 workers. Micro- and Small enterprises (MSEs) employ over 150,000, the second largest single source of employment after agriculture, and much more than migrant employment in RSA. Despite the larger number of enterprises in the small-medium category, employment creation per enterprise is much higher in the large enterprise group, at 187.4, compared to an average of 1.5 for MSEs. The textiles and agro-industry sub-sectors generate most employment per enterprise at 320 and 241.3 respectively. The central government's share in employment is small: in 1986, 5 percent of the labor force was employed in government services, excluding parastatals. In 1990, total employment in the central government sector (18,908) was marginally higher than employment in manufacturing industries (18,693). In the manufacturing sector, almost 25 percent of paid employees work in the food processing and beverages sub-sector which is dominated by parastatals. The structure of employment partly reflects the dual-structure of the labor market, with a shortage of skilled labor and an overwhelming surplus of unskilled labor. Unemployment, currently estimated at about 25 percent, would have been worse but for migrant employment.

A key feature of the labor market is migration for mine work in RSA. At least 40 percent of total household income comes from migrant mineworkers' remittances. Migration of Lesotho labor to RSA mines has recently started to decline due to falling world gold prices, rising mine operation costs, absolute reductions in RSA mine labor force and the RSA policy of replacing migrant workers with South African labor. The numbers of Basotho migrant workers in RSA are in Table 6. Basotho recruitment by the two largest sources of mine employment in RSA will decline to an expected 97,000 in 1991 and about 85,000 in 1992. This large reduction has sharply exacerbated unemployment and portends dire consequences for the Lesotho economy.

Table 6
Average Number of Basotho Mineworkers in South Africa

<u>1986</u>	<u>1970</u>	<u>1977</u>	<u>1980</u>	<u>1984</u>	<u>1990</u>
80,310	87,384	128,941	120,733	114,041	127,385

Source: Central Bank of Lesotho (1981 B; 1983), IMF (1972).

C. Wages/Income

Minimum wages are fixed for various categories of labor by tripartite negotiation involving GOL, employers and workers' representatives. The minimum wage is lowest for light industrial workers in training and highest for heavy vehicle drivers, with a spread of about 2.29 percent. Minimum monthly wages were increased in 1984, 1987 and 1989. A recent 51 percent rise in April 1991 took the wage level to Maloti 180 for unskilled labor. Civil service and forces salaries were increased by 22 percent on average in April 1991 while teachers received 67 percent increase. Civil service and forces salaries were increased by a further 20 percent in June 1991. The flat across the board increases maintained the spread between low- and high-salaried public servants. Presently, a typical entry-level civil service salary is about Maloti 290 per month. Migrant labor earns higher wages than domestic unskilled labor. Miners' wages rose by 21 percent in 1989 and 17 percent in 1990 in nominal terms while their recorded remittances increased by 15 percent and 24.7 percent, respectively (Central Bank 1991 A). Remittances by all migrant workers increased by an annual average of 16.6 percent during 1986-90. Miners' deferred pay sent home through Lesotho Bank has been reduced to 30 percent from 60 percent.

D. Prices

Lesotho prices move broadly in line with those in RSA. Annual consumer (urban household) price inflation generally declined from 1985-1990. The average rate of inflation was 11.5 percent in 1990, but rose to 18.4 percent by July 1991. The trend in annual average inflation is shown in Table 7.

Table 7
Annual Percent Change in Consumer Price Indices

<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
11.0	13.3	18.0	11.8	11.4	14.9	11.5

Source: Central Bank of Lesotho (1991 B), IMF (1990).

E. Fiscal

Total GOL budget for the current 1991/92 fiscal year is Maloti 957.3 million (about \$337.1 million at the current exchange rate). Revenues and grants rose from 26.4 percent of GNP in 1985/86 to 30.7 percent in 1990/91, while expenditures and net lending rose from 32.6 percent to 34.2 percent in 1989/90 before falling to 31.9 percent in 1990/91. In 1990/91, GOL receipts totalled Maloti 819.0 million (\$316.2 million). The development of total GOL expenditures as a ratio of national income is shown in Table 8.

Table 8
Total Expenditures as Ratio of GDP and GNP
 (Nominal Ratios)

	<u>1966/67</u>	<u>1970/71</u>	<u>1981/82</u>	<u>1990/91</u>
GDP	27.2	29.1	52.7	61.5
GNP	25.1	11.8	28.8	34.7

Source: Central Bank of Lesotho (1991 B); IF (1972, 1977, 1986). GDP and GNP are at market prices.

In 1990-91, GOL revenues were 44.1 percent and 24.9 percent of nominal GDP and nominal GNP, respectively. Government revenue is mainly derived from tax revenue, with customs duties dominating since the renegotiation of the Southern African Customs Union (SACU) Agreement between 1968/69 and 1969/70. In 1990/91, total GOL receipts and revenues were Maloti 819.0 million (\$316.2 million) and Maloti 613.7 million (\$236.9 million), respectively. The share of customs duties in total receipts fluctuates considerably but is still the major source of revenue, followed by sales tax inflows. Mine workers' incomes are not taxed; hence, income tax is a relatively small portion of revenue. However, partial action was taken in 1990/91 to introduce a recruitment levy. The structure of GOL receipts in recent years is shown in Table 9.

Table 9
Structure of GOL Receipts
 (Percent share in Total Receipts)

	<u>1986/87</u>	<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u>	<u>1990/91</u>
Total Revenue	91.0	82.7	79.2	77.6	74.9
Customs Rev.	48.2	43.5	41.5	38.9	43.3
Sales tax	16.3	16.0	16.2	15.1	13.6
Income tax	7.9	7.6	5.4	4.7	4.5
Company tax	3.1	2.2	3.7	2.7	3.5
Non-tax	15.5	13.4	12.5	16.2	10.1
Grants	9.0	17.2	20.8	22.4	25.1

Source: Computed from Central Bank of Lesotho (1991 B).

The GOL budget was in deficit at independence but generally turned to a surplus in the 1970s. The re-emergence of budget deficits in the 1980s prompted the introduction of the general sales tax in 1982. Due to the customs union arrangement, the GOL has relatively little direct control over budget revenue such that expenditure control is the main instrument of fiscal policy in controlling the deficit. Over the period 1985/86 to 1989/90, the annual budget deficit was 7.5 percent of GNP, but due to revenue-generating measures and the expenditure controls initiated under the Structural Adjustment Program (SAP) in 1988/89, the deficit was reduced considerably, reaching 1.3 percent of GNP in 1990/91. Since 1976, domestic banks have financed the budget but since 1989/90, foreign borrowing has been the major source of deficit financing. Government revenues account for a small portion of capital expenditures as donors

traditionally finance most of the capital budget: the proportion of the capital budget financed by donor grants and loans has increased from 67 percent during the early post-independence period of 1966/67-1969/7 (IF 1972) to 82.6 percent over the period 1989/90 to 1991/92.

In 1990/91, total GOL expenditure was Maloti 855.7 million (\$330.4 million) of which 52.2 percent was recurrent expenditure. Recurrent expenditure is the major share of GOL spending, averaging 59.3 percent of the total budget during the period 1986/87 to 1990/91, although the share dropped from 70.9 percent in 1986/87. Personal emoluments accounted for 40.8 percent of recurrent and 24.2 percent of total budgetary expenditure annually during this period. The economic classification of GOL expenditure since 1986/87 is given in Table 10.

Table 10
Economic Classification of Recurrent Expenditure
(Percent)

	<u>1986/87</u>	<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u>	<u>1990/91</u>
Emoluments	40.9	38.7	44.3	40.0	39.9
Interest	10.3	9.9	11.3	22.4	18.4
Subsidies	8.2	8.6	7.3	8.9	10.2
Others	40.6	42.8	37.1	28.7	31.5

Source: Computed from Central Bank of Lesotho (1991 B).
Subsidies include transfer payments.

In terms of the sectoral allocation, recurrent expenditure on economic services is the lowest among all categories, averaging 14.4 percent of total recurrent budget annually from 1985/86 to 1990/91, compared to 34.6 percent for central government services, including the military. Over this period, agriculture received 40.7 percent of the annual recurrent expenditure on economic services and 5.7 percent of the total recurrent budget, while industry and mining accounted for 1.2 percent of the total. Social and community services were allocated 32.7 percent of the total annual recurrent budget over the period while public debt interest and other transfers accounted for 18.3 percent. In contrast to the pattern of recurrent expenditure allocation, the bulk of capital expenditures cover economic services: over the period 1986/87 to 1991/92, at least 71.1 percent of the total capital budget was allocated to economic services, including agriculture, industries, power and water.

F. Money and Credit

The financial sector consists of the Central Bank of Lesotho (CBL), formed in 1982, three commercial banks (the Lesotho Bank, Barclays Bank and Standard Chartered Bank), three non-bank financial institutions (Lesotho Agricultural Development Bank, Lesotho Building Finance Corporation and Lesotho National Insurance Company). The Lesotho National Development Corporation, the Basotho Enterprise Development Corporation and

the Lesotho Cooperative Credit Union League also provide specialized financing as part of their activities. The function of banker to the GOL has been traditionally performed by the Standard Chartered Bank. The CBL sets the minimum savings deposit rate and the prime lending rate, while the market sets the other interest rates. The CBL also sets minimum liquid assets and cash reserve ratios for the banking sector aimed at reducing commercial banks' holding of foreign exchange reserves. There are 38 bank branches and agencies in the country and the commercial banks hold about 74 percent of private sector claims.

Money supply is influenced more by domestic credit supply than by the level of foreign assets although in 1990 monetary expansion resulted mainly from significant growth in the latter. During 1984/85-1988/89 broad money supply (M2) increased at an annual rate of 17 percent but the ratio of broad money to GNP averaged 28 percent. Generally, money supply is underestimated due to the lack of data on Rand in circulation. Excluding government and non-resident deposits, the levels and components of money supply for the period 1987-1990 are presented in Table 11.

Table 11
Money Supply and Components
(Maloti 000; end of period)

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Money Supply (2)	387.1	490.0	555.8	602.6
Maloti circulating	33.2	41.9	53.4	59.8
Deposits	353.9	448.1	502.3	542.9
Demand	73.4	97.3	101.3	97.9
Call	43.7	73.5	82.8	99.6
Savings	134.0	166.0	202.8	230.7
Time	37.6	39.3	38.3	45.3
Miner Deferred Pay	65.2	72.0	76.5	69.4

Source: Central Bank of Lesotho (1991 B).

Domestic credit increased annually at 22.9 percent on end-of fiscal year basis from 1984 to 1988. However, due to compliance with structural adjustment credit ceilings, growth of net credit to government turned negative in 1990 due to the reduction in net government credit. The levels of domestic credit are in Table 12.

Table 12
Domestic Credit
(Maloti 000; end of period)

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Private sector	103.2	136.0	161.9	193.8
Statutory bodies	7.6	24.0	24.6	26.2
Government (net)	174.2	245.7	304.2	206.3
Total	285.0	405.7	490.7	426.2

Source: Central Bank of Lesotho (1991 B).

Beginning in 1988, credit is being directed away from household consumption to production. The share of business enterprises in total private sector credit increased from 53.1 percent in 1987 to 66.5 percent in 1990. Including migrant mineworkers' Deferred Pay Fund deposits, the private sector accounted for 81.3 percent of total commercial banks' deposits at the end of 1990 but received 45.5 percent of total domestic credit. Banks' liquidity ratios are high (80 percent at the end of 1989), implying large capacity to lend. However, lending is low due partly to low private sector demand for credit, lack of acceptable collateral and risk-aversion. Lending is increasing nevertheless. The distributive services continue to account for the largest share of credit to business enterprises, receiving 34 percent of lending to enterprises in 1990. The sectoral credit distribution is shown in Table 13.

Table 13
Sectoral Credit Distribution
(Percent)

	<u>1988</u>	<u>1989</u>	<u>1990</u>
Manufacturing	10.0	7.0	9.0
Construction	21.0	19.0	18.0
Other dev. sectors	22.0	25.0	19.0
Distributive services	32.0	33.0	34.0
Other services	15.0	16.0	20.0

Source: Central Bank of Lesotho (1990 B).

Interest rates move broadly in line with those in RSA but are generally lower: currently, the one-year time deposit rate is 3 percent lower than the RSA average and the prime lending rate is 1 percent lower. The savings deposit rate is now 15.5 percent and prime lending rate is 20 percent. Given the current level of inflation, the savings deposit rate is currently negative in real terms.

IV. THE EXTERNAL SECTOR

A. Balance of Payments

The overall balance of payments turned positive in 1988 and recorded a surplus of Maloti 165.6 million (\$63.9 million), in 1990, representing 6.7 percent of GNP. The large surplus occurred because of the 288.7 percent increase in the current account position since 1989. The current account improved as a result of a sharp increase in unrequited transfers, especially for the LHWP, higher workers' remittances and slower growth of merchandise imports. The balance of payments position is shown in Table 14.

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Table 14
Summary Balance of Payments
(Maloti 000)

	<u>1988</u>	<u>1989</u>	<u>1990</u>
Current Account	-154.5	-62.8	118.5
Long-term capital	123.8	120.2	91.9
Official short-term capital	34.4	-54.0	-44.8
Overall balance	3.7	3.4	165.6

Source: Central Bank of Lesotho (1991 B).

Exports have increased significantly in the 1980s, especially since 1986, and are now dominated by manufactured goods, especially textiles. In 1990, however, exports declined sharply because of a fall in wool and mohair export earnings occasioned by drops in world market prices. Three developments characterize Lesotho's export trade in recent years. First, exports have grown substantially, albeit from a low base, at an annual rate of 21 percent during 1985-1989. Secondly, the structure of exports has changed with manufactured goods, especially textiles, dominating, even as food, wool and mohair exports, the traditional export commodities, also grew. Third, the direction of merchandise export changed as exports to the European Economic Community and North America grew from 10.8 percent in 1985 to 37.4 percent in 1990 while the share to SACU countries fell from 86.7 to 59.7 percent. Rising exports were facilitated by the establishment of new factories, supported by attractive investment incentives and a growing export financing scheme. The private sector accounts for almost all export earnings: the traditional exports of wool and mohair are in the hands of the private sector which also accounts for the major sources of the recent growth in export earnings. Import growth has slackened from 39.1 percent in 1988 to 2.5 percent in 1990. The trend in merchandise trade is shown in Table 15.

Table 15
Merchandise Trade
(Maloti 000)

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Imports	776.9	929.4	1310.3	1594.0	1641.4
Exports	58.0	95.7	144.9	172.6	156.4
Trade gap growth rate (%)	7.2	16.1	39.6	22.0	4.5

Source: Central Bank of Lesotho (1991 B). Imports are commercial, excluding donations.

B. External debt and assistance

In 1990, 77.2 percent of total public debt (\$462.5 million) was external, 81 percent of which was concessional:

debt service as a ratio of export revenue was 4.7 percent. Aid per capita stood at \$64.4, the third highest among low income countries in 1988, corresponding to 26.3 percent of GNP: between 1982 and 1988, Lesotho received \$699 million net aid disbursement. Total external debt rose from \$8 million in 1970 to \$281 million in 1988, representing 36.5 percent of GNP. Long-term debt service represented 3 percent of GNP in 1988 and 4.7 percent of export of goods and services in 1990/91. Net official reserves covered 5.6 weeks of imports in 1990/91.

V. DEPENDENCY

The utilization of total supply illustrates the core of the external dependency problem. The gap between total domestic expenditure and GDP has widened since independence: in 1966/67, consumption was 27 percent higher than GDP but rose to 65 percent during the 1980s. Lesotho depends on imports and other foreign inflows, especially migrant workers' remittances, to fill the dissaving gap, which makes the economy extremely vulnerable to external factors. The level of national income is vulnerable to labor income from a single RSA industry, mining. In 1990, migrant workers in RSA remitted about \$198.9 million (Maloti 515.1 million), constituting 20.9 percent of GNP and 37 percent of GDP.

Apart from the increasing dependence on labor income and trade revenues, other facets of Lesotho's dependency on RSA include commodity and factor prices which are closely influenced by RSA prices, falling crop production partly due to rising levels of mine labor wages making farming less attractive, increasing imports of food and manufactured products, and a high content of imported inputs and services in domestic manufacturing. A major example of dependency is RSA financing of the LHWP. The dependency of Lesotho on a regional economy dominated by RSA is geographic, has historical antecedents and is made functional through a number of institutional linkages -- principally, SACU and the Common Monetary Area (CMA) which are discussed below. Other regional institutions are the Southern African Development Coordination Council (SADCC) and the Eastern and Southern African Preferential Trade Area (PTA).

SACU is an economic integration arrangement between RSA and Lesotho (L), Botswana (B) and Swaziland (S) in 1969, with Namibia (N) joining in 1990. The arrangement allows duty-free movement of goods and services among member countries, but not labor, and the imposition of a common external tariff against its trading partners. Under SACU, customs and domestic excise duties collected by member countries are placed in the RSA State Revenue Fund and distributed according to each member's proportional share in total imports and domestic production that bear excise duty. The revenue-sharing and compensatory payment arrangement is based on a basic rate, a stabilization factor which guarantees the LBSN countries a minimum payment of 17 percent of the member's dutiable base, but with a lag of two years, and a compensation factor. Under the CMA, the RSA Rand is circulated as legal tender, along with the local currency at par value and

the Loti (singular of Maloti) is fully backed by the Rand and other convertible currencies held by RSA. The arrangement also requires unrestricted transfer of funds between member countries, including a uniform exchange control regulation in relation to the rest of the world. These institutional linkages have strong implications for employment, prices, fiscal and monetary policy, trade and balance of payment of Lesotho.

SACU receipts are the major source of government revenue, constituting 53.5 percent of total government revenue, excluding grants, over the period 1986/87-1990/91. RSA is providing part of the investment and loan guarantees for the balance of \$2.4 billion to finance Lesotho's water resources development under the LHWP. In the medium-term, LHWP receipts will increase significantly and become a major source of public revenue after 1997. Lesotho relies on trade with RSA involving imports of food, other wage goods, energy, services, inputs and exports of commodities and labor. In 1990, 59.7 percent of all merchandise exports and 94.1 percent of merchandise imports involved the SACU area, mainly RSA, resulting in a trade deficit of \$656.7 million (Maloti 1,465.2 million). Due to the trade linkage, prices in RSA determine the general level of domestic commodity and factor prices. Further, the recent depreciation of the Rand has increased the value of Lesotho's foreign debt.

Lesotho's dependency on external markets and capital is a result of its small geographic area, a limited natural and human resource base, its completely landlocked location as an island surrounded by a semi-developed economy, and its small population and domestic market. The most important outcome of this dependency is the significant loss of autonomy in domestic policy, not only to promote desirable ends but also to address distortions imported from the RSA economy. Lesotho has little control over the international value of the Maloti. The CMA, the free movement of funds and interdependence of financial markets between the two countries and the excess liquidity of the domestic banking system limit the scope for independent and direct money and credit policy. Recently, the government has shifted to indirect control through expansion of the money market and development of other financial instruments. The government has relatively little control over budget revenues due to SACU; hence, the deficit is mainly managed through expenditure control. Since the supply of Maloti can increase only with a corresponding deposit of Rand with the South African Reserve Bank, the government can finance its budget deficit only by borrowing or reducing foreign assets. Consequently, given the high import dependency of the economy, expansion of public expenditure negatively affects the current account without necessarily increasing output. Although the restricted ability to print Maloti should promote fiscal and monetary discipline, it fuels the need for foreign resources and indirectly contributes to public borrowing, which helps crowd out private sector credit. On the positive side, the Maloti is stable and convertible because it is underwritten by the Rand.

Dependence on the RSA is part of a wider reliance on overall foreign trade, development assistance, investment capital and skills. Foreign participation in domestic businesses, especially in industry and distribution, is pervasive. Donors play a key role in domestic financing. Expatriates supply several critical skills required to manage the economy.

VI. STRUCTURAL ADJUSTMENT

To redress the structural and macro-economic imbalances in the economy, persistent low growth, worsening internal and external balances and rapidly dwindling foreign reserves, the GOL began implementing an IMF-supported three-year structural adjustment program (SAP) in 1988/89, followed by a three-year enhanced structural adjustment program (ESAP) in 1991/92. The major objectives of the SAP were to restore a viable balance of payments position by reducing the current account deficit, restore domestic balances by reducing the budget deficit, and maintain stable price levels in order to begin to lay the foundation for sustainable growth. The overall adjustment program is aimed broadly at reducing budget and balance of payments deficits, achieving price and monetary stability, diversifying the productive and export base and enhancing the role of the private sector. So far, the program has facilitated increased growth in GDP through progress towards achieving internal and external balances.

A. Structural Adjustment Program

Key conditionalities under SAP covered domestic and net government credit, government budget deficit and public expenditures, exchange rate, and, external sector issues of net concessionary debt, net external reserves, current transaction restrictions and bilateral payment agreements. The major policy measures and instruments focused on agricultural and land reforms, industrial development, public enterprises, monetary and credit policy, the external sector and debt management. The GOL planned to expand and diversify agricultural production and improve land tenure, improve extension, create grazing associations and introduce grazing fees to reduce overgrazing, legalize land leasing and adopt competitive pricing policies. Under industrial reform, the GOL was to further expand manufacturing by encouraging private investment in export-oriented and import-substitution industries and set up an investment promotion unit. To ensure that public enterprises require minimal or no budgetary support for recurrent operations, the program involved flexible pricing, especially of utilities and services, increased cost recovery from consumers to achieve full price pass-through, establishment of evaluation unit for State-owned enterprises and divestiture of selected public enterprises. In order to direct financial resources away from government borrowing to the private sector and mobilize domestic savings, the GOL intended to maintain ceilings for total domestic and government credit, retire outstanding government debt, introduce new financial instruments and encourage capable non-bank enterprises to issue financial paper and pursue appropriate

interest rate policies. To achieve viable balance of payments, the government planned to diversify sources of external revenue, contain import demand and reduce external debt service. The GOL also planned to further develop the export finance scheme, facilitate increased remittances, adopt prudent debt management and increase net official reserves to 8.5 weeks of imports.

The average annual growth rate of real GDP was 9.1 percent over the three-year period although agricultural production fell, due mainly to drought. Inflation fell and the current account improved, but both were below programmed targets. Government budget position improved; revenue and grants exceeded programmed targets except in 1990/91; expenditure slowed and the deficit met programmed targets by 1989/90. Similarly, the growth of monetary and domestic credit aggregates were within targets. Deposits with banks increased, due to increased interest rates, which are now positive in real terms and more in line with those of RSA. The share of government credit in total domestic credit declined while private sector credit increased. However, there were delays in implementing several structural reforms: civil service reforms were not on track; taxation of migrant workers' income was not introduced; delays ensued in land reform, including creating grazing associations and levying grazing fees, and in the creation of the investment promotion unit. On the whole, however, economic performance improved under the SAP. Maloti quantitative targets and performance are in Table 16.

Table 16
Quantitative Benchmark Performance under Structural Adjustment
(1988/89 - 1990/91)

	1988/89		1989/90		1990/91	
	Target	Actual	Target	Actual	Target	Actual
Fiscal deficit (% of GNP)	-5.9	-9.5	-4.4	-4.5	-1.9	-1.2
Expenditure limits (%)	3.1	20.5	-	-	-	-
Net GOL credit (Maloti 000)	199.2	283.7	306.3	288.1	254.8	217.0
Net external reserves (weeks of imports)	6.1	4.3	5.4	4.0	5.4	5.6

Source: IMF (1991).

B. Enhanced Structural Adjustment Program

The GOL is continuing adjustment under the ESAP. The overall aim of ESAP is to institutionalize and deepen reforms initiated under the SAP and consolidate gains made towards achieving domestic and external balance so as to expand employment opportunities, improve living standards and lay the basis for long-term sustainable growth. The ESAP will cover four

main areas in agriculture and land reform, industry export promotion and diversification, parastatals and civil service, and the financial sector. In agriculture, the national-level grazing fee introduction and land leasing legalization programs will continue. Industrial reforms will focus on continuing the process of expanding productive capacity oriented to export promotion and diversification. Public sector reforms will address the issues of improving the performance of and privatizing selected state-owned enterprises, and enhancing the performance of the Civil Service, mainly through improving the compensation structure and skills of civil employees. To facilitate private sector development, the GOL will continue to develop the financial market, including the expansion of treasury bills market and development of money and capital markets. Programmed quantitative benchmarks under ESAP are to achieve (a) average annual GDP and GNP growth rates of 8 percent and 3 percent, respectively; (b) increased aggregate annual saving and investment to 19 percent and 53 percent of GNP, respectively; (c) inflation reduced to 12.8 percent in 1993/94 from 13.7 percent in 1990/91; (d) positive fiscal balance; (e) external current account deficit reduced to less than 3 percent of GNP by 1993/94; (f) net official reserves increased to cover 14 weeks of import by end of program period, compared to 5.6 weeks in 1990/91; and (g) reduced debt service as a ratio of exports of goods and services from 4.7 percent in 1990/91 to 3.6 percent by the end of 1993/94.

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