Board Meeting of Thursday, June 4, 1998
Statement by Joaquim Carvalho

Lesotho: Country Assistance Strategy

On behalf of my Lesotho authorities, I would like to thank Management and Staff for this well-prepared Country Assistance Strategy for Lesotho. The CAS is consistent with the government's development objectives and policies, articulated in Lesotho's Sixth National Development Plan (1996/97-1998/99) and the Strategic Economic Options Report. More importantly, the preparation of this CAS has been a highly cooperative effort, which has greatly helped to clarify the basis of both past and future relationship between the Bank Group and Lesotho.

Lesotho's relationship with the Bretton Woods institutions is long-standing and I am particularly pleased to see in this document many linkages with previous CAS issues. This, in my view, provides a strong sense of continuity in Bank Group operations in the country and hence, augurs well for continued productive Bank dialogue with Lesotho.

Since 1996 when the Board last discussed a CAS for Lesotho, the country has witnessed a remarkable performance, as illustrated by a number of macro-economic indicators in the document. Annual growth rate averaged around 10 percent; inflation dropped significantly; and the overall fiscal balance after grants averaged a surplus of 3.5 percent of GDP. These achievements are a result of the stabilization measures embarked on by the government, notwithstanding several adverse exogenous factors on the economy.

However, our authorities recognize the fact that these macro-economic indicators could underestimate the severity of Lesotho's external and internal vulnerabilities, which need to be clearly addressed as a matter of priority in the coming years. In this regard, the government is fully aware of Lesotho's high dependence on South Africa, the main provider of a preponderant proportion of its GNP, budget revenue, employment opportunities and trade. The substantial retrenchment of mine workers over the years in South Africa has resulted in a significant increase in unemployment figures in Lesotho. As the CAS document notes in paragraph 5, the number of Basotho workers employed in South Africa declined from a peak of
nearly 127,000 in 1989 to an estimated 97,000 in 1997, with associated remittances declining from $365 million per annum to $312 million per annum over the same period. All this is happening at a time when the government is making a conscious effort to streamline its civil service with a view to improving its efficiency. Hence, unemployment remains a very serious problem facing the country. To address this difficult situation, the government continues to look at a number of policy options, including deregulation in the agriculture sector coupled with diversification. This would be particularly useful in easing unemployment problems in the rural areas.

Development of the private sector is an equally daunting challenge for Lesotho. The relatively low labor costs compared to that of its neighbors has made Lesotho competitive in the production of items such as garments, textiles and leather goods. To make Lesotho more attractive in these areas, the government is embarking on reforms to remove administrative barriers to investment while also addressing the high cost of utilities for industrial production. Nonetheless, the government remains mindful of the relative absence of indigenous participation in the formal private economy. Therefore, while it will leave no stone unturned in its efforts to attract FDI flows, the government will also try to make a conscious effort to enhance indigenous entrepreneurial capacity and broaden its private sector development activities.

In spite of substantial improvement in economic growth, poverty reduction still remains the most significant challenge for Lesotho. Declining migrant earnings coupled with poor resource endowment in agriculture and a population growth rate of about 2.1 percent per annum have made this situation even worse for people in the rural areas. Hence, the government's poverty reduction strategy focuses on three key elements: improving employment and income opportunities for the poor; improving social services for the poor; and managing poverty-related environmental degradation. In view of the limited scope for employment expansion in agriculture, the government is pursuing a labor-intensive, export-oriented manufacturing strategy as this sector is emerging as the main source of new employment opportunities. Another sector that is expected to generate employment is the infrastructure sector, which the government will continue to develop using labor-intensive techniques.

Regarding the social sectors, while Lesotho's social indicators in general and in health and education in particular, remain better than many Sub-Saharan African countries, more effort is needed to improve the quality and relevance of education and to offer affordable preventative health care, especially to the poor. The Government's strategy for correcting imbalances in the provision of social services will be through a concerted effort aimed at poor and remote mountain areas, where the poor are mostly concentrated. Gender issues are equally receiving appropriate attention. However, unlike other countries where girls' education has been an issue, boys' education is lagging far behind that of girls' in Lesotho, and therefore, needs particular attention.

Although the management of the Bank’s portfolio in Lesotho has improved over the years, the problem of weak local capacity in the management of development programs in general continues to be a serious bottleneck in the country’s development. The government has not only recognized this as an impediment to its efforts to combat poverty, but also as a constraint to integrating Lesotho into the sub-
regional economy. Building institutional capacity is therefore a major objective in the government’s agenda. In this connection, Lesotho is currently working with donor agencies, including UNDP and the African Development Bank, to strengthen the capacities of local communities to undertake project preparation, implementation and monitoring, as well as improving the public services delivery system. Additionally, specific sector measures to strengthen local capacity are underway, including a proposed policy reform and capacity building project in the agriculture sector by the Bank.

The success of reform measures the government has committed to undertake will also depend to a large extent on the successful harnessing of Lesotho’s most abundant natural resource—water. As the CAS document clearly notes, the construction of the Lesotho Highland Water Project to export water to South Africa has provided a unique opportunity for Lesotho to capitalize on its main natural resource. Beginning 1997, this project will provide an average of $45 million in royalties per year—10 percent of government revenues. These revenues from LHWP are Lesotho’s best, if not only, opportunity to reduce poverty. Additionally, the Highlands Water Project would provide impetus in the country’s effort to foster labor-intensive growth. On the regional front, the joint development and management of water resources by South Africa and Lesotho provides a win-win situation given South Africa’s acute water shortages and the revenue contribution and institutional development benefits for Lesotho.

Government is aware of concerns raised by both local and international NGOs and has continued to take interest in addressing such concerns. We believe that the Bank’s involvement in this project, though relatively small, will ensure that both environmental and social issues agreed to by the Lesotho government and the project management are adhered to.

Before closing my statement, I would like to briefly touch on the issue of integration and the preparation of CASs for small economies in the sub-region. As the document notes in paragraph 21, the Lesotho government has adopted a three-pronged strategy to strengthen its links with countries in the Southern African sub-region. This is in recognition of the importance of regional integration for a more meaningful relationship with the rest of the world. This matter was underlined at a recent meeting between a number of African leaders and Mr. Wolfensohn, where the African leaders highlighted regional development as a crucial element of the continent’s response to globalization. They emphasized that this was an area of particular responsibility for the Bank in its policy and project work in the region. In this regard, I would like to urge the staff and management of the Africa region to adopt more of a regional perspective when formulating Country Assistance Strategies for individual countries in the region.

In conclusion, my Lesotho authorities have expressed satisfaction with the level of their dialogue with the Bank in general, and the CAS process in particular. They firmly believe that poverty reduction, the centerpiece of their development agenda, can be achieved through policy reform with emphasis on the generation of labor-intensive employment opportunities and the provision of basic social needs. Hence the Bank Country Assistance Strategy is not only consistent with the government’s overall development objectives, but has also benefited from consultations with the people of Lesotho.