PATHWAY OUT OF POVERTY

An Action Plan for LESOTHO

FOREWORD

The greatest challenge Lesotho faces today is the eradication of poverty. In sub-Saharan Africa, Lesotho is ranked ninth richest out of 32 countries with populations over 1 million. Its per capita GNP is four to five times greater than some of the poorest African countries. However, of the 40 developing countries for which data are available, only nine—including Lesotho—have severely skewed income distributions. Hence, nearly half of Lesotho's population is poor. This poverty is worst in the rural areas where the profitability of family farming is low and dependence on miners' remittances is high.

This report proposes a strategy and an action plan for reducing poverty. Prepared in a collaborative way between the Government, the Lesotho Council of NGOs and donors, this report makes concrete, practical suggestions. They are not meant to be prescriptive. They are meant to provide a basis for democratic debate and policy formulation. Because only through a transparent and inclusive democratic process can we find solutions that will help us reach our goal. Nala—this is our goal. Prosperity for all Basotho. It is the vision we have as we forge our pathway out of poverty.

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Minister of Finance and
Economic Planning
March 1996

ACKNOWLEDGEMENTS

This report is the product of a collaboration between the Government of Lesotho, the Lesotho Council of NGOs, the World Bank, USAID, and the European Union Delegation. It is based on the findings of a World Bank mission that visited Lesotho in June 1993 and two subsequent missions during which various drafts of the document were discussed with the Government of Lesotho and the NGO community. In-country discussions of the report were organized by the Ministry of Planning. The Lesotho Council of NGOs coordinated the discussion with the NGO community, which included a three-day workshop to formulate comments and recommendations.

Table of Contents

Figures

Tables

Boxes

A. Introduction

In 1993, the Kingdom of Lesotho returned to democracy after 23 years of authoritarian rule. The democratically elected Government of Lesotho assigns high priority to the reduction of poverty. The aim of this document, produced in collaboration with the Government of Lesotho, is to help develop a strategy and action plan for reducing poverty in an efficient and sustainable way. It should help in setting development priorities, and should also be useful to non-governmental organizations (NGOs) and donors, many of which are reorienting their programs to address poverty reduction goals. The Lesotho Council of NGOs and its associated NGOs, the European Union (EU) and the United States Agency for International Development (USAID) provided invaluable help in the preparation of this document. Most of the policy recommendations in this report came from Basotho sources—NGOs, academicians, civil servants, entrepreneurs, and villagers. They are not meant to be prescriptive. Rather, the options presented should be debated by appropriate democratic institutions, both local and national. At this point in Lesotho's history, the process of formulating policy is as important as the outcome, if not more so. And that process should be both transparent and inclusive.

Lesotho faces a number of enormous challenges. The young democratic process has proven to be fragile, but has valiantly survived its turbulent first years due to broad-based popular support for the principles of democracy. Across the border, the peaceful transition to democracy in South Africa—one of the political miracles of this century—has completely changed the regional environment. These changes bring Lesotho new opportunities, as well as risks. This report highlights a set of polices which can help Lesotho reduce poverty by seizing these opportunities and minimizing the risks.

This report shows that poverty is worst in the rural areas. Many observers have all but written off broad-based agricultural growth as a viable economic strategy for poverty reduction in Lesotho, pointing to its limited and increasingly degraded natural resources. But only if the urban economy were able to generate massive amounts of employment, and it is unlikely to do so in the medium term, could the rural economy be absolved from the need to create more sustainable rural livelihoods. In the meantime, more profitable part-time, small-scale farming and livestock activities must be developed to compensate for a declining stream of mineworker remittance incomes on which many rural households currently depend for their subsistence. The rural challenge facing Lesotho is to make family farming more profitable by shifting away from extensive grain production, in which it holds no comparative advantage, to those labor-intensive crop and livestock activities in which it can compete in the region and internationally. The priority policy changes necessary to reduce rural poverty are deregulating agricultural markets in order to attract private traders and processors, improving tenure security, especially for women who are the main farmers, and increasing investment in those types of rural infrastructure that make small-scale family farming more profitable. Moreover, rural infrastructure investment which makes more use of local knowledge, management, labor and private contractors, will have a poverty reducing effect all of its own.

Access to wage income, either directly or indirectly (through remittances), reduces poverty. Currently, domestic wage employment absorbs only a small fraction of the total labor force, but its momentum is picking up, driven by an export boomlet in textiles, garments and light manufactures. And domestic wage employment should increase rapidly to compensate for a likely decline in the demand for unskilled, foreign wage labor in South Africa's mines. While the Government and the Lesotho unions should vigorously enforce health and safety standards, there can be no doubt that a continued and accelerated expansion of these industries will increase employment dramatically and constitutes a key element of a strategy to reduce poverty. What will benefit the poor most in the long run is increased competition between more and more firms for local labor. To maximize the poverty reduction impact of private sector-led export growth, the Government should keep wages competitive, improve industrial relations, increase efficiency in utility supply, and join hands with the private sector in increasing the supply of skilled workers through training and education.

Broad-based investment in human capital is the single most important input in the creation of employment-intensive, poverty-reducing growth. In both health and education, the Government should increase geographic equity and lower the costs of education and health services to the poor. In health care, a free or low-fee package of basic health services can be provided, while children under five, the elderly and the disabled should be exempted from user fees. In education, primary school costs to parents should be reduced, and more attention should be given to technical and vocational education. Particular care should be given to boys' education. Boys in Lesotho are less educated than girls. They are apparently the victims of a cultural expectation pattern that designates them for careers as herdboys and mineworkers and makes parents discount investments in their education.

This report also argues for a stronger social safety net, largely based on self-targeting measures. First, lowering the cost to the poor of essential goods such as food, fuel, water, health care, and education will greatly, and immediately, alleviate poverty. These basics use up most of the household budget of the poor. In particular, the artificially high food prices, remnants of a failed strategy to attain national food self-sufficiency, can be brought down by liberalizing markets for food staples. This is an important poverty-reducing policy action in a country that imports more than half of its food requirements, and where about 90 percent of rural households are net consumers of maize, the main staple. Second, a substantially expanded employment-intensive public works program should be contemplated, in which below-market level wages would be used to self-target the employment supply to the poor. Third, particularly vulnerable groups (e.g. the elderly, the disabled, children under five) should benefit from a food-supplement program.

The sale of water to South Africa will bring in an important flow of revenues. Part of these revenues is set aside in a Development Fund. As this fund grows in size, it is essential that these revenues contribute to increasing the productive potential of the country and reducing poverty, in particular in the rural areas. At the heart of rural development is a core of rather simple, small investment projects, such as the construction of rural roads and bridges, the digging of wells, the development of small-scale irrigation, and the building and repair of schools and primary health posts. When coordination and implementation of these activities is undertaken by a faraway central bureaucracy or project authority, rural development becomes overly complex, costly and ineffective. In contrast, locally planning and executing such activities usually does not involve complex and costly coordination or information gathering. The Development Fund provides a unique opportunity for developing more decentralized mechanisms of making investments targeted at poverty reduction.

There can be no doubt that Lesotho faces an uncertain future. But with apartheid relegated to the history books, an economy characterized by macroeconomic stability and high growth rates, a relatively well-educated and productive labor force, a small but quickly expanding export base, an agrarian structure based on family farming, and a sizable inflow of revenues from the imminent sale of water to South Africa, Lesotho should be able to find a pathway out of poverty.

B. Country Context

Lesotho is often described as an economic "province" of South Africa, from where 95 percent of its imports come and to which 40 percent of its exports go. Lesotho is part of the Rand zone; its Loti is tied to the South African Rand at a fixed exchange rate of 1:1. It is a member of the South Africa Customs Union (SACU), so South Africa collects its trade taxes. But most important is Lesotho's export of human capital to South Africa, for which it has gained its reputation as a labor pool for South Africa's mines. About 40 percent of the male labor force is employed in South Africa, and remittances account for a third of GNP.

Lesotho's emergence as a labor pool for South Africa closely followed the general pattern of the creation of native reserves in the Southern African region. In the mid-nineteenth century European settler regimes effectively lowered the potential profits in a free African farming sector to force peasants into farm or mine labor. European settlers seized most of Lesotho's arable land, confining independent Basotho farming to a remote and mountainous area that was to become the independent state of Lesotho, and adopting protectionist measures against agricultural exports from Lesotho. During the twentieth century, Lesotho's dependence on the South African economy cast it in the role of exporter of labor and exposed it to the long-term consequences of South Africa's economic policies. The failure of the inward-looking and capital-intensive South African economy to use its plentiful supply of labor efficiently has meant a general decline in employment opportunities, with negative consequences for Lesotho. And the mine labor recruitment policies followed in South Africa have had devastating effects on family structure in the recruitment areas, including Lesotho.

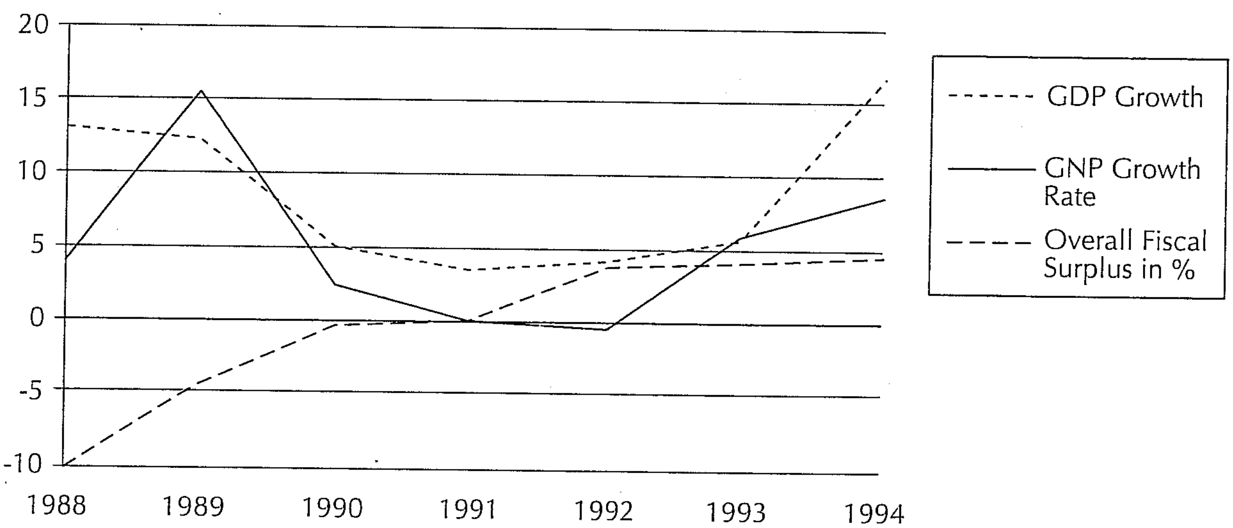
Not surprisingly, Lesotho's economy is highly vulnerable to changes in South Africa. In the mid-1980s, structural declines in external sources of revenue (SACU receipts and remittances from mining workers) led to an economic downturn and aggravated domestic imbalances: increasing unemployment, deteriorating social indicators, and a growing fiscal deficit. The need for macroeconomic stability was underscored by the signing, in 1986, of the Treaty which started the implementation of the first phase of the Lesotho Highlands Water Project[1]. In 1988, the Government, assisted by the IMF and the World Bank, embarked on a structural adjustment program aimed at reversing the downturn. Lesotho's membership in SACU and the Rand zone gave it little

[1] The Lesotho Highlands Water Project is a large infrastructure project aimed at exporting potable water from the mountains of Lesotho to the industrial heartland of South Africa and generating electricity for domestic consumption. Its initial phase will cost about US$2.5 billion at 1990 prices. Full scale construction began in 1990. Exports of water will start in 1998 and are estimated to yield revenues of about $55 million per year.

flexibility in trade and monetary policies. Hence, the adjustment program implemented by the Government aimed to: reduce the fiscal deficit; avoid "Dutch disease" by creating a series of fiscal surpluses to absorb the flows of high import duties due to peak construction levels of the Lesotho Highlands Water Project (LHWP); encourage private sector development, including the attraction of foreign investment; and increase social spending (especially on health care and education).

The adjustment program was largely successful and triggered an almost "classic" sequence of changes in the main macroeconomic variables (Figure 1). The pattern of growth of GDP and GNP[2] was characterized by a contractionary period from the start of the program in 1988 until 1992. This contraction was amplified by two years of drought in 1991 and 1992 and declining mineworkers' remittances. However, the economy turned around after 1992, when economic growth resumed, driven by peak activity in LHWP construction and export growth in textiles, garments, footwear and light manufactures.[3] The fiscal balance was restored quite rapidly in the first two years of the program, and continued to improve during the rest of the period, until a small fiscal surplus was attained.

Figure 1: GDP and GNP Growth and Overall Fiscal Surplus/Deficit as a Percent of GNP



It is difficult to assess the impact of structural adjustment on the poor, mainly because of a lack of compatible, consistent household survey data collected at regular intervals. But model simulations (based on a Social Accounting Matrix and a Semi-Input-Output model developed for this report) show that structural adjustment, which was mainly associated with a tightening of fiscal policy, seems to have had a limited impact on household incomes in Lesotho, and seems not to have disproportionately affected the poor. Of four factors analyzed, the drought

[2] In the case of Lesotho, which relies so heavily on remittances from Basotho working in South Africa, the difference between GDP and GNP is important. The GNP estimate adds net factor payments (mainly migrant mineworkers' remittances) to the GDP estimate. In the last few years, GDP constituted about 60 percent of GNP.

[3] From 1988 to 1994 , the annual growth rates of real GDP and GNP averaged 8.5 percent and 6 percent.

had the worst impact on the incomes of the poor, and the decline in workers' remittances the least impact. The decline in workers' remittances mostly hurt the non-poor. Construction activities under LHWP and growth in labor-intensive industry — also part of the Government's structural adjustment strategy — appear to have increased household incomes, largely offsetting the adverse shocks of drought, reduced migrant earnings, and fiscal conservatism. But these estimates are only indicative and should not lead to complacency. Poverty in Lesotho is widespread, as the poverty profile that follows shows.

C. Poverty Profile

Developing and implementing a comprehensive strategy for sustainable poverty reduction requires a poverty profile, a systematic analysis of available information about the number and characteristics of the poor, as well as an assessment of the implications of existing policies and programs affecting the living standards of the poor. For the poverty profile, two sources of primary data were used: the Lesotho Bureau of Statistics' 1986/87 Household Budget Survey and a 1993 household survey undertaken by Sechaba Consultants of Maseru, commissioned by the Drought Relief Implementation Group.

Lesotho's Ranking by Important Socioeconomic Indicators

Lesotho's per capita GNP of US$580 (in 1991) ranks it as one of the world's 40 lowest-income economies — 93rd among 127 countries. In sub-Saharan Africa, however, it fares better, ranking ninth richest out of 32 countries.[4] Indeed, Lesotho's per capita GNP is four to five times greater than some of the poorest African countries, such as Mozambique and Tanzania. Lesotho is also ahead of many of its African neighbors on social indicators, including some with much higher average incomes. In sub-Saharan Africa, for example, it ranks third in life expectancy and net primary school enrollment and has the fourth lowest maternal mortality rate among countries for which data are available. Still, Lesotho's social indicators are much worse than those of non-African countries with similar per capita GNP levels. In other words, there remains considerable scope for improving the quality of life of the Basotho people even at present income levels.

Table 1: Social Indicators for Countries of Comparable Per Capita GNP

	Honduras	Sri Lanka	Côte d'Ivoire	Lesotho	Armenia	Egypt	Azerbaijan
Per capita GNP (US$)	600	600	630	650	660	660	730
Life expectancy (years)	68	72	51	61	73	64	71
Infant mortality rate (per 1000)	41	17	91	77	21	64	28
Adult illiteracy rate (%)	27	12	46	38	n.a.	52	n.a.
Under 5 malnutrition rate (%)	21	45	12	27	n.a.	13	n.a.

Note: Data in this table are for 1993 and have been taken from the 1995 World Development Report (WDR) for consistency of international comparisons. Data in this table may not be consistent with data cited elsewhere in this chapter and in the text, which were drawn from more recent Lesotho-specific surveys and reports.

[4] Data are available only for sub-Saharan African countries with populations over 1 million.

Because of the country's inequitable income distribution, absolute poverty in Lesotho may be more prevalent than *average* income figures suggest. Of 40 developing countries for which data are available, only nine—including Lesotho—have Gini coefficients above 0.55, indicating a severely skewed income distribution.[5] Five of the nine highly inequitable countries are in Latin America and four are in sub-Saharan Africa. There has been a marked increase in income inequality in Lesotho, especially in rural areas, over the past 25 years. Gini coefficients, which show inequality, climbed from 0.23 in rural areas in 1967/69 to 0.55 in 1993. In 1993, the richest 10 percent of households received 44 percent of national income, more than five times the income share of the bottom 40 percent, which received only 8 percent.

Patterns of Poverty

To distinguish poor households from non-poor or better-off households requires choosing a poverty line, a level of welfare below which poverty is said to exist. Lesotho has no current official absolute poverty line, so we set two relative poverty lines for the purposes of this report: We characterize as relatively *poor*, households whose members consume less than half of the mean consumption level. We characterize as *very poor*, or *ultra-poor*, households that spend less than 25 percent of the mean consumption level. To give the reader an idea of what these poverty lines mean in terms of meeting daily needs: A household with a spending level at the first poverty line would probably need to spend about 51 percent of its total household budget to get a basic daily adult diet of about 2500 calories. A household at the second, ultra-poverty line would need to spend its whole budget to get the same diet and caloric intake.

Certain patterns emerge from the poverty profile. Relative poverty levels in Lesotho are high. Nearly half of all Basotho households are poor (with consumption levels below half of average) and more than a quarter are ultra-poor (with consumption levels below 25 percent of average). A severely poor fifth of the population spends nearly two-thirds of its resources just on food and another 25 percent or so on such necessities as water, fuel, health and education. And malnutrition levels among children under five are unacceptably high everywhere.

Nearly half of Lesotho's populace is poor and slightly over a quarter is ultra-poor, but the poverty gap—the depth of poverty—is relatively small. In 1993, using the lower poverty line, the poverty gap was only 9.12 percent, which means that if perfect targeting were possible, a transfer of only M38.52 per person a year (or 2.3 percent of average adult-equivalent spending) would be enough to eliminate ultra-poverty. Using the higher poverty line, M203.04 per person a year (or 12.0 percent of mean adult-equivalent spending) would be needed to eliminate pov-

[5] Chen, Datt and Ravallion, 1993, and World Bank staff estimates for Lesotho based on survey data. The Gini coefficient measures the degree of (in)equality, with 0 signifying absolute equality and 1 indicating absolute inequality.

erty. That translates nationally into M44.2 million (US$13 million) a year at the lower poverty line and M232.9 million (US$68.5 million) at the upper poverty line.[6]

Poverty is disproportionately high in the nearly 40 percent of Basotho households that rely on farming, herding, informal business, or casual labor for most of their income, as well as among the roughly 7 percent of people living in households headed by unemployed adults. By contrast, the incidence of poverty is below half the national average in households relying mainly on mining remittances from South Africa. It is also lower than average in households headed by regular wage earners working in Lesotho or by retirees receiving formal pensions.

Poverty is greater in rural than in urban Lesotho. Over 80 percent of Basotho households are rural (Figure 2). About 54 percent of rural households are poor, compared with a Maseru average of 28 percent and an other urban areas' average of 27 percent (Figure 3). These numbers show that the incidence of poverty is lowest in urban areas outside of Maseru; only 4.5 percent of the population lives in these smaller towns. Of the poor population, 90 percent live in rural households (Figure 4).

Figure 2: Geographic Distribution of Population
Total Population=1.9 million

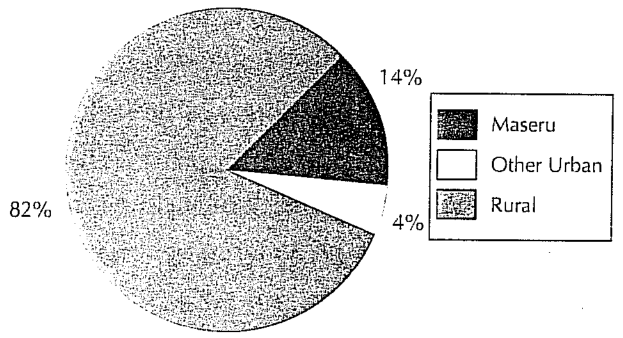


Figure 3: Incidence of Poverty
% of People Living Below Poverty Line

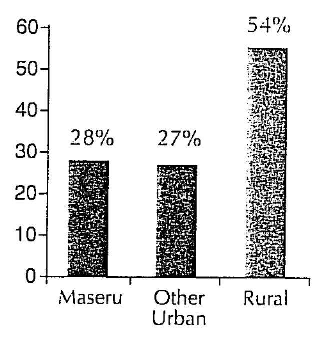
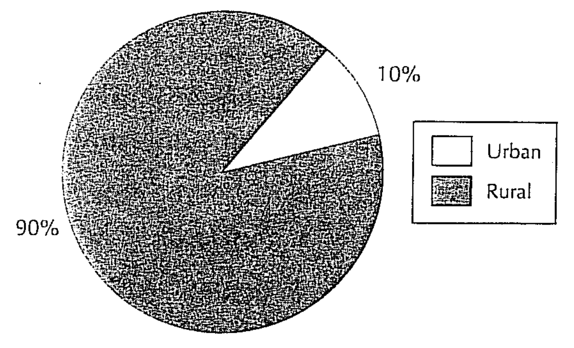


Figure 4: Where the Poor Live
Total Poor = 980,000



[6] In comparison, official development assistance averaged US$104.7 million a year between 1990 and 1993, which, if perfectly targeted, is much more than what is needed to eliminate poverty in Lesotho. Of course, in Lesotho, as elsewhere, perfect targeting is nearly impossible. It is difficult to identify the poor, let alone design strategies that transfer exactly the amounts needed to each household. But the above estimates suggest that substantially reducing poverty in Lesotho is an achievable goal in the medium term.

Poverty is much deeper in rural areas (Table 2). In ultra-poor rural households, average adult-equivalent spending amounts to just 22 percent of mean adult-equivalent spending. The pattern is similar in poor households. Poverty is also far more severe in rural areas—more than 3 times worse than in Maseru.

Table 2: Rural and Urban Poverty (1993)

	Incidence (P0)		Depth (P1)		Severity (P2)		Population share (%)
	Poor	Ultra-poor	Poor	Ultra-poor	Poor	Ultra-poor	
Rural	53.86	28.63	26.53	10.24	16.16	5.60	81.91
Other urban	26.84	11.00	12.06	4.86	7.12	2.39	4.48
Maseru, urban	28.14	13.63	12.80	3.73	7.09	1.80	13.61
All	49.15	25.79	24.01	9.12	14.52	4.94	100.00

Source: World Bank estimates based on the 1993 Sechaba survey.
Notes: The *P0 measure* (or *head count index or incidence of poverty*) measures the percentage of individuals below a given poverty line, relative to the total population.
The *P1 index* (or *poverty gap index*) measures the depth of poverty as the relative gap between average actual income in poor households and the poverty line. It measures the percentage of the poverty line income which is needed to bring everyone below the poverty line up to the poverty line.
The *P2 index* is a modification of the P1 index. It weighs the shortfall of a household's income more heavily, the further it falls below the poverty line, suggesting the severity of poverty for the poorest of the poor.

Poverty is worst in the mountains. The incidence of poverty is deeper and far more severe in the mountain and Senqu valley zone than in the foothills and lowlands. The mountainous and predominantly rural districts (breakdown by district not shown in Table 2) of Thaba Tseka, Mokhotlong, and Quthing are far poorer than other parts of the country, while households in Maseru, Leribe, Berea, and Mafeteng are better off than average. The incidence of ultra-poverty in Thaba Tseka and Mokhotlong is nearly double the national average, and severe poverty at the lower poverty line is similarly high (especially in Mokhotlong).

The incidence, depth, and severity of poverty are also generally below the national average in the predominantly lowland/foothill districts of Leribe, Berea, and Mafeteng. By contrast, the incidence of poverty is substantially below average in Maseru district, where 37 percent of residents are poor and 18 percent are ultra-poor. But because 25 percent of the Basotho population lives in Maseru District, the contribution to national poverty (18 to 19 percent) is still high.

Malnutrition levels among children under five are unacceptably high everywhere, but urban children are considerably better off than children in mountain areas; children in the lowlands and foothills fall somewhere in between. One sees similar geographic patterns in indicators for mortality and morbidity, access to safe water and sanitation facilities, and school enrollment ratios. Moreover, the quality of school, and hence educational achievement, is far worse in the mountains than elsewhere. Because better schooling is associated with higher income, these findings are especially troubling.

Poor households often have an unfavorable demographic structure. Lesotho's rural households are somewhat larger than urban ones and have significantly higher dependency ratios, which is typically associated with greater poverty. Rural households average about one more child under 16 than households in Maseru, the capital, and twice as many adults over 60. In many poor households, too few members of working age support too many young and elderly dependents.

Some types of households and individuals are more disadvantaged than others no matter where they are. Households headed by old people or *de jure* headed by women are much poorer on average than other households. The number of households *de jure* headed by women who are single, divorced, widowed, or abandoned by their spouses (25 percent) is higher than in many other African countries, undoubtedly because of the long tradition of Basotho men leaving to work in South African mines. And women are *de facto* heads of households in another 30 percent of households, an unsurprising figure given the high proportion of Basotho men employed in South African mines. These characteristics of poor households suggest that there is a strong life-cycle component to poverty, often aggravated by the fragility of the family structure caused by male labor migrancy. Poor households contain a higher number of persons of retirement age, with not enough life savings built up during their productive lives.

Especially vulnerable within households are children under five (especially boys), who apparently suffer malnutrition severe enough to inhibit their cognitive development, and boys six to 15 (who have much lower school-enrollment ratios than girls). Boys suffer more than girls, partly because even young rural boys are sent to help tend livestock, and partly because job expectations for Basotho boys are often for unskilled work in the mines in South Africa (Box 1).

Targeting the Poor

Statistical analysis undertaken for this report suggests that it may be virtually impossible to identify a group of easily measurable, objective household characteristics to distinguish poor households from non-poor households, for purposes of targeting direct assistance with an acceptable level of error. Education levels are lower in poor households, for example, but they are low in many non-poor households, too. What this means from a policy standpoint is that directly targeted assistance programs that require administrations to identify the poor or ultra-poor will probably not be an efficient or effective means of reducing poverty in Lesotho. More emphasis must be placed on self-targeting approaches, such as public employment schemes.

Box 1: Gender Differences

Gender bias against boys. Evidence of gender bias favoring boys has been found in much of Asia; evidence for Africa suggests more equitable patterns. In Lesotho, however, there seems to be a gender bias favoring girls over boys, regardless of the gender and other characteristics of the head of household. For example, for all measures of malnutrition—stunting, wasting, and underweight—boys under five fare substantially worse than girls under five. The most common explanation offered for this is the common rural practice of sending even very young boys (three to five) with older brothers to tend family livestock, as a result of which the boys eat only sporadic or inadequate meals.

And Basotho boys clearly get less primary schooling than girls. Lower school enrollment for boys is found in all income groups, regions, and ecological zones, and in households headed by both men and women. The greatest disparity, however, is found in herding-oriented mountain zones, where nearly 30 percent more girls than boys attend school, lending credence to the view that livestock -tending depresses boys' school enrollment levels. Still, that would not explain sizable disparities in school enrollment levels in urban areas. Other factors must be at play. One possibility is that many parents still view working in South African mines as the most promising job prospect for Basotho men, and de-emphasize boys' education as irrelevant for unskilled and semi-skilled mining work. Clearly the quality of Basotho boys' lives and their income earning potential are diminished by low education levels.

Children in female-headed households. Some data from the 1993 survey suggest that children living in households headed by a male resident have somewhat lower levels of welfare—poor nutrition and educational status—than those living in households headed officially, i.e. *de jure*, by women, and considerably lower levels of welfare than children living in households *de facto* headed by women. It is difficult to explain why children in households *de jure* headed by women fare better than those headed by resident men , despite the fact that the households *de jure* headed by women are generally slightly poorer. Based on evidence from other African countries, it seems likely that when income is controlled by women rather than by men, proportionately more household resources are allocated to children's welfare, partly because women traditionally bear more childcare responsibilities.

Basotho Perspectives on Poverty

To learn about Basotho experiences of, and attitudes toward, poverty, we consulted two qualitative studies of poverty in Lesotho, both conducted by Sechaba consultants. The studies used such participatory techniques as focus group discussions, case studies, and participant observation to get the perspectives on poverty of Basotho citizens (urban and rural).

Poverty, especially severe poverty, is viewed as widespread in Lesotho, affecting every community visited by the research teams. In discussions with groups of individuals identified by researchers as both poor and better-off, the most common response to the question "What is it to be poor?" was that poverty meant a lack of food and clothing. Basotho communities seem to identify only the most destitute—probably a subset of the ultra-poor—as poor. People also often defined poverty as including: lack of employment (money), livestock, and agricultural assets; poor mental or physical health; and insecure shelter. Lack of adequate water and education were sometimes mentioned as defining poverty, but only infrequently.[7]

In rural areas, participants in discussion groups often associated poverty with small households comprised of only adult women or women and children without support from an adult male, principally because of a spouse or grown-up son's death, desertion, or illness (especially a mental or physical disability or tuberculosis). This is similar to findings of the quantitative analysis.

By contrast, those identified as destitute in urban areas were themselves largely unemployed adult men, classified by the researchers as: (1) mine applicants—queuing daily outside the mining employment office in the hope of recruitment; (2) circle men—some of them former mining applicants, who sleep "rough" in and around Maseru's main traffic circle, having depleted both social and material resources and having lost hope of stable employment; (3) *shebeen* men—who remain around informal liquor houses hoping for drink or accommodation; and (4) beggars, scavengers, and street boys—of whom the researchers felt there were relatively few in Lesotho compared with other countries. To be sure, the predominantly rural character of Lesotho, based on a relatively equitable agrarian structure which is small-scale in nature, has prevented the emergence of large peri-urban slums such as can be found in South Africa and Latin America, where the rural poor typically have very limited access to land.

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[7] By and large, education was not seen as a major factor in bringing about prosperity. Rather, prosperity was seen—especially by rural dwellers—as driven largely by the ability to secure mine employment, an occupation believed to require physical courage and endurance more than skills in literacy and numeracy.

Causes of poverty. Participants' responses about the causes of poverty differed slightly in the 1991 and 1993 studies, partly because interviewers in the two studies took different approaches.[8] In the 1991 study, the four causes of poverty mentioned most often were:

- Unemployment.
- Environmental disaster (including drought, floods, and hailstorms as well as loss of soil fertility and productive pasture land).
- The lack of adequate agricultural land and inputs.
- Ill health or disability.

In the 1993 study, the causes of poverty mentioned most often were:

- Alcoholism, which participants considered to be the most common cause of poverty.
- Unemployment (which moved from first to second place).
- The drought.
- Personal failings such as laziness.
- Political factors such as injustice, oppression, and corruption, especially in local government.
- Social issues such as conflict, hatred, and witchcraft.

Not all of these issues can be addressed directly through public policy, but some have policy implications. Alcoholism, for example, is a preventable, treatable health problem that can be addressed through public health measures. Action in this area may be especially important because participants strongly associated alcohol abuse with adultery, suggesting that it may be an important factor in the spread of AIDS. Similarly, the shocks to households from natural disasters could be lessened through better monitoring of weather conditions, prompt design and implementation of assistance interventions, and investment in irrigation. Finally, the frequent mention of abuses of local power must be kept firmly in mind if these authorities are to be involved in identifying the poor for fee exemptions (for health care, for example) or for direct assistance (for food relief rations, for example).

[8] The first study took a "needs assessment" approach to causes of poverty, trying to link poverty with the lack of access to economic services or opportunities or to social services. In the second study, researchers used a list of 42 pre-selected concepts to elic it participants' rankings of a range of issues—including theft, adultery, alcoholism, and corruption—that they felt contributed to or affected poverty.

D. Fostering Labor-Intensive Growth

The poor depend mainly on income from labor to meet their daily needs. Any national strategy to reduce poverty in Lesotho must promote not only macroeconomic stability and rapid economic growth, but more productive use of labor, the country's—especially the poor's—most abundant resource. Given Lesotho's high unemployment rate and incidence of rural poverty, there can be little doubt that the general medium—to long-term strategy for balanced, sustainable poverty reduction must emphasize labor-intensive growth in agriculture, small enterprises, and labor-intensive, export-oriented manufacturing, underpinned by major investments in the development of human capital. In a labor-surplus economy like Lesotho's, the recommended sector-specific policy changes and program initiatives to reduce poverty are also fully consistent with achieving rapid growth and maintaining a macroeconomic balance (Box 2).

Macroeconomic Perspective

Historically, Lesotho's development strategy has unduly emphasized self-sufficiency in the production of basic commodities, whether or not Lesotho had a comparative advantage in doing so. In both agriculture and industry, Lesotho's policies have tended to promote capital-intensive import substitution. The strategy has been one of parastatals, state companies, explicit and implicit capital cost subsidies, protectionist measures, and restrictive business licensing. Attempts to create mechanized, large-scale maize, wheat, and vegetable farms using rainfed and irrigated agriculture largely failed, despite considerable government support. Lesotho imports steadily increasing amounts of these foods. Attempts to create an industrial and agro-industrial base producing for the local market have produced a range of subsidy or monopolistic rent-dependent public companies and parastatals. These parastatals have produced precious few jobs and harmed the poor in at least three ways: by distorting budget allocations (for example, subsidizing parastatals at the expense of investments in rural infrastructure that would help the poor), by raising the consumer price of basic goods that dominate the household budgets of the poor, and by crowding out more labor-intensive, small and medium-scale private enterprises.

Box 2: Policy Recommendations for Fostering Labor-Intensive Growth

In Agriculture:

- Remove price, marketing, and processing distortions.
- Invest in rural infrastructure that supports intensified agriculture and the production of export crops.
- Make land tenure (and women's rights to land) more secure and rental markets more flexible.
- Promote a reduction in herd size.
- Reorient agricultural research and extension.

In the Small Business Sector:

- Make it easier for small entrepreneurs (and in particular women) to get credit and do business.
- Shift the emphasis away from broad entrepreneurship training in manufacturing toward training in skills needed in the export and service sectors.
- Develop rural and urban marketplaces.

In Export-Oriented Light Manufacturing:

- Keep minimum wages down to a competitive level.
- Improve industrial relations.
- Reduce utility costs by increasing competition, regulation, and decentralization in the utility sector.
- Root export firms more firmly in the economy by selling them factory shells and leases and by supporting skills training that promotes the use of local skilled workers in the export industry.

In Tourism:

- Work much more closely with South African travel agents.
- Develop a special "Lesotho package."

Through Infrastructure Investment:

- Invest more using labor-intensive approaches, but decentralize implementation.
- Use private contractors on public works.

The import-substitution strategy was partly inspired by the political economy of the region—which meant rendering the country as independent as possible from South Africa's apartheid regime. But expansion of a labor-intensive private sector cannot be based on an inward-looking strategy. Lesotho's domestic market is simply too small for import substitution. More important, in a small, open economy that is not isolated by unduly high transportation costs from its major trade partner, any evidence that import substitution works implies an opportunity to increase exports and to expand quickly.

Employment. There are high levels of under- and unemployment and far too few employment opportunities, in both Lesotho and South Africa. Underemployment and its by-product, poverty, are widespread in rural Lesotho and open unemployment is growing in urban areas. The little data on employment that exists shows the labor force to be greatly under-used. Projections from the 1986 census show the labor force to be 800,000[9]. And population growth rates were high (2.6 percent a year) in the period between censuses (1976 and 1986), so net annual increases to the potential labor force should be between 20,000 and 25,000 over the next few years.

In 1993, opportunities for formal employment fell far short of need (Figure 5). Altogether only 28 percent of the workforce, or an estimated 225,000 people held formal wage jobs, distributed roughly as follows (based on estimates from various sources):

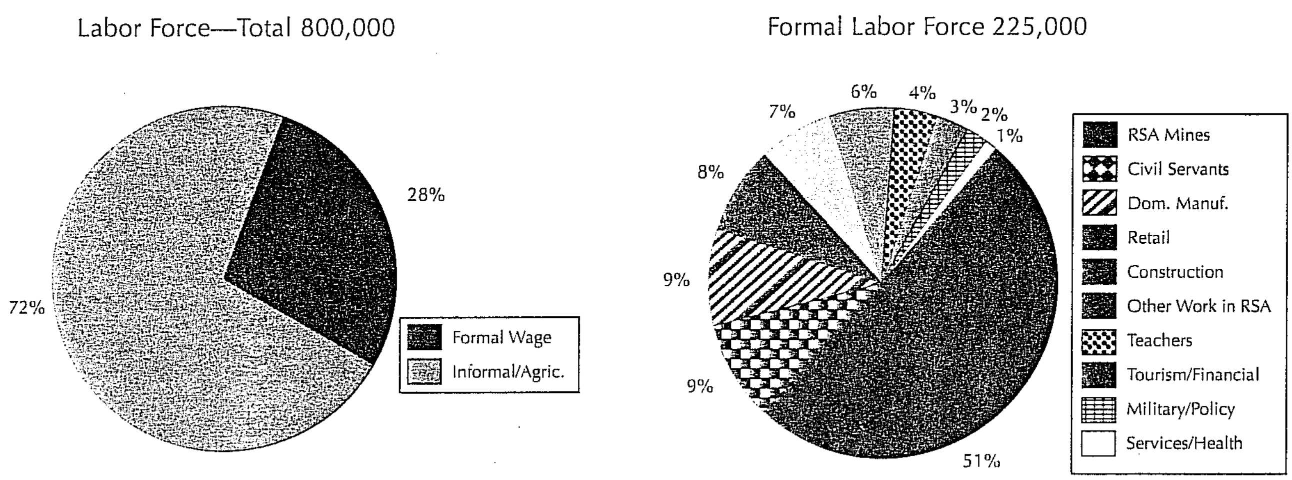
- 115,000 Basotho worked in South African mines.
- 21,000 were civil servants (including both salaried and waged workers).
- 20,000 were employed in domestic manufacturing.
- 18,000 worked in retail trade.
- 15,000 worked in construction.
- 13,000 did other work in South Africa—for example, in agriculture, private industry, domestic service, or a professional occupation.
- 10,000 were employed as teachers.
- 7,000 had jobs in hotels, restaurants, transportation, or financial services.
- 4,000 were employed in military or police security.
- 2,000 worked in other services, nonprofit organizations, or private health care.

That left roughly 72 percent of the labor force (about 575,000 workers) to work in agriculture and the informal sector, sectors in which returns to labor are generally low. The unemployment rate in 1993—counting both unemployment and underemployment—was estimated to be an alarming 35 to 45 percent.

[9] The potential labor force in 1993 (that is people 15 to 64) was slightly over 1 million, out of a total population of about 1.9 million. The actual labor force is calculated assuming labor force participation rates of about 85 percent for men and 75 percent for women.

Multiplier effects. Poverty has been reduced somewhat as the result of recent initiatives to develop the labor-intensive, export-oriented light industry (about 5,500 jobs created in five years, mainly in textiles) and the start up of the Lesotho Highlands Water Project (around 3,000 jobs in construction), but the poverty-reducing potential of these initiatives has not yet been fully exploited. In both cases, the benefits to the economy only consist of their direct employment effects. What is missing is a more economy-wide multiplier effect, which could greatly enhance the employment impact of both the export boomlet in textiles and the massive construction investments under LHWP.

Figure 5: Lesotho Labor Force



It is important that Lesotho's growth strategy produce both direct and indirect growth in jobs and income (multiplier effects). The question is, from a multiplier perspective, which is more efficient: to invest directly in agriculture, for instance, or to invest in other sectors that could indirectly increase demand for rural products? To answer this question, the World Bank mission developed a Semi Input-Output (SIO) model of Lesotho's economy to analyze the direct and indirect (multiplier) effects of changes in output in all sectors of the economy relative to their impact on the average incomes of Basotho households. In terms of poverty reduction, the model produced three main conclusions:

- Development projects and policies aimed at stimulating the demand-side of the economy cannot count on significant multiplier effects . In Lesotho, links between sectors are generally weak. Lesotho's economy is tightly knit with that of South Africa, through relatively open borders, membership in the Common Monetary Area (CMA), and the flow of migrant labor from Lesotho to South Africa. This tightly knit relationship helps to stabilize prices, encourage trade, and raise household incomes from migrant remittances, but results in substantial leakage from the domestic economy and thus few multiplier effects in Lesotho. Most goods and some services are tradable, so increased demand is met largely through increased imports.

- Because links between sectors are weak, the direct effects of changes in supply generally outweigh the indirect or multiplier effects. So the investments most likely to reduce poverty are those in sectors that direct a large share of value added to the poor. Most poor Basotho households are in rural areas, so increases in agricultural income have the most general potential to reduce poverty.
- Increasing Lesotho's export orientation is likely to strengthen supply links. In the long run, more local investment in, and increased production of tradables (or the conversion of non-tradables to tradables—for example, by canning vegetables), could substantially increase multiplier effects. Next to overseas markets, Lesotho could exploit the proximity and potential of the large South African market by developing exports for which productivity in Lesotho is high because of special characteristics of its land, existing investments, or available skilled labor.

Fostering Labor-Intensive Agriculture and Rural Development

Despite agriculture's declining share of GDP (from 35 percent in the 1970s to less than 20 percent today), its contribution to the economy is critical. Nearly 85 percent of Basotho households live in rural areas and about 70 percent derive part of their income from agriculture. And by and large, the 35 to 40 percent of households that rely mainly on agriculture for income are disproportionately represented among the poor and ultra poor. Agricultural employment and incomes must be expanded to avert medium- to longer-term increases in poverty resulting from rapid population growth combined with stagnating opportunities for mine employment and too little expansion of formal employment to absorb the annual supply of new entrants to the labor force. To be sure, agriculture alone is unlikely to generate enough income to support the present rural population, given Lesotho's poor natural resource endowment (mountainous topography, limited arable land, unreliable climate, and serious soil erosion). But agricultural performance (and rural incomes) could improve substantially if the right policies were implemented: diversifying toward high-value export crops, involving the private sector more in marketing and processing, and improving land use efficiency.

From food self-sufficiency to food security. Since the late 1970s, Lesotho's agricultural policies have been shaped largely by the perceived political need to reduce dependence on food imports from South Africa and to protect domestic producers from unfair competition from the heavily subsidized, large-scale South African producers. With the aid of a number of donors, including the World Bank, Lesotho promoted food self-sufficiency in agriculture, with a focus on increasing output for staple food crops (especially maize). The assumption was that maize self-sufficiency was vital in case South Africa suddenly closed the border with Lesotho.

In spite of massive subsidies and project assistance, Lesotho's maize production has continued to decline. Currently, even in a year with good rainfall, maize grain must be imported to meet as much as 60 to 65 percent of national food requirements. Roughly 90 percent of rural agricultural households, as well as the rural landless and nearly all urban households, are net consumers of basic staples. Data from the 1986/87 household survey show only about 14 percent of national food consumption being home-grown; the figures for 1993 are even lower, because of the drought. Only 1 to 10 percent of the maize processed by Lesotho's three industrial mills is procured from local sources; everything else is purchased from the South African Maize Board.

Lesotho failed to achieve food self-sufficiency largely because of the unsuitability of its agro-climate for maize and wheat production, including the vagaries of local rainfall patterns and the poor quality of its soils. Local and temporary dry periods are standard any summer, making rainfed maize production a risky venture every year. And drought—a prolonged dry period over an extended area—is relatively common. Erosion is severe because little of the land is protected by forest, pasture, or crop cover, for reasons related to land tenure, overgrazing, and fuel shortage problems. On top of these climate-related problems, some of the price incentives offered under the food self-sufficiency strategy have accelerated soil erosion, by encouraging farmers to plant unsuitable marginal land to maize. This is especially true in the lowlands and foothills where extensive long-term cultivation of food crops—mainly maize—combined with heavy grazing has caused the crusting and erosion of surface soil.

Lesotho's drive for self-sufficiency in food crops—especially maize—has hurt the poor and does not exploit of the country's comparative advantage in agriculture. Lesotho's food prices, which are set administratively, have consistently been kept above South African prices, which are also administratively set and kept well above world prices. Both countries have introduced price and marketing distortions to help producers and to achieve national food self-sufficiency, but instead they have hurt their poor in the process. Because the poor are more likely to suffer food deficits and spend proportionately more of their income on food than the rich, the current marketing system is effectively a tax on the poor, one that largely benefits South African producers and Lesotho's large-scale mills. A poverty action plan that did not redress this inequity would miss an immediate, unique opportunity to reduce poverty and increase food security. Initial estimates suggest that lifting the ban on flour imports would reduce the price of maize flour at least 30 percent. Using the household expenditure analysis done for this report, this would imply a reduction in the incidence of poverty from 49 to 44 percent, and of ultra-poverty from 26 to 18 percent.

Moving toward crop diversification. Nontraditional crops such as asparagus, potatoes, and cabbage are much more labor-intensive than such traditional crops as maize, sorghum, and beans and yield greater returns per hectare planted. But artificially high food prices send the wrong price signal to farmers who should be diversifying away from the traditional food-grain monocrops toward non-traditional, high-value, labor-intensive agricultural activities in which Lesotho has a comparative advantage. Lesotho shares a unique regional agro-climate with the Eastern Orange Free State and the northern mountain areas of the Eastern Cape. The areas bordering Lesotho suggest the agro-climate's potential. The area around Ficksburg in the Eastern Orange Free State (50 km from Maseru) is the center of South Africa's cherry production for export. Areas in the Eastern Cape bordering Lesotho do very well producing wool and mohair. A recent Bank study[10] concludes that Lesotho's potential for agricultural diversification is considerable because the country seems to hold a comparative advantage in several high-value export crops (including asparagus, saffron, and some nuts and berries) and in some vegetables and fruits (including cabbage, potatoes, tomatoes, onions, apples, pears, and peaches). The Ministry of Agriculture has identified other products for which Lesotho might have a comparative advantage: beans, peas, sunflower, soybeans, and dairy products.

Lesotho's agriculture strategy should be firmly targeted to shifting the country's agricultural product mix toward this comparative advantage. It should do so by (1) removing price, marketing, and processing distortions that favor crops for which Lesotho has no clear comparative advantage; (2) investing in rural infrastructure that supports agricultural intensification and a new mix of agricultural products; (3) making land tenure (and women's rights to land) more secure and making land rental markets more flexible; (4) intensifying efforts to promote smaller herds; and (5) reorienting agricultural research and extension toward the most promising crops and farming systems.

Remove price, marketing, and processing distortions. To reduce food prices and shift the relative prices from food to export crops would require a phased deregulation of food grain and flour imports. This measure would greatly alleviate poverty by cutting consumer prices, helping restrain the upward pressure on wages, which helps the labor-intensive export industry, and contributing to the sustained, long-term profitability of agricultural production by inducing a shift in production away from maize toward crops more suitable for Lesotho.

For Lesotho's agriculture to develop, both indigenous and foreign traders should be able to operate in a liberalized market free of unnecessary regulation and the uncertainty of ad hoc government intervention. The Government should consider actively promoting private sector involvement in agricultural trade as a way to encourage agricultural diversification and raise rural household incomes. It is a common fallacy to assume that small farmers could be made to market their produce themselves. International experience clearly shows that this only applies

[10] "Lesotho: Environment and Agricultural Diversification Study," World Bank Report No. 11906-LSO.

to situations in which farmers can directly sell their produce at a nearby village market. As soon as the farmer wants to diversify into crops demanded by markets which are further away (say the fresh asparagus market in Johannesburg), he or she will lack the relevant information on price, quality and quantity. Traders are the economic agents who bridge this information gap between producers and the market. To constrain their operations ultimately means constraining the incomes of farmers.

Increased private trade would help expand the production of asparagus, one of the most promising export crops. Asparagus is not only labor-intensive but involves activities traditionally considered suitable for women—an important consideration in Lesotho, where men are often absent from the household. Asparagus has been grown in Lesotho for export since the mid-1970s. Asparagus has been moderately popular with growers: The area planted to asparagus has grown from about 30 hectares in mid-1970 to about 400 hectares at present. Much more rapid growth would be possible, were it not for the policy environment. Tight controls on competition and private involvement in asparagus marketing, bans on private exports to South Africa in order to protect the Lesotho National Development Corporation-owned cannery, and the use of inappropriate technology have restrained yields to less than half their potential.

Until recently, Co-op Lesotho (a mainly government-funded farmers' cooperative) had a virtual monopoly on buying agricultural produce from growers and supplying them with agricultural inputs. Because of serious financial difficulties, Co-op Lesotho has now suspended operations, and some *de facto* liberalization has thus occurred. But trade and marketing continues to be excessively regulated by restrictive licensing practices. A more liberal marketing environment would attract private traders and undoubtedly diversify the crop mix, raise producer prices and increase yields.

Invest in rural infrastructure that supports intensified agriculture and the production of export crops. It will be impossible to exploit the country's comparative advantage in crop production without essential infrastructure. Rural infrastructure can widen the range of crops grown and reduce production costs at the same time that it can lower marketing and transportation costs, make agricultural activities more profitable, and lower the price of urban imports. Such infrastructure may be related to water harvesting (for example, roof catchments, small dams, and dam linings), soil conservation, or small-scale irrigation (provided production is organized on a household basis), and may range from fencing for garden areas to the physical infrastructure needed to establish periodic markets.

Make land tenure (and women's rights) more secure and land rental markets more flexible. Lesotho's relatively equitable distribution of land is an important asset, both for agricultural growth and as a social safety net. Despite what powerful agricultural lobbies the world over assert, small-scale farming is not less efficient than large-scale farming. And the pattern of rural and economic growth associated with the development of a small-scale farm sector is unambiguously pro-poor. So the small average farm size in Lesotho should be seen as an asset, not as an impediment to future agricultural growth.

Secure land-use rights to even a little land give the poor an important social safety net, especially in the absence of a formal social security system. Lesotho should avoid the problem of landlessness, which is increasing, and which has grave implications for rural poverty and urban slums. The government should resist any attempt to redistribute land rights away from the poor in the name of so-called agricultural development. The premature introduction of land markets will merely allow the rich to accumulate land, because they often have better access to credit and subsidies than the poor. The decision to allow land sales and purchases—especially to people outside the village but also to people within the village—should be left to the communities themselves. Even then, equity can be ensured only if community government is basically democratic.

Agricultural efficiency is currently most constrained by the reluctance of resource-poor households to rent out their land. This reluctance stems from the household's perception that renting out land, in particular for longer periods, could lead to the gradual extinction of property rights in that land. To ensure a well-functioning rental market and agricultural efficiency, it is important to establish secure property (use or leasehold) rights and legally enforceable (but unregulated) rental contracts. The Land Act of 1979 goes a long way toward protecting property rights and making contracts enforceable. It gives communities the option of allowing individuals to transform traditional use rights into 99-year leases that can be sold, subleased, or mortgaged. But the Land Act has not been thoroughly explained to communities, its implementation has been haphazard, and survey requirements are sometimes too lengthy and costly for the poor. Legal uncertainty about property rights especially harms the poor, who do not have the means to establish *de facto* ownership through such extra-legal channels as personal contacts, bribes, and political clout. The Land Act should be vigorously propagated and implemented. At a minimum, the current option of converting traditionally held use rights to leasehold rights should be widely publicized and the survey requirements should be relaxed and made less costly.

More than half of all households in Lesotho are headed by women. Although the Land Act expressly allows women to hold leases,[11] their continued status as minors under Lesotho's customary (and modern) law hinders their ability to acquire land use rights from their chiefs in their own names, which makes it difficult for them to apply for government leases. There is an urgent need to review the constraints women face in acquiring and keeping land rights and seek

[11] That is, to acquire the rights to land use from a deceased husband.

appropriate solutions. How will women's rights be interpreted in the Land Act and its amendments? That is still open for debate and women's rights to own landed property apparently remain vulnerable. Yet their right to acquire secure land rights is important both for poverty reduction and for agricultural efficiency.

Promote a reduction in herd sizes. Replacing livestock, a savings asset with a low and risky financial return, with a more attractive financial asset could both contribute to raising living standards and help protect the environment. In Lesotho, livestock production is roughly as important as the production of field crops in terms of value added. The livestock subsector's contribution to GDP declined from about 8 percent of GDP in 1985 to about 6.5 percent in 1990. Yet during the same time the number of animals actually rose. The number of cattle increased from about 525,000 in 1986 to about 641,000 in 1990, while there were about 1.5 million sheep and 1 million goats.

In Basotho tradition, cattle, sheep, goats, horses, and donkeys, are generally considered to be men's animals. Livestock belongs to the man in the sense that only he can sell it. And men value livestock for more than its potential to generate income. It is valued, among other reasons, because (1) animals are used to pay *bohale* or bridewealth at the time of marriage; (2) social prestige is accorded to livestock owners when, as is common, they place some animals with other households, allowing those households to benefit from products such as milk, wool and dung; (3) livestock visibly demonstrates to the community that an absentee husband is still providing for his family; and (4) and perhaps most important, livestock functions as a store of wealth or relatively illiquid saving that may be drawn upon only in times of great need or as a pension for old age. This gives livestock an attractive quality: it is relatively illiquid. As a result, Basotho men have tended to increase herd sizes at every opportunity.

Everyone knows overgrazing in Lesotho is a problem, but solving the problem is complicated because people hold cattle not only for production purposes but as a form of savings. For those who hold cattle for productive purposes, we recommend pursuing the standard economic solution: Bring individual financial costs in line with economic costs by introducing grazing fees, or restricting the number of animals per household. But rules should be set and enforced by communities themselves. For instance, fees should be collected by local voluntary grazing associations, which should be allowed to keep most of the fees collected. Grazing fees could be used to improve range management and to compensate households that do not own cattle—usually the poor—for the use of the range , which is, after all, common property[12].

[12] Whereas in theory the chiefs manage grazing rights on behalf of the community, in practice it seems that some have tended to view certain grazing rights as their personal property. The issue of grazing rights is therefore often politically sensitive, and unlikely to be solved in the near future.

But introducing grazing fees may not lead to a noticeable reduction of the herds held mainly for savings purposes, because people holding cattle as a savings asset may care much less about their financial rate of return than about their cattle's function as an illiquid savings deposit. The logical complement to grazing fees, then, might be to introduce a new savings instrument that could replace cattle as a savings asset. One promising option is long-term contractual savings instruments (certificate-of-deposit type instruments, for example, for pension purposes).

Reorient agricultural research and extension. With a shift away from the past emphasis on food self-sufficiency, Lesotho's research and extension efforts should be redirected toward different crops and farming systems. Applied research and related extension services are critical to the development of many new horticultural cash crops, including such vegetables as pinto beans, seed potatoes, sweet corn, baby corn, French beans, and broccoli; such fruits as apples, pears, and peaches; a variety of nuts and berries; spices such as saffron; and some species of flowers that can be dried for export.[13] To alleviate the severe, extensive poverty that flourishes in mountain districts, highest priority should be given to developing crops (such as seed potatoes) that are likely to grow well in the highlands.

One potentially successful extension model has been initiated—the Production through Conservation Approach, supported by the Swedish International Development Agency—and efforts should be made to improve, intensify and expand the program.[14] Lesotho has also produced a number of private farmer "champions" like Mr. 'Musi, who, supported by the German-funded Matelile Rural Development Project, successfully designed a soil conservation strategy, reclaiming gullies by planting shrubs and grass. Role models like Mr. 'Musi are important and should be actively used in Lesotho's agricultural extension program, because in farmers' eyes they are often more credible advocates of innovation than are the extension agents. And several NGOs (such as the Basotho Mineworkers Labour Cooperative, Lesotho Home Makers, and the Seventh-Day Adventists) have already accumulated considerable knowledge about small-scale farm models which can be tapped to better adapt extension messages to local opportunities.

Fostering Labor-Intensive Small Businesses

A number of export-oriented firms have met with considerable success recently and efforts to promote their expansion should continue unabated. But Lesotho's private sector consists mainly of small businesses, which continue to be neglected and under-served. Developing the small business sector is essential to solving Lesotho's unemployment problem, especially among the poor. It is

[13] These crops, and issues affecting agricultural research and extension, are discussed more fully in the 1993 World Bank "Environment and Agricultural Diversification Study".
[14] But farmers' investments in soil conservation are unlikely to be financially profitable under the traditional crop mix of maize and sorghum (Convery, 1995). This constitutes yet another reason to shift towards the more profitable export crops.

important to increase their (including women's) access to capital and to business advice, to provide suitable training, and to develop rural and urban market places where they can do business.

The main impetus for labor-intensive growth in the small business sector will come from an increased demand for services resulting in turn from increased formal employment in the large export firms. As the export sector grows, more workers will be hired and competitive pressures will cause wages to rise. Part of these wages will be spent on imported goods, but another part will be spent locally, especially on services. Setting up service businesses (such as construction, small restaurants, processed foods, and the repair of durable consumer goods) does not require the substantial capital outlays often needed for small-scale manufacturing. Many service businesses can start small and grow by reinvesting profits.

Some small firms may succeed in exporting to certain niche markets in South Africa. That market is likely to grow considerably in the medium term. In the past, excessive regulation often kept Basotho firms out of the South African market, but gradual deregulation in South Africa should open up new opportunities to small businesses in Lesotho. But because small firms rarely possess sufficient marketing skills to undertake export marketing themselves, the key to developing the export orientation of small firms lies in linking them to larger firms which do possess such skills.

Improve access to capital and to business advice. Lesotho's domestic commercial banks, unlike some of their South African counterparts, seem reluctant to expand into the small business sector, partly because they are so risk averse and face so little competition. But there is substantial and growing demand among small businesses for capital and practical business advice, judging from the thriving informal credit market and recent private initiatives in small business lending and advice.

Modern institutions generally fail to reach the neediest part of the population with the small amounts of capital they need. They especially don't reach women or rural dwellers. And Basotho households outside the formal sector either cannot grasp or cope with the basic demands of bank borrowing or they view such loans as simple subsidies, because over the years Lesotho's financial institutions have repeatedly failed to enforce repayment. By contrast, traditional savings organizations seem to work. These organizations are predominantly rural-based, serve both men and women, and seem to be able to maintain financial discipline among their members, mainly through peer pressure. Two traditional savings and credit organizations that seem to be effective in Lesotho are the stokvel and the burial society.

Stokvels and burial societies have been so successful as traditional savings and credit clubs that effectively promoting their growth in numbers may be a sustainable way to give small business owners and micro-entrepreneurs more access to needed capital. The clubs directly provide capital to small businesses or help finance certain "lumpy" household expenses (such as health care costs or school fees, in addition to burial feasts) and thus free up household income for use in business. Banks could promote the opening of joint accounts for these clubs, and extend loans to them which could be fully collateralized by savings. And membership of a group with an outstanding savings and repayment record could help qualify an individual for a personal loan, thereby linking the informal to the formal sector. To encourage more innovative approaches to the financing of small businesses, and to business support for project preparation and implementation, the Government should strongly promote competition in the financial sector by various means and help banks design new types of financial intermediation.

Box 3: Traditional Savings and Credit Organizations.

The *stokvel*,[15] which is relatively common in developing countries and known in the literature as rotating savings and credit association, functions in a simple, cost-effective way. A group of individuals with a common bond—such as kinship, community, or employment—agree to save together a fixed amount of cash over a fixed period. Then members of the group take turns using the funds accumulated. For example, ten people agree to save M10 a month for ten months. Each month a different member uses the combined savings of M100, until everyone has had a turn. The borrowing order is negotiated prior to the savings contract. The economic efficiency of this institution is simple and elegant for two main reasons. All but the last person in the cycle has access to a lump sum earlier than by saving for it individually, and all but the last person receives an interest-free loan. As long as group discipline is maintained, the system is a highly efficient method to mobilize business capital or funds for lumpy household expenditures. The amount of capital which can be raised depends on the capacity of the group to increase membership or individual contributions and still maintain strict (re)payment discipline.

Burial societies function much like insurance clubs, collecting a fixed monthly amount from members. The amount collected, usually by an elected treasurer, may be small—for example, less than M1 a month. Part of the accumulated funds are used when needed to defray the costs of the burial feast for someone in a member's family. Some burial societies have developed into small banks and lend money, against interest, to both members and non-members. All surplus funds are maintained as general reserves (rather than belonging to individual members). The treasurer often deposits them in the nearest bank. There are usually more members in a burial society than in a stokvel, often as many as 150. But as in stokvels, members usually have a common bond, such as residence in the same village.

[15] Stokvels may not be especially useful for seasonal activities such as agriculture, because members would all need cash at about the same time of year. But they do lend themselves to periodic microenterprises, including those that purchase goods for retail, garment manufacturing, and so on.

Make it easier for women to get credit and do business. The small business sector is dominated by women. But women in Lesotho can still not get credit without their husband's consent, even if they have been long-standing depositors, and even if their deposits have been sizable. These restrictions hamper small business development. Women-specific restrictions on business and credit should be identified and eliminated. Indeed, all legislation—all customary and common law, including "personal" law—should be systematically reviewed for provisions that erode women's legal status and prevent their equitable treatment under the law. The National Organization of Women Lawyers in Lesotho has already done extensive work in this regard.

Change the focus of small business training. Lesotho is ahead of the region in general level of schooling, but to stimulate economic growth it must improve labor skills in large firms and the business skills of small-scale entrepreneurs in the service sector. Some argue for targeting much of the training toward people already working in the export industry, rather than to people with no formal job experience. There is considerable merit to this argument. Experience in both Lesotho and elsewhere suggests that local entrepreneurs will emerge from the pool of skilled workers in formal industry (machinists, technicians, and supervisors), rather than from the pool of the unemployed and self-employed. To begin improving, training institutions should consult more with businesses to identify the skills they need. By financing joint government-industry training programs, the Government can encourage export firms to train more local skilled labor on-site. Some organizations offer business training programs, but they are largely geared toward small and medium-scale manufacturing for the local market, when training for the service sector might be more relevant. And some of the managerial training offered seems too sophisticated for emerging businesses. Small new businesses are often in urgent need of simple bookkeeping skills, for which no appropriate training is available. Perhaps Lesotho's stokvels and burial societies, which apparently have excellent bookkeeping systems, could serve as a model for locally developed bookkeeping systems, a model that could in time be upgraded to a more formal system.

Develop rural and urban marketplaces. Small manufacturers often run into marketing problems. The solution proposed to remedy these problems is generally to provide training in marketing skills. However, small manufacturers (and small farmers) generally do not market their products themselves, but rely on middlemen and traders to convey to them information about the demand side of the market. To promote the marketing of small business products, initiatives other than training in marketing techniques should be considered. A legacy of the colonial, settler-dominated history of Southern Africa is the near-total absence of physical marketplaces where small businesses and producers can market their goods and services. Even a city like Maseru provides mainly for up-scale businesses, and has only a rudimentary bazaar-type central market. In the rural areas, no system of periodic, rotating markets has developed, as it has in other parts of Africa. Periodic rural markets would give local small business operators an opportunity to sell and advertise their merchandise to more clients and to get valuable information on demand, supply, and prices.

Fostering Labor-Intensive Growth in Export-Oriented Light Manufacturing

Lesotho has actively been developing an export-oriented light manufacturing sector. And the wisdom of a strategy of labor-intensive, export-oriented firms has already been confirmed for large Lesotho-based firms. Since the late 1980s, foreign direct investment in the textile and garment industry has created a small base of labor-intensive, export-oriented firms, attracted by Lesotho's low wages and preferential trade agreements with Europe, North America, and South Africa. In the last five years this export boom created 5,500 jobs. (By contrast, after nearly three decades of government investment and subsidies, Lesotho's 51 parastatals currently support a total of 7,700 jobs). The textile and garment industry can still expand and dramatically increase employment.

Currently Lesotho ranks third out of ten African countries exporting apparel and textiles to the United States[16]. So far, Lesotho's strategy for creating more formal sector jobs and growth in exports of manufactured goods has largely succeeded, but there has been some concern that external factors will slow down the rate of growth. For one thing, the lifting of sanctions against South Africa has made investments in Lesotho less attractive for regional investors. At the same time, past U.S. quotas[17] on some Lesotho clothing exports, as well as problems (under the Lóme Convention) with domestic value-added on exports to Europe, may have had a negative effect on the investment plans of some foreign investors. But international experience suggests that the U.S. quota system, although disruptive, has never prevented a particular country from continuing to export to the U.S. market. Continuous switching to non-quota items—for instance, from jeans to shirts—reduces much of the "bite" of the system.

Expanding labor-intensive light manufacturing is the most promising component of Lesotho's industrial strategy. It could create direct and indirect jobs on a large scale. Local businesses can emerge from the pool of skilled, experienced machinists, technicians, and supervisors already working in large export firms. Continued expansion of the export industry will also increase demand for services as varied as catering, machine repair, and building construction and maintenance. Local sourcing of more inputs (such as packaging and transport) would also give local business new opportunities. And some production (for example, embroidering) could be given

[16] In 1994, Lesotho exported 17.7 million square metres to the U.S., compared to 17.1 for Kenya, 23.8 for South Africa, and 50.4 million square metres for Mauritius.

[17] The U.S. quota on textile categories 338/339, 638/639, and 347/348 were suspended in late 1994, after having filled about 90% of the quota. At the writing of this report, no quota call has been made by the Committee for Implementation of Textile Agreements or the U.S. Trade Representative's Office for consultations concerning new quotas.

out as piece work to local subcontractors. Hence, if export industries continue to expand, the ripple effects will be felt throughout the economy and will lead to reduced unemployment and higher wages—both crucial to poverty reduction. To keep the cost of doing business down, Lesotho should maintain the minimum wage at competitive levels, improve industrial relations, and regulate utility cost pricing.

Keep minimum wages down to competitive levels. Although the Government should refrain from administratively setting private wage scales, some would argue that it has a social obligation to set the minimum wage. But it should avoid the temptation to set the minimum wage at or near South African levels. Doing so would merely result in job rationing, more unemployment or parallel labor markets, and a loss of foreign direct investment. Export industries were attracted to Lesotho because of its preferential trade agreements and the low cost of doing business in the country. The cost of business could rise, however, if increased union activity and the excessive salary demands now emanating from civil servants raise the wages of those employed in the formal employment to the levels prevailing in South Africa. Lesotho would then mimic South Africa's inefficient growth path and associated social problems: high unemployment for most, along with higher wages and better working conditions for those fortunate enough to find employment in the formal sector. It is important that Lesotho not fall into this trap.

Improve industrial relations. The Government has engaged in few pro-active attempts to improve strained relations between management and organized labor. It behooves the Government to actively foster regular communications between management and labor on a range of issues, perhaps by organizing regular deliberation councils on the East Asian model.

Lower utility costs by increasing competition, regulation, and decentralization in the utility industry. It will be easier to improve wages and working conditions if utility costs—typically second in importance to labor costs—can be kept under control. To date, there have been few attempts to regulate utility cost pricing or to allow competition in the sector. The result has been aggressive cost recovery by utility companies, with no market or regulatory counterforces to push costs down. In telecommunications, for example, the number of employees per 100 lines increased from 48 to 68 under structural adjustment, meaning that the utility became less efficient while recovering costs. Similar trends exist in the other utility parastatals. Consumers and businesses will suffer, and unemployment will increase, if the trend is not reversed. Several studies of utility costs are currently under way or planned; their recommendations should be implemented as soon as they are available.

Lesotho could probably significantly reduce its utility costs by increasing competition in the utility sector (from both domestic and South African sources) and by strictly regulating utility price increases. At the same time, the country should rationalize the management and sources of utilities. In telecommunications and electricity supply, for example, it should consider complete integration with South African utilities. Lesotho's export firms would benefit from South Africa's cellular phone companies entering Lesotho's market, Lesotho's industrial estates could benefit from direct hook-ups to South Africa's electricity grid, and many parts of the country would be more easily connected to the South African electricity grid than by investing in costly transmission lines emanating from Maseru. At the same time, decentralization of some utility services would increase coverage by reducing costs. For example, international experience shows that per capita water production costs are four times higher in centralized than in fully decentralized systems and are lowest under centrally coordinated decentralized systems.

Root export firms more firmly in the economy by selling them factory buildings and leases and by supporting skills training that promotes the use of skilled local workers in the export industry. There is concern that Lesotho's export industry is footloose and could easily pack up and leave. LNDC (which currently owns factory buildings, holds the lease to the land, and charges the companies a rental fee) could sell the buildings and transfer the leases to the export firms. This would give LNDC the capital to build new shells. Government-supported training programs that elevate local workers into technical and supervisory jobs in the export firms would also help root the industry in the local economy.

Fostering Labor-Intensive Tourism

In the past, Lesotho followed the South African-inspired hotel and casino model for tourist development. This may not suit Lesotho's comparative advantage or goal of labor-intensive development. Rather than expand the traditional hotel and casino package, the Government could try to develop more small-scale tourism (small hotels, lodges, and cabins); this would be more labor-intensive and would provide more opportunities for local entrepreneurs. A real opportunity exists to involve local communities in the design and management of such small-scale tourism.

Tourism is still an underdeveloped sector in Lesotho, despite the country's beautiful scenery. The most important tourist market may be South Africa itself, where interest in African culture and village life is growing. But with tourism booming in South Africa and international demand for eco-tourism increasing rapidly, Lesotho should also develop a tourist product attractive to tourists visiting South Africa. Rather than go it alone, Lesotho should market a Lesotho option as part of an integrated tour package to South Africa. To begin with, Lesotho could start harmonizing its visa regulations with South Africa's to prevent border hassles on side trips to Lesotho.

Investing in Labor-Intensive Infrastructure

Investing in labor-intensive infrastructure can help reduce poverty in two ways: The poor would benefit from infrastructure development and maintenance directly, as wage laborers, and indirectly, as consumers of infrastructure services and as employees of private firms emerging in the improved environment. Unfortunately, Lesotho's infrastructure bureaucracy has not been adept at developing labor-intensive infrastructure, especially in rural areas. Priorities set centrally are not responsive to local concerns and technologies chosen centrally have tended to be capital-intensive. Without local involvement in the planning and implementation of public works, maintenance suffers and infrastructure deteriorates rapidly. Lesotho needs to decentralize implementation and use more private contractors in public works. Future financing of a substantial expansion of labor-intensive public works programs can be secured from the Development Fund in which part of the revenues of the Lesotho Highlands Water Project are deposited.

Decentralize implementation. Public infrastructure projects can be made more efficient and equitable by decentralizing decision-making to the local level. Decentralized programs can quickly and cheaply create and maintain rural investment in such technically simple infrastructure as rural roads and bridges, school buildings, and small-scale water supply systems. A recent World Bank review of experience in 42 developing countries found that where road maintenance was decentralized, backlogs were considerably lower and road conditions tended to be twice as good.

Use private contractors in public works. Public infrastructure development and maintenance has traditionally been a monopoly of the public sector. But efficiency could be enhanced, output expanded, and more jobs created if the public sector restricted its role to planning and coordinating infrastructure investment, privatizing infrastructure development wherever possible, and leaving infrastructure maintenance to local communities and the private sector.

E. Investing in Human Resources

Lesotho's record on human resource development has been more favorable than many other African countries at similar levels of development. For at least a decade, one government after another has recognized that human resource development is central to Lesotho's development prospects and allocations for social services have steadily increased. Over the last ten years, real per capita public spending on health care and education has nearly doubled, despite rapid population growth; allocations for those sectors climbed from under 20 percent of public spending in 1982/83 to nearly 30 percent in 1993/94. This financial commitment, combined with generally favorable sectoral policies, has enabled Lesotho to expand access to basic social services considerably. Lesotho has established a broad-based, decentralized health care system and has significantly expanded primary health care services targeted at major childhood and adult diseases. It now provides more potable water for urban and rural citizens. And school enrollment has increased dramatically: 30 percent in primary schools and 70 percent in secondary schools.

Still, the general level of human resource development is low, especially among the poor, and consistent, effective action is needed to stem declines in the quality and coverage of services. A comparatively high proportion of household spending goes to health and education, both in the population as a whole and especially in the three lower income quintiles. As experience in countries such as Honduras, Sri Lanka, and Zimbabwe shows, resources can be used more cost-effectively, thereby giving the poor better coverage and producing better sectoral outcomes generally. Human capital is, almost by definition, the only capital the poor possess. In the long run, investing in human capital is the only way to eradicate poverty in Lesotho.

Simultaneous action is needed in several mutually reinforcing social services, including health care, primary education, water and sanitation, and family planning (Box 4). Educating women not only makes their worktime more productive, but is also associated with better health and nutrition for children. Investments in family planning services improve the health and incomes of women who choose to space or limit pregnancies and also lower infant mortality and morbidity rates. Lower fertility and (hence) population growth rates reduce pressure on limited health care and education resources. Healthy, well-fed children learn more.

Box 4: Policy Recommendations For Investing in Human Resources

In Health Care:

- Increase geographic equity.
- Exempt children under five, the elderly, and the disabled from user fees.
- Introduce a free or low-fee package of basic health services.
- Allow local facilities to retain certain fees so people feel they have local control over services.

In Water and Sanitation Service Delivery:

- Find ways to make water distribution more equitable geographically.
- Increase government allocations for maintenance of water systems.
- Strengthen local staffing for central and district management of water and sanitation programs, and consider subsidizing the building of sanitary facilities, so poorer households can afford them.
- Replace up-front water connection charges with loans.

In Education:

- Spend proportionately more on primary education and proportionately less on college and university education.
- Improve vocational and technical education.
- Invest more in education in poorer regions.
- Create incentives for qualified teachers to teach in remote areas.
- Lower the cost to parents of primary schooling.
- Strengthen informal education for out-of-school youth.

Improving the Health Status of the Poor

Lesotho has a relatively well-developed network of health services, in which the churches and NGOs play an active role. This network is an important asset that can be improved by streamlining the activities of service providers, especially through joint planning of health activities. In many respects, current health priorities, policies, and programs provide an appropriate framework within which to improve the health status of the poor. The Ministry of Health has emphasized that broad-based primary health care is to be stressed over more sophisticated care as the principal means of dealing with preventable (or easily treatable) infectious diseases, the primary cause of serious illness and death among the poor. Priority is also given to decentralization (through health service areas) and to fostering a working partnership with private (often church-related NGO) health providers to expand coverage into more remote rural areas where the poor often live.

The Ministry of Health is emphasizing health, family planning, and nutrition interventions targeted to children under five and to mothers as well as the treatment of debilitating illnesses (such as tuberculosis) that affect adults' ability to work. These priorities are consistent with poverty reduction goals because they focus on some of the most vulnerable individuals in society.

Still, the poor are not served as well as the better-off; they do not have the same access to basic services and to good health care. By and large, health care facilities and outreach programs serve proportionately more people in richer areas than poor areas, and rural mountain areas get less attention than urban centers. The following policy actions could improve this situation.

Improve geographic equity. Poverty in Lesotho is associated with geography, and rural mountain areas harbor the worst poverty. It is important to target health services increasingly toward these poor areas. To improve geographic equity, the sector should:

- Review the current distribution of health services, to provide a benchmark for future planning.
- Target investments to the Senqu valley and rural mountains, where poverty is concentrated.
- Create appropriate—real, market-related—incentives for health care workers to serve in remote areas: Make it pay both financially and professionally to be posted to remote rural areas.
- Strengthen community-based approaches, so health services can expand cost-effectively into poorer regions.

Exempt children under five, the elderly, and the disabled from user fees. Increased efforts to recover costs under structural adjustment have often meant across-the-board fee increases. It is important to exempt the poor from such cost increases and to target free health services to vulnerable groups.

Introduce a free or low-fee package of basic health services. To improve universal access to basic primary health care, the public health system should identify a package of basic health services, assign very low fees for services in the basic package and aim for full cost recovery on all other services. Most of the basic-package services are generally provided by low-end facilities rather than by hospitals, so delivery would be biased toward the poor, since low-end facilities service the poor, not the rich.

Decentralize by allowing facilities to retain certain fees. Service delivery could improve if health services were decentralized. Local participation in the management and maintenance of health service facilities will improve if people feel their paying user fees allow health care services to function and feel they have local control over the use of such fees.

Pay more attention to important but under-emphasized health problems. It is crucial to put more emphasis on AIDS prevention, given the potential for an epidemic and the fact that AIDS tends to strike adults in their prime, leaving whole households without a means of support. And considering the known links between poverty and alcohol abuse, the sector should probably also study ways to address problems of alcoholism.

Improving Access to Safe Water and Sanitation Services

Improving health, especially where infectious diseases account for most illness and death, generally involves making safe water and sanitation facilities more widely available. One study credited improved waste disposal with a 36 percent reduction of diarrhea in Lesotho, prompting the conclusion that many sanitary interventions could have a bigger impact on health than improvements in health care services do, especially in highly contaminated environments. As a result, government policy emphasizes that all households have access to safe water and substantially increased access to improved latrine facilities.

To date, however, less than half of rural households in Lesotho have access to clean water, although the situation is better today (an estimated 35 to 45 percent coverage) than it was in 1984 (14 percent). Sanitation facilities are available to even fewer rural households (less than 20 percent). In urban areas, especially in Maseru, about 80 to 85 percent of households have access to safe water, and about 60 percent have access to sanitation facilities. Spending for urban water and sanitation (from both donor and government sources) is proportionately much higher than spending on rural services. Government policies seem to favor the richer urban population over poorer urban-dwellers, although this may be partly because of the greater risks of infection and epidemics in densely populated areas. More telling are coverage differentials within rural and urban areas, which do suggest that the poorest are neglected while better-off areas receive service.

The Government should consider the following measures to give the poor better access to water and sanitation services:

- Review program priorities in the water sector and find ways to make water distribution more equitable geographically. Safe water is far less available in the poorest rural districts (Thaba Tseka and Mokhotlong) and the newer areas of fast-growing towns such as Maseru and Maputsoe.
- Steadily increase government allocations for maintenance of water systems and

gradually reduce the current dependence on donor resources, to ensure that sectoral investments are sustainable.

- Strengthen local staffing for central and district management of water and sanitation programs, to ensure a smooth transition when donor-funded expatriate staff are phased out. Priority should also be given to coordinating activities in now-separate rural water and rural sanitation programs, especially in such areas as hygiene education and promotion.
- Consider subsidizing the building of sanitary facilities, so poorer households can afford them. The cost of building materials (M400-M500) is now well beyond the reach of most poor families. The high public returns from better sanitation could justify a public subsidy.
- Replace up-front connection charges with loans. The main barrier to using infrastructure services is often that poor households cannot mobilize the heavy initial connection charges. In urban areas, utilities can be useful conduits for loans extended to finance connection costs because payment can be secured using regular billing procedures.

Improving Education

Massive investments in primary education are a common denominator in economic success stories all over the world. Top priority should be given to investing in primary education, for which the social returns are extraordinarily high. Lesotho should aggressively ensure primary education to as much of the population as possible. A good argument can be made for providing primary education virtually free of charge.

Spend proportionately more public funds on primary education and proportionately less on college and university education. It is difficult to overstate the importance of primary education to a pro-poor economic growth pattern. Lesotho's general growth in spending on education is currently pegged at fiscally sustainable levels, so increasing primary education's share of the sector's budget should be achieved mainly by redirecting expenditures within the sector. Some costs can be cut by continuing to decentralize the educational system, but most of the proposed increase in spending on primary education should come from reduced spending on tertiary education. Currently, the government spends only about M200 per primary school student, compared with M1,000 per secondary school student and a staggering M15,000 per university student.

About a quarter of the Ministry of Education's budget is allocated to the National University of Lesotho (NUL), which spends three-quarters of its budget on administrative overhead. Students at NUL receive a generous "all-inclusive" benefit package (which even includes laundry and student-room cleaning services). Students also receive loans, but repayments rates are very low and Government could show more diligence in recovering these loans. Students in Lesotho, as in most other countries, should get funding from various sources, including means-tested and merit-based scholarships and part-time work. But government spending per student is so high that it would probably be more efficient to send students to first-class South African universities than to educate them at NUL . The Government could save substantially by financing scholarships for studies abroad (in particular in South Africa), rather than try to offer comprehensive, first-rate tertiary education in Lesotho.

In any case, political changes in South Africa and Lesotho demand that tertiary education be evaluated more and more from a regional perspective, and achieving "self-sufficiency" in tertiary education may turn out to be too costly to be sustainable. NUL's academic reputation is not strong enough to warrant continued across-the-board public subsidies. Instead, NUL should try to establish a regional comparative advantage in pre-college and college-level education, possibly with an increased emphasis on technical, health, and education training. If NUL succeeded in providing bachelor-level college education at a regionally competitive level, it might increasingly attract paying students from South Africa, which would reduce Lesotho's fiscal burden. And the Government could direct those cost savings toward primary education.

Invest more in poorer regions. Investing more in basic education in the rural mountain zones would be unambiguously pro-poor. But as educational services in remote rural areas expand, the country must also develop more cost-effective ways to deliver educational services. Decentralization would both improve the delivery of education and reduce costs. School buildings could be maintained more cost-effectively (and more labor-intensively) by local communities than by a central bureaucracy.

Give qualified teachers an incentive to teach in remote areas. If primary education is the cornerstone of Lesotho's human resource development strategy, teachers—the first-line providers of education—should be paid accordingly. Government should carefully monitor teachers' salaries and keep salary levels competitive. To get teachers to work in remote areas, the system must put together an attractive remuneration package that combines real financial and career incentives.

Lower the costs to parents of primary and secondary schooling. Basic primary school fees, currently about M100 a year, are already excessive and clearly anti-poor. In addition, parents must pay many extra costs (for books, school uniforms, and fees to hire extra teachers). And certain exam fees are prohibitively expensive, often several hundred Maloti. These costs are biased against the poor and result in high dropout rates. There have been several studies of what schooling actually costs parents. These studies should be used to formulate policies to cut family costs. General costs could also be lowered through decentralization—for example, by creating local school boards with authority over local budgets.

Improve vocational and technical education. The general level of schooling in Lesotho puts it ahead of the rest of the region, but it is weak in vocational and technical education. Yet jobs and the economy cannot grow unless firms can hire enough workers with the right skills. The impact of LHWP on domestic employment has been below expectations partly because the Basotho labor pool lacked the right skills. Education planning in Lesotho seems to assume that students will one day be employed in the public sector; the idea of the private sector as a stakeholder in education is fairly new. But Lesotho's private sector should be encouraged to participate in curriculum design so that the skills mix of the labor pool improves.

The Government, in collaboration with the private sector, should undertake market research to determine what types of vocational and technical education are in high demand and short supply, and should develop the institutional framework appropriate for providing and financing the vocational and technical education needed. Such a framework might include, for example, a business training center operated as a joint venture between the Government and the private sector.

Strengthen informal education for out-of-school youth. The low level of education for boys is a serious social problem in Lesotho. In the past, it was realistic to expect no more for boys than a career of unskilled physical work in South African mines, but Basotho parents are still unwilling to invest in their boys' education, and instead of sending boys to school often use them as cheap labor for herding livestock. Declining mine employment will eventually change people's attitudes, but the Government can help by actively promoting education and changing public perceptions about future opportunities for mine work. Next to reducing the cost of primary education, the Government should consider imposing age restrictions on herding. It might also be more effective to allow local teachers to earn overtime by providing afternoon and evening classes to out-of-school youth. The overtime option might add to the allure of teaching in remote rural areas.

F. Strengthening the Social Safety Net

The first two strands of the poverty reduction strategy—fostering labor-intensive growth and investing in human resources—aim to reduce poverty indirectly and in the long run. An essential third strand—short-term and direct—is to strengthen the social safety net. The best way to begin is to lower the cost of staple foods, expand labor-intensive public works (self-targeted to the poor), consolidate existing safety net-type programs, and target special programs to vulnerable groups (Box 5).

Box 5: Strengthening The Safety Net

- Lower the consumer price of maize meal, sorghum meal, sorghum, and cooking oil.
  - Remove trade, marketing, and processing restrictions.
  - Exempt basic foods from the general sales tax.
- Expand labor-intensive public works.
  - Decentralize planning and management to local communities for cost-reduction effectiveness.
  - Pay in cash (at below market wages, to make projects self-targeting), rather than in-kind.
- Provide free food supplements to vulnerable groups.

Several government agencies and NGOs carry out a range of safety net programs in Lesotho, but these programs are often not reaching the poor in a cost-effective way. There is no framework of priorities (in terms of vulnerable households or individuals to be targeted), impact monitoring is virtually nonexistent, and the risk of duplication is high—meaning that a single household or individual could draw benefits from more than one program while others with equal or greater needs are shut out. The consolidation of a number of existing fragmented and uncoordinated safety net-type programs can result in substantial efficiency gains.

Administrative targeting of safety-net programs will be difficult, however. The statistical analysis done in this report concluded that there may be no clear-cut set of household characteristics by which to identify poor households in Lesotho; poor households are not easily differentiated from non-poor households. And the alternative—to rely on village leaders to select program beneficiaries—may invite nepotism or rent-seeking. Under the circumstances, the best way to target assistance to the poor may be self-targeted safety net approaches—for example, lowering the price of goods consumed primarily by the poor, or paying below-normal wages in public works programs designed to strengthen the social safety net.

The safety net proposed here takes three roads to addressing the needs of special groups: first, making policy changes to lower prices for basic food commodities to indirectly help all poor households, rural and urban; second, substantially expanding labor-intensive rural public works projects that give income in-cash or kind to poor rural households with unemployed or under-employed able-bodied adults; third, giving food supplements to those with special needs (such as malnourished children and disabled adults), in particular during drought periods.

Lower the consumer price of four food staples—maize meal, sorghum meal, sorghum, and cooking oil. These foods represent a major share of spending in poor households and a minor share in richer households. Lower prices would be achieved principally by abandoning trade, marketing, and processing restrictions (which tend to raise the prices of these products). Consumers suffer a per capita loss of M21 a year—or about M126 for an average household of six[18]—because of trade restrictions that benefit only Lesotho's inefficiently operated industrial mills. In effect, consumers are taxed to benefit producers and the industrial mills.[19] Another M26 per capita—or about M156 per household—would be saved if South Africa would remove its international trade restrictions, and stop protecting inefficient domestic producers of maize. And because poor households spend proportionately more on food than better-off households do, current policies are unambiguously regressive. The poorest 20 percent of the population spends roughly two-thirds of its income on food—especially maize meal—while the top 20 percent spends only 30 to 35 percent of its income on a much more varied diet, spending only a fraction of its food budget on maize). Lowering consumer prices for maize would also benefit labor-intensive industry, by reducing the pressure on wage bills.

Moreover, the Government could consider returning to the pre-1991 exemption of less refined food staples from the general sales tax. Poorer households tend to consume coarser qualities of meal, so better targeting might be possible by exempting from taxes only unsifted maize meal produced by industrial mills and all meal produced by village hammer mills, while retaining the tax on the more refined meals consumed by the better-off. This option would be feasible if the contemplated shift to a value-added tax system is implemented. Note, however, that Lesotho's value-added tax system will have to be in line with South Africa's to

[18] The per capita loss is calculated assuming a population of about 1.7 million for 1992/93. The total loss each year is an estimated M35.11 million, even with conservative assumptions about costs.

[19] To the extent that maize-consuming households also produce maize, consumption losses are partially offset by production gains (estimated at about M19 million in 1992/93). But the reduction in losses is relatively small. Domestic production accounted for less than 15 percent of consumption in 1992/93.

prevent smuggling. Because South Africa exempts food staples from the value-added tax, Lesotho would need to do the same anyway.

Shift from free food distribution schemes toward a substantially expanded labor-intensive public works initiative. Targeted to the able-bodied but un- or under-employed poor, this initiative would build on existing food-for-work schemes, the labor-intensive rural roads program, and recent drought emergency relief efforts. It would employ a self-targeting mechanism (below-normal wages) as well as some geographic targeting to reach the poor; it would probably emphasize cash rather than in-kind wages; and it would focus on projects (such as small-scale irrigation, feeder roads, foot bridges, anti-erosion works, and afforestation) with high labor- to-capital ratios as well as high economic returns. Institutional constraints would be relieved partly by merging disparate government units, partly by establishing mechanisms to effect collaboration between line ministries, but mainly by involving NGOs, private contractors, and local communities in all aspects of program design and implementation. If adopted, this initiative could be financed by reallocating ineffective safety-net funds as well as through the Lesotho Highlands Water Project Development Fund.

Provide food supplements to vulnerable groups. The third element of the proposed safety net program is to replace the current school feeding program with a community-based supplementary feeding program targeted to the most vulnerable groups in Basotho society: malnourished pre-school children, pregnant and lactating mothers, and individuals unable to work because of severe mental or physical disability, chronic illness, or old age. This program could build on the recent drought emergency initiative, under which local communities (often the school feeding committee) weighed children under five and provided meals to those identified as malnourished. High rates of malnutrition prevail among Basotho pre-school children, which can seriously limit mental development, learning, and ability to work.

Objective indicators would be used to identify beneficiaries (for example, low weight for height) with health care facilities or village health workers certifying eligibility. If adopted, this vulnerable-groups supplementary feeding program could replace the poorly targeted school feeding program. Financing could come principally from money formerly used to fund the phased-out or better-targeted school feeding program. Logistical arrangements would rely heavily on NGO and community involvement, as school feeding now does. Lesotho could also investigate the feasibility of a food stamp program. Food stamps are like quasi-money, which beneficiaries can exchange for approved food items in any food store. The government would guarantee payment of the cash value to the food supplier. We recommend trying this scheme on a pilot basis, with careful evaluation of the pilots before a final decision on whether to proceed nationwide.

Providing food to vulnerable programs is of life-saving importance during drought and other emergencies. Because Lesotho is so susceptible to climatic and man-made shocks, such as retrenchments in the employment of mine workers, the government will need to build the capacity to respond quickly and effectively to sudden adversity. Lesotho's most recent experience with drought was ameliorated by the government's productive collaboration with the NGO community in delivering drought relief. Rather than rely on *ad hoc* collaboration, the Lesotho Council of NGOs and the government should formalize their recent working relationship so a clear institutional mechanism is in constant readiness.

G. Strengthening Institutional Capacity

Making a sustained impact on poverty in Lesotho will require coordinated action in many sectors plus an integrated approach to special assistance programs aimed at reducing poverty. It is necessary to set clear poverty goals and targets, reorient policies and programs in many sectors, expand some programs and eliminate others, consolidate efforts where there is duplication and fragmentation, and continuously monitor and evaluate how development programs are affecting poverty. Moreover, all sectors must try harder to reach rural-dwellers, because the poorest members of Basotho society often times live in the country-side; often in scattered, remote communities.

Strengthening institutional capacity is crucial to poverty reduction. The resources now devoted to poverty reduction would be far more effective if there were less program fragmentation and duplication and better coordination of public and NGO resources. NGO's donors and central and local governments have sometimes succeeded in cooperating on poverty-reduction programs, but usually in programs giving direct income transfers to households. Coordination of broader development programs has been much more limited.

Strengthening government's capacity to design and implement poverty reduction strategies would involve reforming the civil service, decentralizing authority, privatizing activities better suited to the private sector, improving planning and budgeting, merging fragmented program units, developing a transparent poverty reduction program from the Development Fund, and doing annual household surveys (see Box 6).

Box 6: Policy Recommendations for Improving Institutional Capacity

- Reform the civil service.
- Decentralize political, fiscal, and administrative authority.
- Privatize activities better performed by the private sector.
- Improve planning and budgeting.
- Merge fragmented program management units.
- Design and implement a poverty reduction program of investments financed from the Development Fund.
- Start doing annual household surveys.

Reform the Civil Service

A decline in civil service performance has contributed to Lesotho's current crisis in governance. In the near future, with the help of the UNDP, the Government will implement the civil service reform Lesotho urgently needs. Civil service reform will require making some politically difficult choices. First, the Government must take a hard look at which activities to undertake and which to shed. Many services currently provided by the public sector—tractor services, for example, and the maintenance and cleaning of government buildings—could be privatized with no net reduction in employment in the economy. If the Government wants a high-quality civil service that undertakes only those activities that the government should be doing (for example, ensuring law and order, delivering social services, providing public infrastructure, and regulating economic institutions), it must ensure its civil servants both good pay and rewarding careers. And that means reducing the size of the civil service to avoid a fiscal crisis. A civil service reform program that postpones these difficult choices will fail even before it begins.

Decentralize Authority

Decentralizing political, fiscal, and administrative authority is the key to reducing the cost of, and hence expanding, the delivery of infrastructure, utilities, and social services. Decentralized planning and execution can yield substantial efficiency gains because coordination and information cost less. At the heart of rural development, for example, is a core of rather simple, small investment projects, such as the construction of rural roads and bridges, the digging of wells, the development of small-scale irrigation, and the building and repair of schools and maternities. Planning and executing such activities locally does not usually involve complex and costly coordination or information gathering. But when you coordinate and implement simple activities through a far away central bureaucracy or project authority, rural development does become both complex and costly.

To be effective, decentralization must proceed along all three paths: political, fiscal, and administrative. The key is public accountability, which is why leaders should be chosen locally, finances should be controlled locally, and administration should be the responsibility of local authorities. Assigning clear responsibilities to a particular government unit and a specific service is essential to successful decentralization. If local government does not have clear financial and managerial discretion, it cannot be held accountable for either success and failure.

Local election of councils, committees, and mayors can greatly improve political accountability but other measures are also needed, especially in Lesotho, which has just emerged from a long period of authoritarian rule characterized by weak local institutions. Such supplementary measures typically include regular consultation with constituents, strong monitoring of user satisfaction with local services, and the linking of civil servants' career paths to their responsiveness to constituents.

To be held accountable, local leaders must have fiscal and administrative control. This means control over revenues, which means there must be adequate local finance laws, covering budgeting, financial reporting (accounts and audits), taxation, contracting, and dispute settlement. Most important, fiscal accountability requires being able to tax and to charge user fees. The key to making decentralized government more sustainable is to allow more local revenue raising, which includes getting those who use public services the most to pay the most for them. Transfers from the central government should be widely publicized, for transparency. In Lesotho this means, among other things, widely publicizing the existence and operating guidelines of the Development Fund (in which LHWP revenues accumulate) and all allocations made from it.

In Lesotho, decentralization may initially be hampered by a shortage of the skills and technical expertise needed for even simple village projects. Here, NGOs and associations of private firms can help enormously, both to ease the transition from central to local rule, and to help make the delivery of services more efficient. But local stakeholders should ultimately be responsible for deciding which particular NGO or firm to hire to help with project planning or execution, or whether to deliver a specific service. Local capabilities will not grow if mandates and resources are simply transferred from the central bureaucracy to NGOs and private firms that bypass local stakeholders. Rather than fund NGOs directly, central government could allocate resources to the local administration and let it decide how it wants services to be delivered—with what mix of line ministries, NGOs, and private firms.

Political, fiscal, and administrative decentralization can quickly and dramatically increase the number of successfully executed development projects. The key to success, based on international experience, is to stress the importance of all local stakeholders participating directly. Three principles are important to remember. First, beneficiaries should be involved directly, not through intermediaries who claim to represent the community. (Consulting with local officials and NGOs is not a substitute for the direct participation of beneficiaries through something like a regularly held town or village meeting). Second, early consensus should be sought on project proposals, so costs are kept low and project design is more appropriate in terms of technological complexity and labor intensity. Third, cash or in-kind contributions should be mobilized up front. This not only reduces costs to the government, but increases local commitment, ensures the true setting of priorities, and increases the likelihood of the community's subsequent maintenance of the project.

Privatize Activities Better Suited to the Private Sector

The civil service could be reduced considerably and made more efficient through privatization. Viewing itself as a necessary substitute for what it views as the weak private sector, the government continues to involve itself in productive and trading activities. Ironically, loss-making parastatals are staffed by relatively well-paid civil servants who are unequipped to run companies, while the delivery of social services is declining because civil servants working in those sectors are underpaid and have no career prospects. The government should stop trying to substitute for the private sector, and the people running crucial public services should be paid adequately. Careers in public health and education should be well-rewarded, attractive career options.

The privatization of parastatals and state companies could give the government the resources it needs to focus aggressively on activities that address core unemployment and poverty problems. Because privatization is a politically sensitive issue—mainly for fear of foreigners taking control of previously state-owned companies—it is tempting to proceed at a snail's pace on privatization, but that would be both costly and counterproductive. Experience elsewhere dramatizes the many pitfalls of a gradualist approach to privatization and the greatly increasing cost to Government. The government's Privatization and Private Sector Development Program, funded by the World Bank, adopted a process (rather than blueprint) approach, which should make possible the design of a privatization strategy that will suit conditions in Lesotho, one that should be able to achieve quick results.

Improve Planning and Budgeting

In Lesotho, annual planning and budgeting often merely replicates historical budget allocations. There seems to be neither an adjustment to new priorities or a phasing out of old ones. A rudimentary start was made with public investment planning by incorporating data on development aid flows from donor agencies into budget numbers under the Public Sector Investment Program (PSIP). But to date no efforts have been made to scrutinize the PSIP and to check for consistency with the government's stated policy objectives. The Ministries of Economic Planning and Finance should take the lead in establishing a truly planned budget process; one that is reflected in the PSIP. Regular consultations with the Ministry of Employment ensure that the goal of increasing employment is considered in all project design and evaluation.

Merge Fragmented Program Units and Consolidate Safety Net Programs

One problem with Lesotho's safety net programs, administered by several government agencies and NGOs, is that initiatives are highly fragmented. The most pernicious effect of multiple, uncoordinated programs may be their effect on Lesotho's institutional capacity to provide assistance. As various initiatives to help the poor were launched, it was apparently more convenient (and more attractive to external funders) for the government to establish a new office or department in a ministry to supervise the program than to strengthen an existing government structure. As a result, there is a plethora of program offices, often with roughly similar mandates, each staffed by one or two national professional staff and varying numbers of expatriates. When expatriate staff are withdrawn, usually upon completion of donor projects, the weakened units are left behind, each with less than a critical mass of Basotho staff to implement the mandated program effectively. To transfer resources to the vulnerable groups more efficiently, and to ensure the sustainability of safety net programs, it is important to consolidate units, and the programs they manage, into larger entities geared to reaching clearly specified target populations. Some initiatives might be replaced and some might be expanded.

As mentioned earlier, the government could establish a more consolidated safety net system targeted to the poorest individuals and households and focusing on: (1) self-targeting mechanisms (where feasible) other than administrative targeting, because self-targeting costs less and is better at reaching the poor; (2) the need to consolidate disparate units to strengthen national capacity for program management; (3) strengthening existing delivery mechanisms rather than creating new ones so to avoid straining Lesotho's already weak institutional capacity; (4) developing partnerships with NGOs and the private sector; and (5) making the best use of limited budgetary resources.

Duplication and lack of coordination among complementary operations characterizes other government and parastatal bureaucracies, too. The Ministry of Works has two units responsible for paved roads and intermediate roads, for example, while the Civil Works Section of the Ministry of Home Affairs is responsible for unpaved roads. These three sections should be merged into one roads department. Similarly with soil and water conservation: units responsible for donga reclamation, conservation works, and village water supply, which operate in different ministries, could cut costs substantially by merging. Water and sewerage are provided through three organizations: the Ministry of Natural Resources, the Water and Sanitation Authority, and the Ministry of Home Affairs. Reducing such fragmentation should increase cost-effectiveness.

Also problematic is the inadequate, fragmented attention paid to small-scale local entrepreneurs. LNDC treats foreign investors to a one-stop investment center but local entrepreneurs have to battle with various bureaucracies, with no support from a strong advocacy institution. A merger between LNDC, Basotho Enterprises Development Corporation (BEDCO), and the Business Advisory and Promotion Service (BAPS) should be considered.

Design and Implement a Transparent Poverty Reduction Program of Investments Financed from the Development Fund

The Development Fund collects revenues attributable to the Lesotho Highland Water Project. A transparent, decentralized mechanism to use part of these funds for poverty-reducing investments such as rural infrastructure would improve the LHWP's status. The pilot community survey program undertaken with UNICEF's assistance, seems a promising example to replicate nationally. From these community surveys, done by villagers themselves, can emerge priority investment activities that could be funded from the Development Fund. Currently, the mechanism through which village-level projects are proposed for funding from the Development Fund is in the process of being elaborated. The government should pay particular attention to the design of the management and disbursement mechanisms of the fund. The potential of this fund to create a decentralized, national program of poverty reduction is substantial.

Start Doing Annual Household Surveys

Too much time and effort is wasted debating who the poor are and whether or not they are hurt by policy changes such as those advocated under structural adjustment. Computer technology reduces the financial and manpower demands of representative household surveys to a fraction of their former levels. These surveys should be conducted annually, with sections on income, spending, assets, and other indicators of social welfare, perhaps supplemented each year with a section with a special emphasis for that year (such as nutrition, gender issues, land tenure, and local government).

To stimulate applied research, the data should be put immediately into the public domain. And Government could contract for a private institution (a consultancy firm or the National University) to annually analyze the state of the economy, especially in terms of poverty and employment. The survey analysis could serve as an independent assessment of how Government is doing in important areas.

H. An Action Plan

The various policy recommendations discussed above will need to be prioritized. A first attempt is made to differentiate between policy actions which are likely to have a high or medium impact on poverty reduction, and between policy actions which are feasible to implement in the short or medium term (Table 3). The poverty impact of a particular policy action derives from the poverty profile. The feasibility derives from a rough assessment of implementation constraints and incremental fiscal costs.

Table 3. Prioritizing the Policy Actions

Poverty reduction	Feasibility	
	Short term	Medium term
High impact	**Policy 1**	*Policy 2*
Medium impact	*Policy 2*	Policy 3

The resulting prioritized summary matrix of policy recommendations made in this report is reprinted below (Box 7). It is suggested that this matrix can form an input into a more wide and inclusive process of public debate aimed at designing a concrete set of programs to reduce poverty in Lesotho.

Box 7: A Prioritized Action Plan

FOSTER LABOR-INTENSIVE GROWTH

In Agriculture:

- **Remove price, marketing, and processing distortions.**
- **Invest in rural infrastructure that supports intensified agriculture** and **the production of export crops.**
- *Make land tenure (and women's rights to land) more secure and rental markets more flexible.*
- Promote a reduction in herd size.
- Reorient agricultural research and extension.

In the Small Business Sector:

- **Make it easier for small entrepreneurs (especially women) to get credit and do business.**
- *Shift the emphasis away from broad entrepreneurship training in manufacturing toward training in skills needed in the export and service sectors.*
- Develop rural and urban marketplaces.

In Export-Oriented Light Manufacturing:

- **Keep minimum wages at a competitive level.**
- *Improve industrial relations.*
- Reduce utility costs by increasing competition, regulation, and decentralization in the utility sector.
- Root export firms more firmly in the economy by selling them factory shells and leases and by supporting skills training that promotes the use of local skilled workers in the export industry.

In Tourism:

- *Work much more closely with South African travel agents.*
- Develop a special "Lesotho package."

Through Infrastructure Investments:

- **Use private contractors on public works.**
- *Invest more using labor-intensive approaches, but decentralize implementation.*

Invest in Human Resources

In Health Care:

- **Exempt children under five, the elderly, and the disabled from user fees.**
- **Introduce a free or low-fee package of basic health services.**
- *Increase geographic equity.*
- Allow local facilities to retain certain fees so people feel they have local control over services.

In Education:

- **Lower the cost to parents of primary schooling.**
- **Strengthen informal education for out-of-school youth.**
- *Improve vocational and technical education.*
- *Invest more in education in poorer regions.*
- *Create incentives for qualified teachers to teach in remote areas.*
- Spend proportionately more on primary education and proportionately less on college and university education.

Strengthen the Safety Net

- **Lower the cost of staple foods.**
  - ➢ Remove trade, marketing, and processing restrictions.
  - ➢ Exempt basic foods from the general sales tax.
- *Expand labor-intensive public works.*
  - ➢ Decentralize planning and management to local communities for cost-reduction effectiveness.
  - ➢ Pay in cash (at below market wages, to make projects self-targeting), rather than in kind.
- *Target special programs (food-stamp-type programs, for example) to vulnerable groups, including an improved drought relief program.*

Improve Institutional Capacity

- **Design and implement a poverty reduction program of investments, financed from the Development Fund of the Lesotho Highlands Water Project.**
- *Decentralize political, fiscal, and administrative authority.*
- Reform the civil service.
- Privatize activities better performed by the private sector.
- Improve planning and budgeting.
- Merge fragmented program management units.
- Start doing annual household surveys.