



*Economic Review*

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## **The National Strategic Development Plan 2012/13 – 2016/17**

*Towards an accelerated and sustainable economic and social transformation.....*

### **Introduction**

In January 2011, the Government of Lesotho launched the process of preparing the national strategic development plan (NSDP) for the period 2012/13 to 2016/17. In May 2012, this document was made available to the public through the International Monetary Fund (IMF) website. The NSDP is a poverty reduction strategy paper that defines macroeconomic, structural and social policies that the country envisages to implement to attain high and sustainable economic growth and poverty reduction. In particular, the NSDP 2012/13 – 2016/17 seeks to drive Lesotho towards achieving its overarching objective that “By the year 2020 Lesotho shall be a stable democracy, a united and prosperous nation at peace with itself and its neighbours. It shall have a healthy and well developed human resource base. Its economy will be strong, its environment well managed and its technology well established”, as stipulated in the Vision 2020.

The NSDP 2012/13 – 2016/17 identifies a number of macroeconomic and social challenges that characterize Lesotho and which need to be addressed. Poverty is rampant, with 27.5 per cent of the population and 21.4 per cent of households estimated to be at risk of multi-dimensional poverty. The unemployment rate was estimated at 22.7 per cent by the 2008 Labour Force Survey, which, however also

indicated that only a small percentage of the economically active population are in formal wage employment while the majority are engaged in subsistence agriculture where they earn no salaries or if at all very meager wages. Income distribution is heavily skewed. Lesotho’s economy is susceptible to external shocks and the recent economic and financial crisis exposed the consequences of this reality. Like many low income countries, Lesotho performs poorly on health indicators with high maternal mortality and has the third highest Human Immunodeficiency Virus (HIV) and Acquired Immune Deficiency Syndrome (AIDS) prevalence rate in the world. The low labour productivity and low level of entrepreneurship add to the list of challenges. Rapid urbanization as people move closer to centers of employment and critical services carries risks of increased urban poverty and the increase in human encroachment on fertile agricultural land. Infrastructure needs to be improved so as to enhance transport, power, water and sanitation and border and customs services.

Several strengths were also identified that if harnessed properly should give Lesotho comparative and competitive advantages. First, the country has abundant and literate labour force which only needs to be equipped with appropriate skills to enhance its productivity. Second, its location in relation to South Africa (SA) presents it with

the opportunities to integrate into the main economic centers of SA and gives it access to SA's infrastructure to access the global markets. Taking advantage of this could increase Lesotho's exports of goods and services in the Southern African region. Third, Lesotho's eligibility for trade

preferences under the Africa Growth and Opportunity Act (AGOA) and the recently negotiated Economic Partnership Agreement (EPA) with the European Union also offer it opportunities to expand its South-South trade.

### ***The Economic Environment and Prospects under which the NSDP 2012/13- 2016/17 was Prepared***

The global economic crisis has had debilitating consequences on Lesotho's economy, thus presenting a very weak starting position for implementation of the strategy. Under a scenario of no additional drivers of economic growth, the real GDP growth is projected to be slow at an average of 1.9 per cent from 2010/11 to 2016/17. As such, employment might recover at a slower pace than is desired with less than 220,000 formal sector jobs being created during the plan period. Under this scenario, fiscal deficits would persist, thus undermining macroeconomic stability. The current account deficit of the balance of payments (BOP) would have to be financed by drawing down official reserves which would put the exchange rate peg at risk.

Nonetheless, some growth enhancing investment plans have been made by some major economic agents. For example, mining companies have made significant commitments to expand their operations and the logistical preparations are continuing for the Lesotho Highlands Water Project (LHWP) Phase II to commence during the strategic plan period. The investments in mining are expected to increase the sector's contribution to GDP from 7.0 per cent to 20.0 per cent during the plan period, while the investment in the LHWP is forecast to increase the construction industry's performance in the economy plus have multiplier effects on other activities such as transportation, trade and business services. These are expected

to have a significant impact on GDP growth and exports. However, the impact on employment will be minimal because of the capital intensive nature of the mining industry. It is projected that under this scenario employment will grow by 2.9 per cent per annum to 252,000 jobs by the end of the plan period. The fiscal position would improve as a result of the increase in mining sector related revenues and the BOP position will be supported by the increase in exports. However, the impact of these investments will stabilise towards the end of the plan period unless if there will be further expansions of the mining sector.

The investments in mining and the LHWP will have a positive impact on growth and employment but not on a sustained basis indicating that long-term drivers of economic growth are needed for Lesotho to have sustained economic growth and job creation. Such include government interventions to improve the enabling environment for economic activity. The strategy identifies agriculture, manufacturing, tourism and deeper investment climate reforms as the potential growth generators for Lesotho. Reforms are needed to unlock the potential in these growth generators. The plan identifies systemic reforms that need to be undertaken for Lesotho's economy to benefit from each of the four growth generators as discussed in the following sub-section.

## ***The Strategic Framework***

The NSDP 2012/13 – 2016/17 recognises that Lesotho needs strong, shared and job creating economic growth to address its socio economic challenges and that such strong economic performance will be achieved by radically transforming the economy by enhancing its capacity to produce goods and services for regional, African and global markets. For the process of moving towards strong economic performance to begin, a number of fundamental stimulants of growth would have to be put in place.

A number of **investment climate reforms** including those intended to make laws and regulations more business friendly, reforms aimed at making it easy to trade across Lesotho's borders and improving the process of obtaining work and residence permits will be undertaken. Some of the critical areas that the strategy has identified include development of an overarching policy that clarifies obligations and opportunities to investors. The number of days it takes to start a business and the costs thereof will be reduced by, amongst other things, automating the business registration procedure, strengthening management of the one-stop business facilitation centre and rolling out the same to other districts, starting with the industrial centres. The number of days, procedures and costs of dealing with construction permits by developing guidelines for applicant and automating the application process for construction permits and exploring the possibility of establishing a one-stop facility for all the agencies that have a stake in the processing of construction permits will also be reduced. The responsiveness of the Lesotho Electricity Company (LEC) to request for connections by businesses will be improved to reduce the time it takes to get connected while time limits and service standards for inspections will be set and the security

deposit fee removed to cut the cost to businesses. To enhance the process of registering property, the Land Act 2010 will be fully implemented, the Registry of Deeds will be computerised and the search of titles automated while deeds transfer documents will be standardised. The Companies Act 2011 will be implemented to protect investors. Trading across borders will be made easy by harmonising all laws that apply to the process and simplifying administrative and commercial formalities, procedures and documents. Information on border requirements will be standardized and made easily accessible.

The importance of the role of **the financial sector** in the social and economic development process cannot be overemphasised. It is in this vein that measures will be taken to harness the sector's full potential so that it can facilitate and support economic growth and development in Lesotho. The strategic objectives and actions that are going to be taken to improve the financial sectors' direct and indirect contribution to Lesotho's growth and development include;

- Improving financial stability and soundness by, amongst other things, strengthening the regulatory and supervisory framework to deal with risk and minimise external shocks.
- Increase access to financial services by, for example, operationalizing the credit guarantee scheme, the national identity system and the credit bureau; enforcing effective administration of new land laws and leasing laws so that land could be used as collateral; and strengthening the legal framework and operations of the commercial court to improve contract enforcement.
- Increase alternatives for mobilising financial resources by facilitating the development of financial and capital

markets and exploring the possibility of establishing diaspora bonds and other investment instruments to finance development.

- Promote the establishment of low cost and competitive savings instruments with stable returns and long term contractual savings for investment so as to inspire the savings culture in Basotho.
- Establish an automated clearing house with the necessary infrastructure in an endeavour to improve efficiency of the financial sector.

Lesotho needs to supplement its small domestic market with and **an export oriented strategy**. The country's productive capacity and exports will be improved by implementing programmes for expansion and diversification under manufacturing, mining, agriculture, tourism and other services. Trade financing mechanisms will be developed and safe payment settlement systems developed. In addition, minimum infrastructure platform will be developed to facilitate internal and external trade. Additional market access agreements with favourable conditions will be sought and negotiated in the quest to diversify and improve market access. Consumer protection will also be strengthened through appropriate legislative and institutional framework.

Lesotho's **agricultural production** has plummeted tremendously over the years and measures need to be undertaken to revive it and increase food security and its contribution to employment. The main strategic objective in this regard is to promote sustainable commercialisation of the sector and diversification of agricultural products by, amongst other things, improving access to finance and the capacity to produce high value products, and developing water harvesting infrastructure and increasing irrigation capacity. The capacity of farmers and of agriculture support institutions will be

strengthened through training and relevant research.

The **manufacturing sector**, particularly the textiles and clothing sub-sector has over the years made a commendable contribution to exchange rate earnings, growth and employment in Lesotho. However, this sector is affected by a number of challenges, including inadequate industrial infrastructure, erosion of trade preferences and insufficient backward integration. In addition, the sector is overly dominated by textiles and clothing and produces for a limited number of markets, which call for both product and market diversification. The manufacturing sector's contribution to Lesotho's economic and social development will be further enhanced through a number of ways. Textile exports will be sustained and increased by identifying niche markets and improving backward and forward linkages in the textile sub-sector. Investment in the production of inputs for the garment sector will be promoted and the textile curriculum will be upgraded and integrated into vocational curriculum of existing institutions. Industrial infrastructure will be expanded by, in the short term, fast-tracking building of factory shells and related industrial infrastructure and in the long term, developing an industrial infrastructure development strategy and assessing the possibility of allowing foreign direct investors to invest directly in factory shells. Industrial clusters will be developed to diversify products and develop integrated supply chains. Local participation in manufacturing will be increased by establishing industrial engineering and technology support services for local participants and developing a programme to facilitate linkages between MSMEs and large firms.

The **tourism sector** holds great potential for Lesotho because of its natural beauty and cultural heritage. A number of strategic objectives will be implemented to unleash

this potential and increase the sector's contribution to growth and development. Tourism products and circuits will be developed and the cultural heritage resources protected, conserved and managed. The quality and standards of services will be improved by implementing accommodation star grading system and facilitating the provision of appropriate training to improve the skills of services providers. In addition, Lesotho will be branded differently to improve its marketability and visibility as a tourist destination while the institutional framework and regulations will also be improved.

Lesotho's **diamond mining industry** has grown significantly in the recent years making a significant contribution to economic growth. However, it has not and cannot make a significant contribution to employment because it is capital intensive in nature. Specific actions will be undertaken to increase the chances of reaping more benefits from the sector. A consolidated mining policy will be developed and the relevant legal frameworks, including the mining tax code and other policies such as land use planning will be reviewed. Value addition and marketing of mining products will be promoted and the development of skills facilitated to close current and anticipated skills shortages. Access by the mining industry to infrastructure, especially energy and roads to major mineral sites will be improved. The investment promotion strategy will be developed and the means and ways to enhance local participation will be established.

**MSMEs** employ a significant number of people in Lesotho and have ample potential to employ more and contribute significantly to growth and poverty alleviation. Reforms that are going to be undertaken during the strategy period are intended to eradicate stunting of MSMEs, improve their survival rates and the quality of their goods and services. These involve improving entrepreneurship capacity by facilitating provision of training and business

counselling and business management skills. Competitiveness and productivity will also be improved while the necessary infrastructure will be developed and access to technology improved.

The Strategic Plan also recognises the catalytic role played by **high quality infrastructure** in improving the prospects for high and sustained economic growth. The road network system will be improved with the view to improve access to main towns and key border posts as well as access roads in rural and urban areas. The existing roads infrastructure will also be improved to enhance transport safety and reduce road accidents. In addition, more airline operators will be attracted and the possibility of creating a regional hub will be explored; and the Moshoeshoe 1 international airport will be upgraded and the air cargo facility project revitalised to improve air transport competition, efficiency and coverage. Water and sanitation infrastructure will also be improved to increase access to clean water and improved sanitation facilities to industries, commercial centres, households and other institutions. Regarding energy infrastructure, improvements will be made with the objective of increasing clean energy production capacity to achieve self-sufficiency and export the excess as well as expand access to electricity throughout the country. In addition, energy conservation, security and distribution efficiency of alternative sources such as bio-fuel and solar will be increased. Information and communications technology can improve efficiency in the production process and services delivery and improve access to information and markets. For these benefits to be realised, appropriate ecosystem and infrastructure will be put in place and the necessary technical skills will be developed.

According to the Strategic Plan, another area that needs attention is the strengthening of the **skills base**,

**technology adoption and foundation for innovation.** Skills development needs to be accelerated so as to enhance labour productivity and increase availability of skills that are required by the labour market. It is in this regard that the relevance and applicability of skills will be improved by, amongst other things, aligning curricula in different institutions with the national development needs. The technical and vocational education and training (TVET) institutions will be expanded and upgraded to support the identified growth sectors. Institutions of higher learning will be transformed and academic programmes reformed so that Lesotho could become a world class in selected specialisation or priority areas. Enrolment in and teaching of maths and science at all levels will be promoted. Access and quality of education and the necessary infrastructure, including information and communications technology literacy, which are the foundation for skills development will be improved together with access to educational material and information. Entrepreneurship and business development programmes will be reviewed and institutions transformed. Measures, including developing sector specific retention strategies and mechanisms to use skills in the diaspora will be undertaken to reduce brain drain.

**Technological** change, particularly efficient diffusion of innovation is regarded as one of the important drivers of economic growth. It is in this realisation that improving technology and innovation is identified as one of the strategic areas. Technology transfer, diffusion and use will be enhanced and innovation culture and capacity for scientific research will be developed.

**Health** will also be improved, HIV and AIDS combatted and vulnerability reduced. This will be achieved by reducing infant and child morbidity and mortality by, amongst other things, scaling up prevention of mother-to-child transmission of HIV. Malnutrition will be reduced, for example by implementing the minimum health package and the acute

malnutrition programme. The high maternal mortality rate, estimated at 939 per 100 000 live births by the 2006 Census, will be reduced by, *inter alia*, deploying skilled health and birth attendants at all health centres and improving access to emergency obstetric care services. The necessary skills in health care will be improved by developing appropriate capacity building programmes for local health training institutions and improving collaboration with external institutions through bilateral agreements and by implementing an effective retention strategy. To address the poor quality of health services and access to essential drugs, the procurement and dispensing systems for pharmaceuticals and essential supplies will be improved. Access to health services will be expanded and full coverage of the country attained by developing infrastructure and deploying resources in under-served areas. New HIV and AIDS infections will also be reduced through intensification of HIV prevention, integrated with treatment. Coverage of antiretroviral therapy treatment will be increased and efficiency and sustainability of mitigation programmes will be improved.

There are other areas that will be addressed during the plan period. Measures will be undertaken to reverse **environmental degradation and adapt to climate change**. Peace and democratic governance will be promoted and effectiveness and efficiency of the relevant institutions. **The justice system** will be improved to become more equitable, effective and efficient and measures will be undertaken to reduce crime in an endeavour to enhance law enforcement and administration of justice. **Policy development, planning and public expenditure and financial management** will be strengthened. In addition to these are some cross cutting issues, which will be implemented by integrating them into relevant chapters action programmes discussed above. During the plan period, the Government will stimulate **gender equality, protect the interests of children**

**and youth, people with disabilities and the elderly.**

### **Conclusion**

In order to achieve the objectives of this plan, the implementation strategy has been proposed to facilitate implementation of the plan. To facilitate **resources allocation** for the strategic objectives, the NSDP will be integrated into the medium term expenditure framework and annual budget process. All ministries will develop their implementation plans and other stakeholder groups such as the private sector and civil society organisations will be encouraged to develop their implementation agenda. Public expenditure reviews will be undertaken annually to enhance financial resources allocation. **Monitoring and evaluation** is also important for assessing progress towards achievement of set objectives. It is in this spirit that a monitoring and evaluation framework with targets for each strategic area will be prepared and a National Planning Advisory Board will be established to allow independent and high level monitoring and evaluation. **Private sector participation** in the implementation of the

growth agenda will be enhanced through the use of established private sector platforms and facilitating provision of effective entrepreneurship training and support services. In addition, new investment opportunities that translate into bankable projects will be identified for promotion locally and internationally. **The financing strategy** will involve directing domestic resources and remittances towards investment in areas with high potential for growth as identified in the plan and in promoting FDI. More effective strategies to mobilise additional official development assistance (ODA) and concessional external debt taking care that macroeconomic stability is maintained. The country assistance strategies and frameworks will be aligned with the NSDP. Bilateral framework agreements such as the Millennium Challenge Account II and financing of Joint Bilateral Commission for Cooperation will be negotiated and further south-south cooperation promoted.

### ***Augmentation of Access under the Extended Credit Facility (ECF) Program***

*The Government of Lesotho requested an Augmentation of Access....*

On June 2, 2010, the Executive Board of the IMF approved concessional lending to the tune of SDR 41.88 million under the Extended Credit Facility (ECF) for Lesotho. This amount, which would be disbursed in tranches, over a period of three years, would assist Lesotho to minimize fiscal and external risks emanating from the debilitating effects of the global economic crisis. The global economic crisis led to a sharp drop in government revenues from

SACU and a decline in exports of textile and clothing as well as in workers' remittances. The objective of this assistance was to support implementation of a medium-term macroeconomic program under which the broad objectives behind IMF's assistance would be pursued. These would include undertaking measures to contain public expenditure while protecting the poor and vulnerable groups; strengthening non-SACU revenues; strengthening public financial

management to improve spending efficiency and public service delivery; improving the business climate to facilitate private sector expansion; and strengthening the regulatory framework for the financial sector while also enhancing access to financial services.

The Government of Lesotho has requested additional funds under this program to the tune of SDR8.73 million to help the country to maintain external sector stability. The initial engagement into the ECF program was necessitated by heightened fiscal and external risks emanating from the global economic crisis. Additional shocks on the balance of payments (BOP) and the fiscal balance have since emerged in the form of high commodity prices and the need to reconstruct roads, bridges and sanitation infrastructure that were destroyed by the floods that ravaged the country from late-December 2010 through early 2011. In addition, a heavy loss of crops and livestock was also suffered. The damage to agricultural produce has worsened food insecurity in the country and increased the amount of food that would need to be imported to cover the gap. This situation

was exacerbated by the hike in food and fuel prices since mid-2010. All these imply increased pressure on the country's foreign exchange reserves. It was in light of this that Government approached the IMF for financial assistance to maintain an adequate level of international reserves.

Lesotho's performance under the ECF program has been strong, and commendable progress has been made in fiscal consolidation efforts. Government has expressed commitment to continue implementing further fiscal consolidation measures. In addition, the efficiency of revenue administration will be enhanced, by amongst other things, restructuring the Lesotho Revenue Authority (LRA). These measures should help Lesotho to reduce its high reliance on SACU revenues and to rebuild international reserves, which, in turn, will strengthen Lesotho's capacity to repay its foreign debt. The enhanced debt repayment capacity coupled with the country's solid record of debt repayment, strengthen Lesotho's case for augmentation of access under the ECF program.

## Conclusion

Augmentation of the program is important for maintenance of the fixed exchange rate regime under which the Loti is pegged one-to-one to the South African Rand. This is crucial for Lesotho's overall macroeconomic

stability. The loan is provided on concessional terms and as such will not have any strong negative effects on Lesotho's debt sustainability.