Board Meeting of June 4, 1998
Statement by Juan L. Cariaga

Lesotho – Country Assistance Strategy and Highlands Water Project

The Country Assistance Strategy (CAS) for Lesotho provides instructive lessons in the difficulties of developing and implementing an assistance strategy for poverty reduction, while at the same time maintaining good macroeconomic performance. We appreciate that staff have prepared a thoughtful document which factually describes both progress made and the challenges faced by Lesotho, including the serious constraints of geography. In particular we note the evident ownership by Lesotho.

This CAS and the associated Highlands Water Project must be considered with the expectation that recent elections have confirmed Lesotho intends to continue implementing structural reforms and sector policies to address poverty. We understand this to be the case.

There are a number of factors that are positive in Lesotho’s performance since approval of the previous CAS, including high growth rates and investment/GNP ratios, prudent fiscal and debt management, and improvements in customs revenues. Moreover, progress has been achieved in a number of social indicators, such as broader access of the population to health facilities and safe drinking water. We are especially pleased to note the large expansion of health services in rural areas.

There have also been welcome improvements in other areas, including in the Bank’s portfolio. The Bank is seeking to address problems in the two government-owned banks through support for the privatization process. We would appreciate staff updating us on progress in seeking a strategic partner for one and plans for closing the other.

While these positive developments are important, much still remains to be done in many areas, and in particular in improving employment and social services for the poor, and strengthening primary, vocational and non-formal educational opportunities. The challenges facing Lesotho are exacerbated by the low quality of much agricultural land and declining remittances from expatriate workers, long a source of income for the country, as well as an expected fall in customs union receipts.
There also appears to be a decline in the commitment to continued implementation of the remaining privatization and public sector reforms, including of the civil service, due perhaps to the electoral environment, but also to a number of policy and regulatory constraints, and to the limited scope of domestic private sector participation. We are pleased to see this will receive continued attention.

Despite the pursuit of prudent policies in the recent past, developments during 1997/1998 point to the emergence of an overall deficit (after grants) of about one percent of GNP. Among other reasons, this is a result of an anticipated sharp rise in the wage bill. We would appreciate staff providing additional information on the pay-scale structure and the reasons for this increase.

Because of limited attention to private sector competitiveness, the slow progress in the privatization agenda and constraints on implementation capacity are disappointing. Thus, while there have been political sensitivities that were recognized, we also hope that the new government, with continued dialogue with the Bank, will reach a consensus on steps which can be taken to improve private sector participation and financial sector reform. In particular, the Lesotho Telecommunications Corporation (LTC), the Lesotho Electricity Corporation (LEC) and the Water and Sewage Authority (WASA), constitute special cases of factors impeding the prospects for private sector development in Lesotho. They and other parastatal companies have become a burden to the budget.

Efforts in promoting agricultural development in Lesotho were difficult because of government policies for food self-sufficiency that distorted the incentive framework and led to an expansion in crops in which the country had no comparative advantage. The proposed agriculture sector investment project would focus on policy reforms, institutional development and capacity building, contributing to food security in a country where over 80 percent of the households are rural. We wonder, however, if there are any special interests created by previous distortions seeking to maintain their benefits? Are there any measures envisioned to overcome this?

There should be early and feasible ways of strengthening linkages between the export sector and the local economy. Other IFC project opportunities can help capitalize the scenic beauty of the country, which is currently a poorly exploited source of tourist income. Is there any future strategy under consideration for promoting IFC participation in the growing, but still small, garment industry, in order to reduce Lesotho’s dependence on the external environment and make it less vulnerable to external shock?

Turning to the Lesotho Highlands Water Project (LHWP, Phase 1B), we support the approach the Bank is considering for financing with guarantees from both the Kingdom of Lesotho and the Republic of South Africa. The LHWP is one of the most ambitious multi-purpose projects presently under implementation in Lesotho and takes advantage of its most important natural resource. However, it might also be useful for staff to explain why one of the major related components of what was originally to be a $110 million project (LHWP, Phase 1A) was partially ($20 million) cancelled.
We have also taken note of the possible controversial aspects of this project and the attention given it by some international NGO’s since it is part of the ongoing “big dams” debate. This is an issue, along with other aspects of this project, we have considered at great length. We understand that in this case the persons displaced by this project can expect to be resettled with improved prospects for agricultural production, and that other concerns are also being addressed. Moreover, as the project is so clearly crucial to Lesotho’s development efforts, we would be reluctant to withdraw our support unless it were for the most compelling of reasons, noting also its support from Lesotho, South Africa and Namibia.

Finally, we welcome the Bank’s collaboration with other donors who also wish to see Lesotho’s development efforts succeed.