COUNTRY POLICY REVIEW

LESOTHO

INTRODUCTION

Economic growth in Lesotho, which is based on limited agricultural and pastoral production, light manufacturing consisting of textile, clothing, milling and leather, and remittances from Lesotho mine workers in South Africa, has been on the shrinking in recent years. The global economic crisis has resulted in the declining demand from the shrunken US market of textile exports (in 2009), affecting growth for the country as Lesotho is Africa's biggest apparel exporter to America, as well as less demand from the EU for diamonds (Central Bank of Lesotho, May 2010). A decline in mine workers' remittances from South Africa also contributed to lower household income and reduced consumption. In addition, a sharp drop in the Southern African Customs Union (SACU) revenue, which traditionally makes up around 60 % of the national budget, has added further burden to the economy of Lesotho. The IMF predicts that the decline of the SACU revenues could continue further over the medium term (Basdevant et al, 2011).

Royalties from exporting water to South Africa has become an important source of revenues and investment. Lesotho's Foreign Direct Investment has increased through Lesotho Highlands Water project (World Bank, 2007, Lesotho Country Brief), and in October 2011, the Government signed a USD 15 Billion renewable energy deal with a South African company to generate and export 6,000 megawatts of wind power and 4,000 megawatts of hydro-power to South Africa (APPERI, 2011), the biggest investment deal in Lesotho's history.

In the mean time, agriculture's contribution to GDP has reduced to 8% (NSDP, 2011), the sixth in terms of contribution to GDP although it used to be the largest contributor to the economy of Lesotho in the early 1980s. The livestock and crop subsector contributes 4.1% and 2.3% each respectively to GDP. The 2010/11 agricultural season experienced significant crop losses and resulted in food insecurity due to water logging and crop damages induced by flooding. The expenditure of the Ministry of Agriculture and Food Security will increase from 43.4 (0.85% of total expenditure) in 2011/12 to 61.7 (1.15%) in 2012/13.

The most recent policy framework for development is outlined in the National Strategic Development Plan (NSDP) 2012/13-2016/17. Strategic objectives and interventions for sustainable agricultural development are also set out in the NSDP.

As this policy review aims to contour decisions of actions with the indication of budget commitment, **it mainly focuses on the decisions made after or in effect from 2010.**

CONSUMER-ORIENTED MEASURES

Tax policies

To provide relief for low-income earners and to increase purchase power against inflation, the level of minimum wage of a tier group, who is subject to pay tax, will be increased in 2012 by 22 percent from M22,788 per annum to M26,160 (Budget speech 2012/13). In terms of social protection, the budget for measures for the vulnerable population was increased by 7 percent from M564.5 million to M605.8 million for 2011-2012. To help support targeted measures towards orphans and vulnerable children in Lesotho, where the HIV prevalence rate among young adults was as high as 23.6 percent in 2009, M68 million was allocated in 2010 to provide education and other targeted supports in continuation of the previous support. In the previous financial year (2009/2010), 27,000 orphans were provided food packages, shelter and educational support.

Social policies

Experiencing reduced SACU revenues, the government prioritized spending for 2010/11. One of the main priorities for the government spending is to preserve all the programmes that provide social welfare protection to the poor, continue free education and school feeding, and provide loan bursaries.

With regards to supporting the income of the vulnerable, the government started a non-contributory Old Age Pension in 2004, which is the only non-contributory pension in LDC in Africa. According to the budget speech 2012/13, any residents over 70 years old can be entitled to receive a single rate of M350 per month from the 1st April 2012, increased from M300 in the previous year. The total cost is estimated to amount to total M300 million for pension.

Income policies

In an effort to reduce expenditure, the wage of public servants was frozen in 2011. However, in 2012, the government plans to raise wage by 3% except high-level public servants such as ministers, deputy ministers, national assembly members, senators, statutory officers, principal secretaries, clerks to the senate, other similar categories, in consideration of inflation. The budget speech also states that the parliament approved to make salaries and benefits of teachers and public servants more attractive.

Nutrition and health policies

Regarding nutrition and other health measures, with an aim to provide clean and portable water to at least 75 percent of the population, the Metolong Dam and Water Supply Program or Lowlands Water Scheme (USD 370 million) was planned in 2009 to be implemented for the following 5 years. More specifically, the Program targets to supply 75,000 m^3 of additional treated water per day; provide safe, clean water to 80% of people living in Maseru and surrounding towns; and meet domestic and industrial water requirements for the greater Maseru area until 2050. In this line, the construction of urban water supplies for consumers and industry was launched in 2011 with the allocation of M160 million from the government, and the grants of more than M 70 million and M 480 millions of soft loans from the development partners.

PRODUCER-ORIENTED MEASURES

Financial services

One of the main strategies to alleviate poverty and improve household income is to facilitate access to credit. For example, the 7 year Rural Financial Intermediation Programme (RUFIP), mainly funded by IFAD with USD 7 million out of total USD 10.9 million, seeks to contribute to small sectors of economy for economic development through improving access to credit. The four components of RUFIP include: (1) the development of member-based financial institutions through three sub-components of capacity building of: informal groups; financial cooperatives and Rural Savings and Credit Groups (RSCGs); (2) developing an enabling environment for development of rural and microfinancial services which entails capacity building of service providers, Central Bank of Lesotho (CBL) and co-operatives; and (3) facilitating the rural outreach of formal financial institutions which include support to Lesotho Post Bank and linkages between commercial banks and target groups. Lesotho Post Bank was established in 2004 with the main objective of providing financial services to those excluded from the formal financial system, but was limited in its function. The RUFIP plans to provide a range of loan facilities through enhancing the capacities of the Lesotho Post Bank.

According to the Central Bank of Lesotho (2011), while the credit to the private sector has increased by 5.9 percent during the second quarter of 2011, credit extension to the agriculture subsector has declined by 34 percent from M 26.2 million to M 17.1 million.

Productive asset

To enable economic development based on the availability and reliability of power, M107 million has been set aside to develop projects for the electrification of rural areas with the provision of renewable energy in areas where the conventional grid supply is unavailable (from 2010). To invest in renewable energies, including solar and wind power, to provide electricity in the rural areas. M 40 million has been allocated to roll out these programmes in 2010/11, with support from the Global Environment Fund.

In relation to the storage facilities, it is planned to establish a network of silos throughout the country in order to facilitate the purchase of crop outputs.

Market management policies

In an effort to increase the value of export items, training of wool and mohair producers for better husbandry, shearing, sorting and classifying wool and by constructing and rehabilitating wool sheds was set to be provided in 2010.

For horticultural products, the Horticulture Out-grower Scheme is supported under the framework of the Private Sector Competitiveness and Diversification Project, led by the World Bank. The project was initially approved in 2007 with the financial support of USD 8 million from the International Development Association (IDA) over a period of five years (Oct 2007 – Nov 2010). In 2011, the World Bank took over to continue the effort after restructuring the project. For the Horticulture Out-grower Scheme sub-component, having had successful pilot farm cases where high quality yields were observed, and acknowledging the potential benefit of price advantage from a fruiting season that is earlier than South Africa, the allocation of the project fund to this component has increased from USD 1.29 million to USD 1.89 million. Three major outcomes expected are (1) export of fruits from pilot sites, (2) targeted rollout of pilot

activities in surrounding villages; and (3) investments in the agriculture sector, particularly in the tree crops sector by potential producers/processors.

Input measures

The weakness of the agricultural sector was largely induced by the constraint to access to farm inputs such as quality seed. According to the Draft Seed Policy (2010) which awaits the approval of the parliament, the government is aware that the productivity improvement is the first task to be tackled through effective policies and strategies, including capacitating private sector opportunities through provision of infrastructure, in order to realize the country's vision of a prosperous nation by the year 2020.

Inspired by the model of voucher system of Malawi, which provided farmers with coupons to buy hybrid seed and fertilizer at subsidized prices, Lesotho is keen to develop the input markets, in particular through a voucher system, while promoting the public-private partnership.

In the 2009/10 cropping season, the government instituted a 30-50% subsidy on seed and fertilizer, while FAO provided a range of inputs for 22,551 vulnerable farming households. In 2010/11, it was planned to reach 12,847 farming households through seed trade fairs and 500 farming households through conservation agriculture, led by FAO (FANR, 2010).

REMARKS

As the performance indicators and implementation planning are being developed against the NSDP, subsector policies will need to be updated or revised accordingly soon. As a number of subsectoral policies have already been drafted but have not succeeded in being approved by the higher authority, there is relatively limited means to monitor the objectives and targets of implementation actions. Thus, this review was mainly relying on the budget speech, budget framework, and projects funded by the international organizations. The appointment of new cabinet in June 2012 could present an opportunity to specify agricultural strategies and decisions in accordance with the agriculture development framework stated in the NSDP. The NSDP rolls out three main focuses for agricultural development, which are (1) commercialization/diversification, (2) strengthened capacities of farmers and institutions, and (3) reduction of vulnerability and management of risk. The focus of several intervention actions for these strategies is very much related to the policy decisions described in this review, such as improved access to finance, quality inputs through distribution/marketing system, infrastructure development, production of high-value crops, etc. Thus, continuing monitoring of the above mentioned measures could contribute to the assessment of the NSDP performance.

REFERENCES

Africa's Public Procurement & Entrepreneurship Resarch Institute (APPERI), 2011. "*Lesotho signs USD 15 bn water, energy deal*". Available at: http://apperi.org/tag/lesotho/. Retrieved on the 2nd July, 2012.

Basdevant, Olivier et al, 2011. *The Design of Fiscal Adjustment Strategies in Botswana, Lesotho, Namibia, and Swaziland*, IMF Working Paper WP/11/266, November 2011. Available at : http://www.imf.org/external/pubs/ft/wp/2011/wp11266.pdf

Central Bank of Lesotho, 2010. *Central Bank of Lesotho Economic Review,* No 118 May 2010. Available at: http://www.centralbank.org.ls/publications/Econo%20Review%20May%202010.pdf

Central Bank of Lesotho, 2011. Brief on IFAD intervention in rural intermediation in Lesotho under the rural financial intermediation programme (RUFIP). Available at: http://www.centralbank.org.ls/projects/Brief%20on%20IFAD%20Intervention%20in%20Rural%20intermediation%20in%20Lesotho.pdf

Government of Lesotho. *National Strategic Development Plan (NSDP) 2012/13 – 2016/17: Growth and Development Strategy Framework*, March 2012.

Ministry of Finance and Development Planning. *Lesotho Growth Strategy Pape*r, 2009.

Ministry of Trade and Industry, Cooperatives and Marketing, 2010. Private Sector Competitiveness and Economic Diversification project: Progress Report No. 10. 1 January – 31 March 2010. http://www.psc.org.ls/documents/PSC_Progress_report_No10.pdf

World Bank, 2011. Proposed Restructuring of the Lesotho Private Sector Competitiveness and Economic Diversification Project. December 1, 2011. Available at: wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2012/01/17/000333038_20120117223012/Rendered/PDF/659760PJPR0v100ng0Paper0draft0Jan06.pdf

FANR, 2010, Lesotho Food Security Monitoring System Quarterly Bulletin, 3rd Quarter 2010, September 2010. Available at: http://www.sadc.int/fanr/aims/rvaa/Documents/Lesotho/Lesotho%20FSMS%203rd%20Quarter%202010.pdf

FAPDA survey report 2012. NOTE: The content of this report will be updated in the FAPDA online platform (http://www.fao.org/tc/fapda-tool/) by end September.