

Ministry of Development Planning, Lesotho

**LESOTHO NATIONAL POLICIES, BEST PRACTICES AND  
CHALLENGES IN BUILDING PRODUCTIVE CAPACITIES**

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By Reboneng Mako  
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*In line with economic development theories, and particular alignment with the Capabilities Approach this report covers both the productive sectors and their best practices in building productive capacities and the “enablers” that provide capabilities for unleashing productive capacities. It starts with giving an outline of the national policy and strategic framework.*

## 1. INTRODUCTION

The Kingdom of Lesotho is a constitutional monarchy, currently under multiparty coalition leadership. Lesotho is a country of 35,355 square kilometers area which is mostly mountainous, a population of about 1.911million people, and per capita income of US\$ 1,322.403. The economy is small with GDP in current prices of US\$2.527 billion growing at 5% average year on year rate. (World Economic Outlook Database, April 2014). The official currency is Maloti (M), Loti/ US Dollar 10.7089 09 July 2014, which has a fixed exchange rate regime at par with the South African Rand (ZAR) under the Common Monetary Area (CMA) arrangement. Lesotho is a member of numerous regional economic arrangements such as the Southern African Development Community (SADC), Southern African Customs Union (SACU), and other international agreements.

The core of Lesotho's policies and national plans is the National Vision 2020 developed in 2001. The National Vision of Lesotho is that, by the year 2020:

***“Lesotho shall be a stable democracy, a united and prosperous nation at peace with itself and its neighbors. It shall have a healthy and well-developed human resource base. Its economy will be strong, its environment well managed and its technology well established.”***

The Vision in itself sets out Lesotho's a point of departure that building productive capacities is not only a means to an end of a strong economy, but more of a critical priority in achieving the general improvement in the wellbeing of its people.

## 2. NATIONAL POLICIES & PLANS

### **National Strategic Development Plan (NSDP) 2012/13-2016/17**

In order to achieve the National Vision 2020 aspirations, Lesotho has developed a National Strategic Development Plan (NSDP) 2012/13-2016/17 as a medium-term implementation strategy. It is through the implementation of the NSDP that Lesotho will also address the priorities as laid out in the Istanbul Programme of Action (IPoA).

The NSDP key objectives are to achieve:

- High shared and employment creating economic growth;
- Promotion of peace, democracy, good governance and effective institutions;
- Development of infrastructure (minimum infrastructure platform);
- Transformation of skills development institutions and improvement of skills and innovation base;
- Reversal of environmental degradation and adaptation to climate change; and

- Improve health, combat HIV and AIDS and reduce social vulnerability.

The NSDP Strategic Framework covers issues and development strategies in: Investment Climate Reform and Financial Sector Development; Trade; Micro, Small and Medium Enterprises (MSMEs); Agriculture and Rural Economy; Manufacturing; Tourism; Mining; Infrastructure; Skills and Innovation; Health, HIV and Aids, Social Protection; Environment and Climate Change; and Governance and Institutions. Commercial agriculture, Tourism, Mining and Manufacturing have been set out as growth sectors that have the highest employment potential and of focus for development of productive capacities.

Building productive capacities is at the core of this NSDP Strategic Framework aimed at reaping the benefits of sustained broad-based economic growth in the form of jobs, improved health, skills and capabilities, and poverty elimination.

Annex 1 provides the linkages between the Lesotho NSDP and IPoA.

### **District Economic Strategies (DES)**

The DESs are a bottom-up approach to the NSDP. They are developed with more focus on employment and economic development advantages of each District and its specific areas towards achieving developments. The DESs are anchored around the four NSDP identified growth generating sectors; manufacturing, commercial agriculture, mining, and tourism. The strategies' investment programmes will be collectively built into investment programmes for each of the sectors for government and private sectors' action. This link will facilitate government infrastructure distribution towards development specific areas in districts.

## **3. SECTOR SPECIFIC BEST PRACTICES AND CHALLENGES**

### **i) Agriculture and Rural Economy**

The Agricultural Sector Strategy 2003, National Action Plan for Food Security 2007-2017, CAADP, and National Agricultural Investment Programme (NAIP) are the Lesotho government's statement of policy and strategy in the agricultural sector development. They indicate how the Ministry of Agriculture and Food Security (MAFS) aims to achieve the national goals as set in the National Vision 2020. The strategy formulates its own policies with goals, objectives and outputs for 19 subsectors which fall into three groups: i) The production sub-sectors, which are crops, livestock and subsistence production; ii) Cross cutting issues (food and nutrition, forestry, conservation and range management, land use, land tenure, rural finance and investment); and iii) Government services (extensions, training and research).

The strategy put emphasis on development of productive capacities of households/farmers to tap in agribusiness. Implementation has however fallen short as Lesotho still has very low

agricultural productivity despite huge government subsidies particularly for cereals production under the Block Farming Project for grain farming. There has generally been limited policy direction towards support of diversified commercial agriculture.

Horticulture (cash crop) promotion under the EIF programme and piloting of fruit production (apples, grapes, cherries) under the Private Sector Competitiveness and Diversification Project are some of the best practices of recent.

Significant production capacity exists in the sub-sector of small stock husbandry particularly wool and mohair production with Lesotho the second largest wool producer after Argentina. The Lesotho Wool and Mohair Growers association has undertaken policies to take over woolsheds and dip tanks management from government, trained farmers in veterinary activities and facilitating improvement of breed quality. There are also plans to undertake value addition initiative in the industry – scouring and turning. The major challenge is the poor range lands management as the pastures in Lesotho are a common pool and not privately owned. The issues of improvement of quality of wool and mohair through breeding, feeding and disease control as well as rooting out stock theft are critical to the commercialisation of the sector.

Dairy production has as well been supported with trainings to farmers and establishment of two dairy plants under the National Dairy Board, with numerous dairy associations. The production has however remained very low as farmers have limited access to male seed for breeding and milk collection centres.

## **ii) Manufacturing**

Lesotho's manufacturing sector is the largest contributor to exports driven mainly by textiles and garments manufacturing, making it the largest textiles exporter to the U.S. under AGOA. The textiles sector on its own is second largest employer after government at over 35,000. Diversification is already being promoted to South African, European and African markets and other manufacturing in light engineering and electronics. In an effort to facilitate the development of productive capacities in the manufacturing sector the Industrial Policy has been developed. The industrial policy also pursues the implementation of the SADC Industrial Upgrading and Modernisation Programme (IUMP). Textiles Productivity Centres were also developed in 2009 to anchor the major employment potential in the AGOA-based textiles and garments manufacturing industry. The sector is however dominated by footloose AGOA-based Asian FDI making it more fragile and lacks technology and skills transfer to locals.

## **iii) Education & Training**

Lesotho has for years shown its strength in developing skills through education and training through the establishment of education and training institutions at the vocational and technical, college and university level achieving adult literacy rates of over 80%. Some of these institutions were in specialised areas such as nursing, agriculture and general TVET.

The intuitions, TVET institutions in particular were aimed at building productive capacities needed for the more labour intensive sectors. The TVET Policy has since been developed, together with the Free and Compulsory Primary Education Act of 2000, and the education curricula's reviews all aimed at building productive capacities matched to the country's industries' needs. These efforts have however not been as effective with unemployment of graduates and school-leavers the biggest share of the unemployed labour force. The result of the exclusive focus on formal education and training has been the skills mismatch that remains persistent.

**iv) Health & Social Protection**

Although a large share of national budget is spend in the health sector, for building hospitals and access clinics/health centres, paying staff salaries and procuring medicines and equipment, challenges in terms of efficiency are persistent. Lesotho is still lagging behind on its targets in reducing HIV&AIDS prevalence, though rates of infections have been reduced, reducing under-five child mortality and improving maternal health.

**v) Infrastructure & Information Communications Technology (ICT)**

The ICT sector is viewed as key to supporting the productive capacities in all sectors, hence the ambitious National ICT Policy and the Digital migration programme. Tele-density is significant at 90% for mobile phone usage but still very low at 3% for fixed lines. Competition Management Regime is in development process aimed at promoting and to preserve competition in Lesotho market for communication services. The national Broadband Policy is also going through consultation processes. The transport sector is also growing significantly with major developments being adopted for gross-border trade. Access to rural and peri-urban areas is still restricted as the roads are either in bad conditions or non-existent. These are the areas viewed as key to production and job creation for the poor young, women and men through mainly agriculture and tourism.

**vi) Financial Sector Development**

The Financial Sector Development Strategy (FSDS) follows from the NSDP objectives for the financial sector in order to maximise its contribution to economic and social development in Lesotho. The FSDS builds on a strong foundation, with more than 80% of Basotho adults using formal or informal financial services, one of the highest rates of financial inclusion in Africa. There is still more to be done, particularly in expanding access to savings and transactions products in rural areas and credit to small, micro and medium-sized businesses (SMMEs). The FSDS focuses mainly on the four financial sector strategic areas, being: Financial Inclusion; Mobilising Financial Resources and Promoting a Savings Culture; Improving Efficiency – The Payments System; and Financial Stability and Soundness.

**vii) Tourism**

Lesotho has great tourism potential which currently under-taped in terms of attractions, heritage and geography. The Lesotho Tourism Development Corporation (LTDC) has been

established to facilitate the sector through licensing and regulation, providing trainings and developing tourism infrastructure. LTDC and its mother ministry have plans in place to facilitate the industry in different set routes and circuits. The Mahlasela AFRiSki Resort and Sehlabathebe National Heritage Park are renowned developments.

#### **viii) Investment Promotion & Private Sector Development**

The government of Lesotho has established that economic growth and employment generation can be sustainably achieved through strong focus on tapping investments in development of the private sector, particularly in the four NSDP identified growth generating sectors (Commercial agriculture, Tourism, Mining and Manufacturing). Lesotho has established the Lesotho National Development Corporation (LNDC) tasked with investment promotion. The LNDC establishes industrial zones furnished with appropriate infrastructure, and provides financing support where necessary. The Basotho Enterprise Development Corporation (BEDCO) has also been established and mandated with providing business development services, entrepreneurial training and some specialized technical skills training to MSMEs.

The Micro, Small and Medium-sized Enterprises (MSMEs) Policy has also been produced as a framework and strategy to the development of MSMEs and building their productive capacities. The Government of Lesotho and LNDC have also established Partial Credit Guarantee Schemes in 2012 meant to ease access to finance for MSMEs. The implications are that supporting SMEs through training, better management skills, and information services has the potential to promote firm growth and increase productivity and create jobs and advance the process of structural transformation. The Appropriate Technology services (ITS) facility has been established to facilitate research and development in technology innovation, adoption and diffusion for MSMEs.

In the current year efforts to support building productive capacities have been strengthened by starting process of developing AGOA Adaption Strategy and Quality Policy.

#### **4. MAJOR PRODUCTIVE CAPACITY CHALLENGES**

- Skills' mismatch between labour market demands and what the education system supplies.
- Lack of opportunities fostered through access to finance, information flows and variety of economic activities (i.e. infrastructure, technology information services) that have constrained economic agents from taking entrepreneurial action.
- Challenges of exclusive FDI-led entrepreneurship taking advantages of trade concessions: (a) uncertainty emanating from the possible expiry of these concessions and changes in external environment (i.e. demand shocks); (b) lack of skills transfer sometimes due to fear by foreign entrepreneurs that their products would be imitated by domestic entrepreneurs (markets share protection); (c) non voluntary diversify products because usually MNCs are part of a larger value chain network and

have no obligation to introduce new products unless it is a directive from the MNCs top management; (d) limited spill-over effects; (e) low quality of jobs that cannot make any meaningful contribution to poverty reduction; (f) loss of incomes that could be used to impart more capabilities of agents due to repatriation of profits which if venture capital was sourced domestically by domestic entrepreneurs could be retained in order to develop more industries and improve income levels.

- Low manufacturing productivity and lack of participation in the global value chains remain a challenge to the achievement of the desired structural transformation.
- Low workers skills and training relative to its comparator countries.
- Lesotho agricultural productivity remains below that of a number of other African countries due to: reliance on traditional practice of rain-fed farming system that is susceptible to varying climatic conditions.
- Lack of entrepreneurship skills that would have diversified products and turned Lesotho's agriculture into a viable commercially driven sector.
- Low technological entrepreneurship that is central to the whole process of meaningful structural transformation.
- Lack of necessary infrastructure such as water and electricity, roads, and storage, marketing and business/industrial operations facilities.

## **5. CONCLUSION**

Lesotho has done much spade work regarding building productive capacities and developing frameworks to support development of key growth sectors. A lot of work is however outstanding in facilitating implementation of policies and plans. The key strategies should, among others, ensure:

- Institutions Building
- Infrastructure Development
- Promotion of Markets and Market Efficiency
- Technological Readiness and Adoption
- Address the Entrepreneurship and Innovation Bottlenecks
- Macroeconomic Stability and robust Investment Climate Reform
- Upgrading of Skills and Encourage Innovation
- Access to Financing by Entrepreneurs and Business Start-ups
- Building the Industrial Sector through Innovative Strategies
- Diversification and Value Addition in all productive sectors

**ANNEX 1: LINKING THE IPoA PRIORITY AREAS FOR ACTION WITH THE NSDP STRATEGIC AREAS**

IPoA Priority Areas of Action	NSDP Strategic Areas Towards Implementation of the IPoA
<p><b>PRODUCTIVE CAPACITY</b></p>	<p><b>Infrastructure:</b> The key objectives are to improve access to main towns and key border posts; Improve and develop integrated rural and urban transportation systems; Improve transport safety, climate proof infrastructure and reduce road accidents; Improve air transport competition, efficiency and coverage</p> <p><b>Energy:</b> Key objectives in the energy sector are to; Increase clean energy production capacity to attain self-sufficiency, export and greening of the economy; Expand electricity access to centres of economic activity, other sectors and households; Increase energy conservation, safety and access to alternative (non-electricity) energy products and efficient technologies</p> <p><b>Information and Communications Technology (ICT):</b> The key objectives are to; Improve ICT infrastructure and access ; Facilitate use of ICT and widen ICT literacy; Promote innovation and develop niche ICT sub-sectors; Facilitate smooth migration from analogue to digital; Improve cyber security; Enhance e-Government services and institutions in the ICT sector</p>
<p><b>AGRICULTURE, FOOD SECURITY AND RURAL DEVELOPMENT</b></p>	<p><b>Agriculture and rural development:</b> The main objectives in the Agricultural sector are to promote sustainable Commercialization and diversification in agriculture through improved access to finance, quality livestock breeding capacity and quality inputs, water harvesting and irrigation infrastructure. Increase value-addition and market integration through investment in agro industry and development of agri-business; to Strengthen capacity of farmers and institutions by Enhancing agricultural institutions and capacity of farmers through effective training and transformation of extension services, capacity and systems for policy analysis and planning and by Improving capacity and relevance of agricultural research and training; to Reduce Vulnerability and Manage Risk by improving household food security, Reducing stock theft and increase recovery, Maintaining animal</p>

IPoA Priority Areas of Action	NSDP Strategic Areas Towards Implementation of the IPoA
	and plant health, Climate change proofing the agricultural sector, reducing market risks and Promoting an integrated and sustainable development in rural areas
<b>TRADE</b>	<b>Trade:</b> Strengthen trade institution capacity and efficiency, investment and trade promotion and also diversify and improve market access, enhance productive capacity and exports and promote consumer protection.
<b>HUMAN AND SOCIAL DEVELOPMENT</b>	<p><b>Health, HIV and Social Protection:</b></p> <p><b>Health:</b> The main objectives are to: Reduce infant and child morbidity and mortality rates, Malnutrition and maternal mortality rate; Improve quality, quantity and retain skilled health professionals/personnel, procurement and dispensing systems for pharmaceuticals and essential supplies; Improve quality and access to laboratory services; Increase coverage and access to health services; Strengthen the management and accountability of health facilities and systems, partnerships with the private sector, NGOs, churches and development partners; Promote research and documentation of traditional medicine</p> <p><b>HIV and AIDS:</b> We need to reduce new infections through intensification of HIV prevention and integration with treatment; Increase coverage and quality of treatment, care and support services and facilities; Improve efficiency and sustainability of mitigation programmes and Improve institutional effectiveness and coordination</p> <p><b>Social protection:</b> The main objectives are to consolidate and improve efficiency of social protection systems and enhance coverage of selected interventions ; Increase capacity of able bodied persons to deal with vulnerability; Improve work safety and ease job search and Increase capacity for disaster risk management at household, community and national level</p>

IPoA Priority Areas of Action	NSDP Strategic Areas Towards Implementation of the IPoA
<p><b>MULTIPLE CRISES AND OTHER EMERGING CHALLENGES</b></p>	<p><b>Reverse environmental degradation and adapt to climate change:</b></p> <p>The main objective of the cluster is to reverse environmental degradation and adapt to climate change by: Increasing biodiversity conservation and promote sustainable use; Strengthening range management institutions and range carrying capacity; Improving national resilience to climate change; Promoting and increase the greening of the economy; Improving land use, administration and management; Improving the delivery of environmental services; Improving environment and climate change governance</p>
<p><b>MOBILIZING FINANCIAL RESOURCES FOR DEVELOPMENT AND CAPACITY-BUILDING</b></p>	<p><b>Investment Climate:</b> The objective is to improve investment climate through development of an overarching Policy Framework (business regulation and access to land) and law enforcement</p> <p><b>Financial Services:</b> The aim will be to improve financial stability and soundness, access to financial services and increase alternatives for mobilising financial resources, Promote savings culture, Improve efficiency of the financial sector and also bridge the skills gaps in the financial sector and increase financial literacy</p>
<p><b>GOOD GOVERNANCE AT ALL LEVELS</b></p>	<p><b>Governance and Institutions:</b> The objective is to improve effectiveness of oversight bodies to promote accountability and deal effectively with corruption; Improve capacity for conflict resolution, promote social cohesion and patriotism and Enhance the capacity of private sector and non-state actors organizations to achieve their goals and participate effectively in policy development and to promote tri-partism</p>

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