Board Meeting of June 4, 1998
Statement by Surendra Singh

Lesotho – Country Assistance Strategy – Progress Report

1. We welcome the Country Assistance Strategy prepared in consultation with Government, civil society and the NGOs. It is an excellent document focussing attention on all the major problems unique to Lesotho. We commend the staff members for their good work and the candid report explaining what worked well and what did not. We also commend the authorities for the successful implementation of their stabilization program and prudent fiscal management, leading the economy on to a higher growth path. The authorities also deserve appreciation for preparing the “Poverty Action Plan” taking the views of all concerned parties through a participatory mechanism.

2. Though the country is successful in its prudent fiscal management, its performance on structural reforms is somewhat less impressive. The Government has not made any significant progress either in the privatization program or private sector development. The cumbersome procedures and administrative barriers continue to overshadow Government policies in attracting foreign investment. The anticipated reforms in civil service are also yet to materialize. Wages and salaries continue to rise at an unsustainable rate – from 44% in 1993 to 51% in 1997. This is a matter of serious concern, as sustainability of reform is greatly threatened by the pressure to deal with the significant wage increase.

3. In addition, there has been a general decline in employment opportunities in South Africa resulting in lower migrant income flowing into Lesotho. This trend is likely to continue in future also. Moreover, Southern Africa Customs Union (SACU) revenue are expected to decline as a result of the anticipated changes in the revenue sharing formula. All these put together are going to put a heavy burden on Government finances. This is a major risk the Bank has to bear in mind.

4. Rapid population growth and increased unemployment will put tremendous pressure on the limited land resources of Lesotho and accelerate environmental degradation. Devising alternate, but otherwise environmentally sustainable development programs is going to be one of the biggest challenges for the Bank staff as well as Government.
5. The recent client survey conducted in Lesotho clearly indicates that the respondents did not see much impact of the Bank’s lending program on poverty alleviation and environmental improvement. We only hope the staff will carry out a detailed analytical study and devise the future program factoring all these considerations.

6. We appreciate the Bank’s strategy in helping Lesotho to attain greater regional integration. For a landlocked small country like Lesotho, closer integration with the regional economy is not just desirable but an absolute necessity. In this connection, we welcome the Bank’s plan to improve Lesotho’s external competitiveness by providing assistance to ongoing efforts to improve the enabling environment for private sector development. Success in privatization and private sector development will go a long way in attaining greater regional integration. We are disappointed to note the minimal role played by IFC in this connection. IFC can play a catalytic role in attracting foreign investment for various private sector projects where Lesotho has a comparative advantage—like cheap labor.

7. IFC can also play a major advisory role to Government in the privatization of three major utilities—Lesotho Telecommunications Corporation, (LTC), Lesotho Electricity Corporation (LEC) and the Water and Sewerage Authorities (WASA). IFC’s participation will not only accelerate the privatization process but also put a strong foundation for good corporate governance.

8. On the whole, we are in agreement with the Bank’s twin objective of reducing poverty through investing in human resources development and improving competitiveness by creating appropriate environment for private sector development.

9. We also extend our support to the proposed loan for Highland Water Project.