

BTI 2010 | Lesotho Country Report

Status Index	1-10	5.35	# 74 of 128
Democracy	1-10	5.70	# 67 of 128
Market Economy	1-10	5.00	# 81 of 128
Management Index	1-10	5.42	# 55 of 128

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	2.0	HDI	0.51	GDP p.c.	\$	1503
Pop. growth	% p.a.	0.5	HDI rank of 182	156	Gini Index		52.5
Life expectancy	years	43	UN Education Index	0.75	Poverty ²	%	62.2
Urban population	%	24.7	Gender equality ¹	-	Aid per capita	\$	64.6

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

During the period under review, Lesotho conducted its fourth general election since the drafting of its 1993 constitution, and its second under the country's new mixed member proportional representation system. The Lesotho Congress for Democracy (LCD) again emerged triumphant, but this time with a majority that shrank to just over 50%. The good performance of the All Basotho Conference (ABC) added new dynamism to party politics as it opened up the possibility for meaningful coalition politics. Political stability remains brittle, yet it has been encouraging to note that contestation of the results of the most recent poll in 2007 and the one that preceded it in 2002 did not degenerate into an undemocratic seizure of power. Although certain opposition parties and sections of civil society expressed their discontent with the outcomes in both instances, high-profile mediation efforts by the Southern African Development Community (SADC) ensured that the country did not degenerate into general public instability. This measure of stability has allowed democratic institutions to become rooted, but it also provided the space for the government and its social partners to develop longer-term strategies for the country's development. Lesotho's national legislature and public service, however, struggle to give proper content to such reforms due to a persistent shortage of appropriate skills and insufficient funding. In this regard, one of their key shortcomings is their inaccessibility, which still inhibits ordinary citizens from taking ownership of the democratic process. The more immediate danger is, however, the country's growing levels of poverty and inequality, despite robust economic growth during the period under review. This highlights the challenge for Lesotho to become less dependent on the revenues that it receives from its participation in the Southern African Customs Union (SACU) and to focus more on stimulating its domestic economic infrastructure.

History and Characteristics of Transformation

Lesotho is a small landlocked country that is situated almost in the center of South Africa. In 1868 it became a British protectorate and received its independence in 1966. Lesotho falls within the category of least developed countries (LDCs) and more than half of its population lives on less than \$1 a day. It has one of the highest HIV/AIDS infection rates in the world, which can be regarded as both a cause and a result of its high levels of poverty. A significant proportion of its population lives from subsistence farming, and as a result the country is highly exposed as a result of the phenomenon of climate change.

With the exception of water from the Lesotho Highlands Water Project, which is channeled to South Africa, and small deposits of diamonds, the country has few natural resources at its disposal. The biggest sources of revenue generated within the country's borders come from a fledgling textiles industry and electricity produced for the South African economy. The single biggest contributor by far to its GDP is the revenue generated by the tariffs of the Southern African Customs Union (SACU), which consists of Lesotho, Botswana, Swaziland and South Africa. The fact that this accounts for more than half of its GDP makes the country highly dependent on the economic activity within the union and particularly South Africa, the biggest economy in the region and the primary source of its imports. Unemployment is high and a significant percentage of the Basotho are employed within the South African economy. As a result remittances, mainly from South Africa, constitute about a quarter of GDP.

Lesotho, at present, is a stable democratic constitutional monarchy. After seven years of military government and a protracted period of 25 years of undemocratic rule, the country held democratic elections in 1993. The transition was largely facilitated by external donor pressure, which coincided with a breakdown of the military-monarchy oligarchy in 1990. As the military's grip on the levers of power weakened, the prohibition on political activity was lifted and preparations began for a general election. The Basotho Congress Party (BCP) won all of the seats in parliament with a landslide victory in the 1993. The country therefore became a one-party democratic state immediately after democratization.

In the years that followed, Lesotho experienced several internal challenges to the legitimacy of the democratic state. In 1994, King Letsie III staged a military-backed coup and appointed an interim government after he unsuccessfully tried to persuade the ruling BCP to reinstate his father, Moshoeshoe II, who was deposed and exiled in 1987 after a fallout with the Lesotho military. A negotiated settlement resulted in the re-installment of the BCP, and Letsie III abdicated in favor of his father. He, however, returned to power soon thereafter as the result of Moshoeshoe II's death in an automobile accident.

Large-scale public violence followed the outcome of the 1998 general elections after the Lesotho Congress for Democracy (LCD), which split from the BCP just prior to the election, emerged triumphant from the polls. Although international election observers described the poll as free and fair, opposition parties and their followers contested the outcome and, as a result of widespread violence and looting, a Southern African Development Community (SADC) military force, consisting of South African and Botswana troops, was deployed in Lesotho at the invitation of the government. A multiparty Interim Political Authority was created to oversee the crafting of a new mixed-member proportional representation (MMP) electoral system, which eventually culminated in a peaceful, free and fair general election in 2002. Although the results of this election were contested, it did not spin out of control and differences were resolved through SADC mediation. In 2005, free and fair local government elections were conducted for the first time in Lesotho, and in 2007 the second general election under the new MMP system was conducted. Although this election was also pronounced free and fair, there has been contestation by opposition parties regarding the allocation of parliamentary seats in its wake. SADC in this instance once again played a significant role in calming tempers.

Since democratization, Lesotho has engaged in comprehensive planning exercises, such as its Lesotho Vision 2020 and Poverty Reduction Strategy (PRS), to align itself with the country's challenges, and implemented public sector reform programs to improve the efficiency of its public sector. The success of such programs, however, remains hampered by significant financial and skill constraints.

Transformation Status

I. Democracy

1 | Stateness

No internal challenge currently exists to the territorial sovereignty of Lesotho, and the central government retains its monopoly on the use of force.

Monopoly on the use of force

Despite Lesotho's economic dependence on South Africa, the identity of its state, a constitutional monarchy, remains distinct from that of its bigger neighbor. This identity is underpinned by the country's cultural, linguistic and religious homogeneity and, as such, citizens respect the state as legitimate and do not experience discrimination, where it occurs, as being based on ethnic or religious grounds. Social schisms are, however, more visible along class lines where the rural poor in many instances do not have access to the same economic infrastructure as those people residing in urban areas.

State identity

Religion plays an important role in the lives of Lesotho citizens (almost 90% of the population are Christians), but the state remains secular, in line with the Lesotho Constitution's provision for religious freedom.

No interference of religious dogmas

The administrative capacity of the state is weak and is hampered by insufficient financial and human resources. With regard to the latter, technical and financial management skills are particularly scarce. Although it is able to deliver the most basic of services to those in the more urban centers, its thinly-spread infrastructure does not allow it to extend equal access to all citizens, particularly to those in rural areas. This is also true as far as the rule of law is concerned. In the more impoverished areas, where informal economies, often based on criminal activity, have taken root, the influence of the criminal justice system is limited.

Basic administration

2 | Political Participation

For as long as the independent state of Lesotho has existed, elections have been a source of social friction. The country's independence from Britain in 1966 was preceded by a pre-independence election in 1965, which was won by the Basotho National Party (BNP) of Chief Leabua Jonathan. Between 1966 and 1970, Lesotho made tentative steps towards the institutionalization of democracy. This was, however, short-lived, after Jonathan annulled the election process during the 1970 elections; thereafter, it became clear that the BCP was heading for a landslide victory. This ushered in a period of de facto one-party rule, which lasted until 1986 when the BNP was dislodged by the military, which governed the country until 1993, when another military coup by his own soldiers against the rule of Maj. Gen. Metsing Lekhanya provided the catalyst for the first truly democratic elections since independence.

Free and fair
elections

This election, which was won by an overwhelming BCP majority of 74.7% under Ntsu Mokhehle, was declared to be free and fair. In 1997, Mokhehle broke away from the BCP and formed the Lesotho Congress for Democracy. The next round of elections, which were held in 1998, saw a victory of Mokhehle's LCD over the BCP. Despite declarations by several observer missions that the elections were conducted in a generally free and fair environment, dissatisfaction with the outcome drew disappointed voters to the streets and resulted in a mutiny within the military. What followed was a protracted period of violent public unrest and looting. This necessitated the intervention of a SADC task force consisting of South African and Botswana soldiers. After relative peace was restored, the Interim Political Authority, consisting of representatives from the different political parties, were tasked with the development of a new electoral system which had less potential to elicit social friction than that of its first-past-the-post (FPTP) constituency system.

In 2002, a general election held under a mixed member proportional (MMP) representation system (80 directly and 40 indirectly elected members) was conducted, resulting in another LCD victory under Pakalitha Mosisile, with the LCD obtaining all but one of the directly contested constituencies. As indicated above, SADC mediation was required to settle tensions that emanated in the wake of the announcement of the results, but violent responses to the outcome were generally isolated.

In 2005, there was a peaceful local government election, although voter turnout of less than 40% was disappointingly low. The most recent round of general elections was conducted in 2007 with the LCD once again emerging victorious, but markedly weakened by the All Basotho Convention (ABC), a party formed shortly before the election by former foreign minister Tom Thabane which took 17 constituency seats and thereby reduced the LCD's tally to 62 seats. Thabane did contest the outcome

of some of the results in this election. A series of walkouts and strikes organized by opposition parties followed, and reports of police and defense force intimidation followed. Again, a SADC team had to be called in to provide mediation in this regard. While this matter was not fully settled by the SADC, the parties involved continued their debate within the limits and institutions provided by the Lesotho Constitution.

Within the constraints of the resources at its disposal, the Lesotho government at present has effective power to govern without any significant veto powers that contest its authority. Although the military has been instrumental in the formation of prior authoritarian governments in Lesotho, a military reform program, aimed at the depoliticization of the military, has over the past decade brought the military under the firm control of the Lesotho government. Given its track record as a potential veto power within the body politic, the ministerial portfolios of defense and national security also reside within the office of the prime minister. While this allows the government to keep the country's security forces (both police and military) within its sphere of influence, a pervasive impression exists that they are largely partial to the government.

Effective power to govern

While traditional leadership does not constitute a potential veto to government, this sector of society still wields considerable influence. Their incorporation in the senate is therefore not insignificant and makes them part of official governance structures.

Freedom of association and assembly is constitutionally enshrined. Although these rights are enforced, politically related crimes, such as an attempt on the life of former foreign minister Monyane Moleleki in 2006 and the assassination of BNP member Selala Sekhonyane in the same year, does suggest that these rights may not be fully consolidated yet. At the beginning of 2008, the Lesotho government also claimed that it uncovered a plot to assassinate several government ministers. No convictions have, however, taken place to date.

Association / assembly rights

The rather small formal civil society sphere, which is primarily active in the fields of poverty alleviation, health care (close to a third of the Basotho people are infected with the HIV virus) and governance issues, is organized under the umbrella body of the Lesotho Council of Non-governmental Organizations (LCN). Although weakly resourced, it fills critical gaps in the context of a state that is limited in its capacity to reach its citizens. It has not shied away from being vocal about issues of social justice and corruption, but generally has found it difficult to engage with the national legislature, which offers limited opportunity for public participation. Notable exceptions, however, have been the development of the country's National Vision (Vision 2020), the national Poverty Reduction Strategy (PRS) and the recent drafting of Lesotho's African Peer Review Mechanism (APRM) country assessment report, during the preparation of which civil society organizations were broadly consulted.

While workers in the private sector are able to form trade unions, public sector workers, including university lecturers, are excluded from this right to association. Given the fact that the Lesotho government is one of the primary employers, union membership in Lesotho is small, and consequently its influence is also limited. Even in the private sector, unions falling under the national umbrella federation, the Lesotho Congress of Democratic Unions (LECODA), report that in certain industries, and particularly within the textile sector, labor legislation is ignored and union meetings are prohibited. The Lesotho government has generally been slow to react in this regard. Since procedures for calling legal strikes are complicated, strikes have been rare. Where spontaneous protests occur, workers risk legal action and/or losing their jobs.

Freedom of expression is respected in principle, although the nature of the state's relationship vis-à-vis the private media points to its discomfort about, and sometimes antagonism towards, the role of media in Lesotho. The state broadcaster, the Lesotho Broadcasting Corporation (LBC), dominates the broadcast media and is the most cost-efficient and accessed source of media for ordinary Basotho citizens. Its views are generally pro-government, while that of private print and broadcast sources take a more critical posture towards the government. A 1938 proclamation that is still in Lesotho's statutes prohibits specific forms of criticism of government can result in charges of seditious libel. Even under democratic rule, this proclamation has been invoked on a number of instances, and in the process libel suits against some of the robustly critical media sources, such as the publication *Public Eye*, has had a debilitating impact on the private media. In 2008, the private radio station Harvest FM was taken off the air for three months after it reported that a suspect died in police custody. One of its breakfast show hosts, Thabo Thakalekoala, was arrested for treason after reading a letter on air that was critical of the prime minister. In Lesotho, the death penalty can be imposed on those found guilty of this crime. As a result of such forms of intimidation, self-censorship does occur. The Media Institute of Southern Africa (MISA) rated Lesotho in its 2008 annual report as amongst the four most oppressive and media-unfriendly countries in the Southern African region.

Freedom of
expression

3 | Rule of Law

The Lesotho Constitution provides for a clear distinction between the executive, legislative and judicial spheres of government. The country's legislature consists of two houses: a lower house, or national assembly, with 120 representatives (80 directly elected and 40 nominated on the basis of proportional representation), and an upper house, or senate, consisting of 22 traditional chiefs and 11 members, who are appointed by the king. The executive is comprised of the prime minister and the king as the head of state. Although a separation of powers exists in principle, the police, military and state media are perceived by many to be partial to the government.

Separation of
powers

The constitution also establishes watchdog bodies such as an ombudsman, auditor-general, and an independent electoral commission.

In practice, the limited capacity and resources of the legislature and these institutions diminish their impact. These deficiencies are present in the public sector but also in the legislative sphere, in which the parliament's capacity to provide oversight over the executive and craft quality legislation to regulate social affairs is limited due to a weak opposition, insufficiently qualified members of parliament and an inefficient parliamentary committee system. In addition, the impartiality of the country's security apparatus is in doubt. Although they do not by themselves constitute a veto power, instances such as the harassment of independent critics, abductions and shootings of politicians have raised questions about the partiality of the country's defense and police forces.

The judiciary is by and large independent and it is not uncommon for it to rule against the state. There are nevertheless certain matters that seem to compromise this independence. The capital and recurrent budgets of the judiciary, which includes administrative issues such as employment of staff, falls under the jurisdiction of the executive. For example, contrary to international best practices in which a judicial service commission nominates candidates for approval to parliament, the chief justice and the president of the Court of Appeal is appointed by the king on advice of the prime minister. At lower levels, judges of the High Court are appointed by the king upon advice from the Judicial Service Commission.

Independent
judiciary

Corruption continues to pose a significant obstacle to Lesotho's development. Transparency International's Corruption Perception Index (CPI), which measures perceived corruption amongst public sector officials and politicians, points to a widely-held impression that the country has thus far made little progress in reigning in the misappropriation of public money. At present, the country finds itself in 92nd place (out of 180) on the CPI, compared to 70th place (out of 158) in 2005. The highest-profile corruption case in the country's recent history related to the Lesotho Highlands Water Project (LHWP) debacle, in which Western construction companies obtained contracts through bribery. The former LHWP chief executive officer, Masopha Sole, is currently serving a jail sentence for his involvement in this affair. Although the Lesotho government has shown its commitment to the containment of public graft through enactment of a broad suite of legislation, a generally weak and inefficient criminal justice system diminishes its efficiency. The Directorate on Corruption and Economic Offences (DCEO) stands at the forefront of the country's fight against corruption in the public and private spheres. Its mandate is to investigate alleged cases of corruption, with the exception of the king, who enjoys impunity from investigation and prosecution under the Act. It does not, however, have the power to prosecute, a competency that rests with the Directorate of Public Prosecutions. Another aspect that potentially detracts from its ability to execute its duties without fear or favor is the fact that it is part of the Department of

Prosecution of
office abuse

Justice, and is hence not directly answerable to parliament or the head of state, as is the case with most independent crime fighting units. A potential conflict of interest may therefore arise in cases where corruption within the Justice Ministry is investigated.

The Lesotho Constitution guarantees basic civil liberties and their enforcement by all arms of the state. Yet in some instances, practice diverges from the intentions of democratic Lesotho's founding document. Intimidation and brutality by the police and army continues to be a remnant of the country's long autocratic history, which has not been exorcised entirely from the Lesotho state. Whether in the cases of suspected criminals, illegal street traders, public protests and individuals critical of government policies, several instances of alleged brutality and/or torture have been documented in recent years. Although no executions have taken place since the 1990s, the death penalty still remains on the country's statutes. Although some improvement can be noted, the prison conditions remain harsh; as is the case in many African countries, overcrowding is pervasive and facilities inadequate.

Civil rights

4 | Stability of Democratic Institutions

Lesotho has undergone significant democratic reforms, particularly since 2002. For the democratic state to build longer-term legitimacy, however, these reforms need to evolve from stated intention to practical implementation. A divergence between the theory and practice of democratic institutions retards the pace of democratic consolidation. At present, the outputs of democratic institutions, including the legislative, executive and judicial spheres, remain insufficient to meet up to the challenges facing the country. Its legislature remains weak for reasons mentioned above, its executive struggles with capacity deficits and an inefficient criminal justice system, which is characterized by weak law enforcement and a judiciary that struggles with extensive case backlogs, compromises the rule of law.

Performance of democratic institutions

Lesotho is one of the world's least developed countries, and resource deficits, both human and physical, have a debilitating effect on the country's governance record. In this regard, public financial management remains one of the public administration's primary weaknesses. In Lesotho's forward-looking strategy document, Vision 2020, and particularly through its Public Sector Improvement and Reform Program (PSIRP), it has targeted the empowerment of the national legislature, the improvement of the judiciary to meet the demands of justice and the strengthening of the public service to improve its services and to increase its level of public accountability.

A second challenge for the entrenchment of Lesotho's legitimacy would be to improve its track record in relation to the discrepancies that have occurred in recent years between its professed support for particular democratic values, such as press freedom and freedom of association, and its execution thereof.

Thirdly, insufficient opportunities for public participation, partly as a result of a structurally weak legislature, make it difficult for ordinary citizens to engage in policy formulation processes. Disconnection between the state and an impoverished society creates possibilities for frustration and potential social friction.

At present, all relevant actors accept and support the existence of Lesotho's democratic structures. Security sector reform since 1998 brought the Lesotho Defence Force, historically a veto actor, under civilian control, and the prime minister's office currently presides over the Ministry for Defence and National Security. Although there have been persistent allegations of military and police intimidation in the wake of the 2007 general election, it remains significant that there has been no full-scale military intervention; instead, there was third party mediation and/or dispute settlement through democratic processes in the wake of both the 2002 and 2007 elections.

Commitment to
democratic
institutions

5 | Political and Social Integration

The ruling LCD holds 61 out of the 120 seats (more than 51%) in the country's National Assembly. Although it cannot be classified as a dominant party state, the LCD is disproportionately central to political life in the country. Political opposition has been weak since democratization in 1993, but the ABC's solid performance in the 2007 general election has added a new dynamic to Lesotho's body politic. Having campaigned on a strong anti-corruption ticket, former LCD minister Thom Thabane's party's victory in 17 constituencies sent a clear message regarding transparency and accountability to the LCD government. The formation of an opposition coalition between the ABC and four other opposition parties, the so-called "big five," forced the LCD to enter into a governing coalition with the National Independence Party (NIP). Such coalitions have the potential to strengthen the legislature, provided that parties subject their policy choices to greater public input instead of narrow power considerations.

Party system

While the MMP system has effectively managed to reduce the prospects for conflict over elections by limiting the possibility of potential veto actors, it has however given rise to the proliferation of small, financially and policy-weak parties that struggle to retain their internal cohesion. In general, the party system is not stable and voter volatility remains high. After the 1993 election, which was held under the first-past-the-post (FPTP) system, only 3 parties were returned to parliament. In the wake of the 2007 elections, the comparable number under MMP was 12. The National Independence Party (NIP) became the strongest opposition party, winning 21 seats under the proportional voting system, but, due to its alliance with the ruling LCD, the ABC under Thabane is the more prominent opposition force. The complicated nature of the calculations that have to be made for seat allocation has resulted in the questioning of the 2007 results, and may therefore have to be modified to avert a repeat of these events.

The country's provision for "floor-crossing," the practice that allows members of one party to defect from one party to another, or to create a completely new party, has compounded this problem. Given the lack of internal democracy and fragile cohesion within all the country's political parties, including the LCD, the practice of floor-crossing has allowed discontented members of parliament to leave their parties and form new parties without losing their seats and, importantly, without having to consult their constituencies. If the low voter turnout of 51% in the 2007 general election and 30% in the 2005 local government elections are taken as indicators of the degree of confidence that citizens have in the capacity of parties to make a meaningful improvement in their living conditions, it suggests that the debilitating effects of such fragmentation, combined with the outputs of a generally under-resourced institution, has led to a measure of cynicism amongst the populace.

The constitution guarantees the freedom of association. The generally fragmented nature of party politics, superimposed upon a weak and under-resourced parliament, however, makes the prospect for meaningful public participation in policy processes at the national legislative level remote. As such, its weak oversight capacity and the consequent shortcomings related to the transparency and accountability of the executive makes it difficult for interest groups to engage the state with relevant information and facts. Watchdog bodies, such as the auditor-general and the ombudsman, equally suffer under skill and capacity constraints. The dominance of the ruling party has furthermore offered little incentive to strengthen the channels for civic participation in the national legislature. However, even if opportunities for public participation and activism were to improve overnight, only a limited number of the country's existing interest groups would be able to capitalize upon the opportunity that it offers. The majority of those extra-parliamentary structures that would normally be expected to provide critical linkages between a state and its citizens in a democracy are ill equipped to do so. Limited funding and low levels of skill and capacity have been significant obstacles to the broadened impact of the civil society sector. Although the past decade has seen growth in the number of governance and human rights NGOs, the majority of civil society organizations are informal, community-based and active in grassroots activities that address questions of poverty and health, particularly HIV/AIDS.

In several instances, however, civil society organizations have supplemented the limited reach of the Lesotho state, particularly in the socioeconomic and health care spheres, but also in the governance sector, where such organizations have also played a significant role in fields such as voter education and registration. Relations between the state and civil society, however, remain at arm's length and decidedly uneven, with the latter at a disadvantage to entrench its capacity to assert itself on a consistent basis. In instances where meaningful cooperation and consultation have occurred, such as the process that involved the drafting of the country's Poverty Reduction Strategy, intergovernmental organizations and donors made such participation a prerequisite for funding.

Interest groups

The formation of labor unions is allowed, but they must be registered with the Registrar of Trade Unions. Strikes are allowed, but the official procedure for calling a strike is cumbersome. As a result, official strikes have been rare in democratic Lesotho. The implementation of labor laws has not been prioritized and disregard for such laws, particularly in the textile sector, has been overlooked. Workers in the public sector, which includes university staff, are excluded from the provision to join unions, and are only allowed to join associations with consultative status.

The most recent of data of the Afrobarometer survey, which was conducted in 2005, shows that democratic rule in Lesotho has not been received without reservation by its populace. Although military rule has been strongly rejected by 83% of the population, just more than half of the Basotho indicated that they prefer democratic rule. It must however be noted that this marks a 27% increase from the 24% result recorded in 2000. This strong upward trajectory might be attributed to a significant period of relative institutional stability, particularly since the 2002 general election.

Consent to
democratic norms

Despite a fairly homogenous culture and language, the effects of dire poverty have had a ravaging effect on the social cohesion of Basotho society. Such poverty is pervasive in the deep rural areas, but has become increasingly pronounced in urban and suburban areas where families of job seekers, ill-equipped to compete in a small formal economy and unable to rely on traditional social structures, suffer some of the worst poverty in the country. This, in turn, has given rise to a growth in criminality and a decline in interpersonal trust. However, the most negative impact on social capital formation has come as a result of the impact of HIV/AIDS, which largely overlaps with the question of poverty. It is estimated that close to a third of the Basotho are infected with the virus, which has destroyed families and communal traditional ways of living that for many years have provided a buffer against the scourge of poverty. As the number of “dependents” begins to outweigh the number of contributors, the social capital of these traditional systems is becoming increasingly eroded.

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

Lesotho, which is completely landlocked and surrounded by Africa's largest economy, South Africa, is one of the 49 least developed countries (LDCs). Although it has achieved noteworthy levels of GDP growth in recent years (7.2% in 2006 and 4.9% in 2007), this has taken place from an extremely low base (GDP in 2007 stood at \$1.6 billion). At the time of this writing, the official GDP figure for 2008 was not yet available, but it is expected that, in line with the decline of growth in the South African economy and the falling revenues of the Southern African Customs Union (the latter accounts for about 55% of the country's fiscal revenue), upon which it is largely dependent, Lesotho will see a significant decline in its 2008 economic output.

Socioeconomic
barriers

The country finds itself in the 155th place on the U.N. Human Development Index, and although accurate poverty statistics are difficult to obtain, the country's PRS departs from an estimated figure of 58% of citizens who live under the poverty line (\$2 per day). While most growth is being generated in urban areas, 76% of the country's population resides in rural areas, which makes the Lesotho one of the world's most unequal countries with a Gini coefficient of 0.66. Although improvements have occurred in recent years, weak infrastructure continues to exacerbate such inequality. Only 11% of households have electricity and only 18% of its 6,000 km of roads are paved. HIV/AIDS, which is both a result and cause of extreme poverty, remains one of the most destructive features of Basotho society, and it has had a devastating effect on extended family structures. Women suffer disproportionately in this regard, given the persistence of a strongly paternalistic culture, and it is estimated that at present the country has in excess of 100,000 AIDS orphans.

An unemployment level of 52% suggests the extent of poverty, and potential for job creation remains limited. In recent years, the level of public sector employment has declined, the agricultural sector has shed several jobs in the wake of protracted droughts and, as a result of the slowing down of the South African economy in 2008, lay-offs in the mining sector, where an estimated 20% of Basotho workers are employed, will see a significant decline in income from workers' remittances. The country's burgeoning textile sector, which has become its primary exporter and job creator as a result of the benefits that were gained from the United States' African Growth and Opportunity Act (AGOA), will in all likelihood also suffer from the global economic downturn.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	1289.8	1376	1517.5	1669.6
Growth of GDP	%	4.6	0.7	8.1	5.1
Inflation (CPI)	%	5.0	3.4	6.0	8.0
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	9.6	6.7	7.4	7.8
Export growth	%	33.3	-9.2	2.9	4.0
Import growth	%	24.4	-0.4	3.3	11.9
Current account balance	\$ mn.	-68.0	-102.0	66.3	211.8
Public debt	\$ mn.	721.6	618.9	616.0	644.8
External debt	\$ mn.	766.6	662.0	652.4	680.2
Total debt service	% of GNI	3.3	4.7	2.4	4.7
Cash surplus or deficit	% of GDP	7.9	4.2	13.1	8.8
Tax Revenue	% of GDP	44.7	45.9	57.5	54.3
Government consumption	% of GDP	25.7	26.8	26.8	25.4
Public expnd. on edu.	% of GDP	-	13.8	13.3	-
Public expnd. on health	% of GDP	3.7	3.2	4.0	-
R&D expenditure	% of GDP	0.1	-	-	-
Military expenditure	% of GDP	2.4	2.4	2.3	2.4

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

The Lesotho government espouses free market principles, yet its high level of unemployment and the absence of an efficient social security net make the majority of the Basotho dependent on the proceeds of a largely unregulated informal economy. In its Poverty Reduction Strategy, Lesotho recognizes the need for the private sector to drive growth and investment, while it envisages a primarily regulative function for the state. To this end, it has introduced reforms to liberalize its financial markets, has privatized a number of public enterprises and parastatals, restructured fiscal policy and has made a concerted effort to attract foreign direct investment (FDI). In 2007, the country attracted \$108 million of FDI, compared to \$92 million in the previous year. However, many still regard Lesotho as a challenging environment for doing business. In 2008, it was ranked 123rd out of a possible 181 countries on the World Bank's "Ease of Doing Business Rankings." Observers ascribe this to an outdated regulatory environment and inefficiencies in the processing of documentation critical to starting a business. According to the report, it takes 28 days on average to register a business and 73 days to start a business in Lesotho. In 2007, Lesotho embarked on a five-year private sector reform program, with the assistance of the Millennium Challenge Corporation and the World Bank, to remove the key obstacles to improved business conditions.

Market-based
competition

Although it does have legislation in the drafting process, Lesotho currently does not have a competition law. The government is currently in the process of formulating a competition policy proposal in accordance with WTO guidelines, but in the meantime most competition-related issues are regulated under the auspices of the Industrial Property Order, No. 5, 1989. The state-owned monopoly in telecommunications has been transformed to a privatized national operator, while the mobile sub-sector has been opened up to two mobile phone networks, namely Vodacom and Econet.

Anti-monopoly
policy

The country does have a relatively open economy and, given its small manufacturing base, its imports in 2007 accounted for over 90% of its GDP. It belongs to the Southern African Customs Union (SACU), together with South Africa, Botswana, Swaziland and Namibia, which provides an important fiscal revenue stream that accounted for 53% of GDP in 2007. This does, however, make the country highly vulnerable to regional and/or global economic development, such as the global financial crisis since the fourth quarter of 2007. In 2008, it also joined the newly created fourteen-member SADC Free Trade FTA, which is expected to convert into a customs union by 2010. Although this does open new prospects for trade in the region, the African Development Bank's Strategy Paper for Lesotho between 2008 and 2012 suggests that this would require a significant improvement in the country's economic infrastructure. Furthermore, Lesotho

Liberalization of
foreign trade

continues to benefit, particularly in terms of textile exports, from AGOA, which gives it and 38 other sub-Saharan states favorable access to the U.S. market. At the end of 2007, Lesotho, together with Swaziland, Botswana and Namibia, signed an interim Economic Partnership Agreement (EPA) with the European Union, which provides for the creation of a free trade area between the European Union and states within the Group of African, Caribbean and Pacific Countries. The agreement came into force on 1 January 2008. This has raised the ire of South Africa, which joined late in the negotiations, because firstly, the agreement contained stipulations which it regarded as incompatible with its national interests, but secondly also because SACU members are prevented from entering into free trade agreements with third parties without the consent of other members. This has put pressure on relations within the SACU, and should a situation arise where the union dissolves, Lesotho stands to lose greatly from it.

The Lesotho banking system, which is dominated by well-regulated South African banks, is supervised by the autonomous Lesotho Central Bank. The country belongs, together with South Africa, Namibia and Swaziland to a Common Monetary Area (CMA), which provides for the parallel circulation of the South African rand in Lesotho and the pegging of the loti at par to the rand. Although this means that the Central Bank of Lesotho does not have influence over the determination of interest rates or exchange rate margins, the country does benefit from the policy credibility of the South African Reserve Bank.

Banking system

8 | Currency and Price Stability

Monetary policy, which includes inflation targeting, remains a relatively weak instrument in Lesotho. Given the pegging of the loti at par to the South African rand, and the fact that about 85% of the country's imports come from South Africa, currency and price fluctuation is largely dependent upon movements within the South African market. Therefore the loti has lost ground against the major currencies, the euro and the U.S. dollar. The trajectory and level of inflation in Lesotho therefore, by and large, mirrors that of South Africa. Both countries experienced comparatively low levels of inflation of between 3% and 6% (the target band of the South African Reserve Bank), but in the wake of price increases in fuel and food prices since the latter part of 2007, both countries saw inflation move up to above 10% during the latter part of 2008. The rise in food prices, which has affected the country's highly impoverished population particularly severely, has also resulted in food riots like those in several other lower and middle income countries in the world.

Anti-inflation /
forex policy

As a result of consistent and prudent macroeconomic policies, Lesotho recorded fiscal budget surpluses between 2004 and 2008. The strongest contributor to its revenues over this period has been receipts from SACU at a time when the region, with the exception of Zimbabwe, has experienced robust levels of economic growth. This revenue stream is, however, transitory and will render the country vulnerable as the world economy continues its rapid slowdown. Also, as far as its external position is concerned, Lesotho has performed well in the period review. In 2008, it projected a 6.4% surplus, the third positive balance since 2006.

Macrostability

9 | Private Property

The state respects private property and the right to it, which is also enshrined in the country's constitution, is actively being enforced by the country's judiciary. While provisions are being made for expropriation where it is in the public interest, the state is obligated to compensate the owner in full and to ensure that it occurs as speedily as possible. An affected party can approach the Court of Appeal to object to such expropriation or the price tag assigned to it. While foreigners can take full ownership of locally registered companies and can repatriate funds to their countries of origin, they cannot own land and must lease it for a period of 30 years. This remains an obstacle to the generation of higher levels of FDI. According to the Property Rights Index (<http://www.globalpropertyguide.com>), a subcomponent of the Index of Economic Freedom, the country is ranked 12th out of 40 sub-Saharan countries.

Property rights

Lesotho actively promotes private enterprise and has strongly committed itself to the privatization of unproductive state entities and parastatals. This process is being regulated by the 1995 Privatization Act, which has paved the way for the creation of a privatization unit within the Finance Ministry. The unit has targeted approximately 50 state-owned commercial enterprises for privatization. The most notable examples include the Bank of Lesotho, within which Standard Bank of South Africa has bought a controlling share, and Lesotho Telecom, which is now 70% owned by the Mountain Consortium consisting of South African, Zimbabwean and Mauritian stakeholders.

Private enterprise

10 | Welfare Regime

Against the background of its LDC status, the Lesotho government has neither the financial resources nor the physical infrastructure to provide a social welfare system that can meet the needs of a majority of its population, which lives under marginalized circumstances. Government provision of social welfare is largely supported by international donor money, while local and international non-governmental organizations play an important role in supplementing the services

Social safety nets

rendered by the Department of Health and Social Welfare. Economic growth, although significant in recent years, has not been sufficient to bring down the country's high poverty rate. HIV/AIDS has become the single biggest burden on the country's social security infrastructure. In 1996, life expectancy in Lesotho stood at 60 years; as a result of HIV/AIDS, it declined to 43 by 2008. Over a third of the population is HIV positive, and it is estimated that the virus has left 100,000 child orphans in its wake. Not only is this burden on the state immense, but its destruction of family networks has eroded the capacity of traditional communal networks to care for the destitute in their midst.

The government of Lesotho subscribes to and promotes the cause of equal opportunity within its national borders. Since Lesotho is a largely homogenous state, instances of discrimination on the basis of ethnicity are extremely rare. Although the country's constitution subscribes to the principle of gender equality, its society remains strongly patriarchal, and many women, particularly in rural areas, are at a disadvantage compared to their male compatriots. Marriages under customary law, for example, still limit women's rights in terms of inheritance and property. In order to improve the standing of women in political and public life, the government has introduced a 30% gender quota for women in local government authorities. While no such quota exists at this stage for women in parliament, strong lobbying for a 50% quota took place in 2008. Currently, women make up 25% of the lower house of parliament and 9 out of 33 senators are women, but they remain mostly a silent minority in key democratic and public institutions. A Gender and Development Policy Implementation Plan (2008-2012) has been developed but it is too early to assess results.

Equal opportunity

11 | Economic Performance

Lesotho's per capita GDP grew by 4.9% in 2007, and although 5.2% was projected for 2008, it is expected that the global economic slowdown during 2008 would bring down the actual figure considerably. Strong growth levels have allowed it to maintain a budget surplus between 2004 and 2008. Although growth has occurred at robust levels in recent years, it has not created sufficient jobs, as a 52% unemployment level suggests. Moreover, this has only exacerbated levels of inequality, and, with a Gini coefficient of 0.66, Lesotho finds itself amongst the most unequal states of the world. In line with South Africa's rapid increase in inflation in 2008, the country also averaged a high 12.1% inflation rate in the same year. The country's trade deficit remains large. In 2007 it grew by 9.7% to \$732 million, which accounts for 46% of GDP. Lesotho's economic performance, however, is inextricably linked to that of the countries within the Southern African Customs Union, and particularly to that of South Africa, the African continent's economic powerhouse. Because the loti is pegged to the rand, Lesotho's prospects

Output strength

for trade are largely influenced by the South African rand's degree of volatility, as is the country's inflation situation, given the fact that the majority of its imports come from South Africa. In addition, South African industry provides employment for an estimated 20% of the Basotho workforce. A downturn in South Africa's economy, particularly in the commodities sector where the majority of Basotho workers are employed by mining companies, makes the country particularly vulnerable.

12 | Sustainability

Since more than half of the Basotho practice some form of subsistence farming, the economic prospects of the country and the lives of many ordinary citizens are inextricably linked to the state of the environment. While the country is not an important player in global climate change prevention debates, something that is also reflected in the sophistication of its policies in this regard, its focus rather falls on coping with its effects, particularly insofar as soil erosion is concerned. Because the country is mountainous, agriculture is commonly practiced on slopes with fragile soil formations. A 2007 report suggests that the country loses about 40 million tons of arable soil per year as a result of a combination of factors, including perennial droughts, overgrazing, population movement, and the resultant soil erosion and destruction of biodiversity. This in turn has an impact on food security and levels of poverty. Lesotho has ratified a number of U.N. environmental conventions, but has had limited success with implementation. Legislation in the form of the Environment Act of 2001 is in place to regulate environmental issues, but the National Environment Secretariat has had limited ability to enforce its content. The act was under revision within the parliament in 2008.

Environmental
policy

Compared to other sub-Saharan Africa countries, Lesotho does have a relatively high literacy rate of 86%. The country prioritizes education in its annual budgets, and the 2008 education allocation of 22% constituted the single largest expenditure in the budget. The country does offer free primary education to learners, but faces several challenges with regard to the quality of such education, the retention of pupils in the primary system, the transition rate from the primary to the secondary system and the generally poor quality of the secondary and tertiary sectors. No recent statistics regarding the country's investment in research and development are readily available, but UNDP statistics for 2000 to 2005 suggests that an average of 0.01% of GDP had been spent annually towards this strategic priority.

Education policy /
R&D

Transformation Management

I. Level of Difficulty

Lesotho is a small, mountainous landlocked country. The majority of the Lesotho labor force is not employed in the formal economy, and therefore has led to an estimated 58% of the population living under the poverty line of \$2 per day. Such poverty is particularly acute in the mountainous rural areas, which are hard to reach. Given the condition of the country's rudimentary road network, the state's reach in these areas remains limited. Inhabitants of these areas have traditionally sustained their livelihoods through subsistence farming, but as a result of the increasing regularity of protracted droughts and soil erosion, the scope for such farming continues to diminish. In addition the country's unacceptably high poverty levels, HIV/AIDS has had a devastating effect on family units and the greater social cohesion of the Basotho society. These realities have placed a tremendous burden upon a state, which has neither the financial means nor the human capacity to properly address the needs of the most marginalized in society. To address these challenges in a meaningful way, the country needs protracted growth that is robust and equitable. Such growth is, however, very dependent upon SACU revenues and especially growth in South Africa. This dependence upon the South African economy is a structural weakness that makes the country particularly vulnerable to the exchange rate fluctuations of the rand.

Structural
constraints

The size and character of civil society in Lesotho is largely reflective of the country's history and socio-economic realities since independence. The biggest component of civil society in Lesotho remains informal by nature and assists ordinary people in coping with the effects of poverty and HIV/AIDS. Given the country's relatively short democratic history, formal civil society, particularly within the governance sphere, is small and often lacks the necessary resources and capacity to fully occupy its place in the Lesotho body politic. Its relationship with government also continues to be constrained by a governance legacy characterized by limited interest in public participation and consultation by those in power. In instances where formal civil society organizations adopt a supportive function, such as voter education and human rights training, it has proved to be very efficient.

Civil society
traditions

Elections have traditionally been a source of social conflict, but since the 2002 general election, such conflict, where it has occurred, has been low in intensity. Lesotho is culturally homogenous and the overwhelming majority of the Basotho profess to be Christian. Conflict along ethnic or religious lines is therefore unlikely to emerge. Low levels of inter-communal conflict relating to natural resources, such as farmland and water in particular, has become a growing phenomenon. In this regard, Lesotho has become a case study of the relationship between climate change and social conflict.

Conflict intensity

II. Management Performance

14 | Steering Capability

Lesotho's greatest developmental challenges are poverty and inequality (which includes the related issue of HIV/AIDS), and insufficient governance capacity to reverse this condition. Two key documents, which are aligned with the United Nation's Millennium Development Goals (MDGs), articulate the Lesotho government's longer-term vision and strategies to overcome these challenges. Its long-term National Vision, or Vision 2020, envisages a country that will by 2020 be prosperous, democratically stable and able to draw upon a strong human resource base. Its Poverty Reduction Strategy (PRS), which includes, amongst other things, employment creation, infrastructure development, improved healthcare, deepening of democratic governance and the improvement of public service delivery, serves as its medium-term approach. With regard to the latter objective of strengthening the public service, it has embarked upon a Public Service Improvement and Reform Program (PSIRP) that focuses upon the improvement of financial management and accountability measures, the decentralization of service delivery and the broader reform of the civil service. Whether these strategies will succeed or not will largely depend on the degree of commitment with which they are being implemented.

Prioritization

Since the inception of both strategies (Vision 2020 in 2001 and the PRS in 2004), the country's scores on key human development indicators have remained dismal and some, such as public health, poverty and inequality, have deteriorated further. In all fairness, such results must be viewed against the background of the decline of subsistence agriculture, which is related to environmental degradation and climate change, as well as the rapid spread of HIV/AIDS during this period. Both have added a significant, almost incalculable, burden to the national budget over a relatively short period. To enhance the alignment between the national budget and

Implementation

government's key longer-term strategies, the treasury adopted for the first time a three-year Medium Term Expenditure Framework (MTEF) in its 2005/6 budget. This has added greater certainty and predictability to the policy process, but Lesotho's public service largely still lacks the skills and capacity to face up to the country's daunting developmental challenges within specified timelines. Despite a restructuring of the service to execute its mandate more efficiently, human resource issues, such as weakly enforced performance management systems, low salaries and consequently a dire shortage of critical management and technical skills, hamper its ability to provide a comprehensive social, physical and regulatory state infrastructure. This situation is exacerbated by the more attractive remuneration packages that South Africa offers to qualified individuals.

The state does, however, show a desire to learn from its policy achievements and mistakes. In addition to its periodic donor coordination meetings with major donors, such as the World Bank and the IMF, it has, for example also requested the UNDP in 2007 to review the progress that has been made with its Poverty Reduction Strategy.

Policy learning

15 | Resource Efficiency

Lesotho has experienced significant GDP growth and operated with a budget surplus for the period under review. Although the country's external debt remains high at just above 40% of GDP, this figure has been in consistent decline in recent years. While appropriate macroeconomic policy played an important role in this regard, this favorable position should primarily be attributed to the significant growth of SACU revenues, which accounts for more than half of the country's GDP. Significant deficiencies in the state's human resource infrastructure, and by implication therefore also its institutional capacity, inhibit its ability to pass on such benefits in their entirety to ordinary citizens. In key areas of social delivery, such as health, the quality of services has deteriorated, despite increased budgetary allocations. While growing levels of poverty and HIV/AIDS have contributed to the burden on state institutions, their lack of capacity, specifically as financial management and technical skills are concerned, have exacerbated the situation. During the period under review, it was estimated that government departments were only able to spend 70% of allocated capital expenditure. Low wages, compared to that which is offered in the private sector, continues to deter properly qualified workers to join the country's public service. In addition, the South African labor market, with its own skills shortage and higher remuneration packages, lure skilled individuals away to this neighboring country.

Efficient use of assets

In order to improve the planning capacity of the Lesotho state, the government has adopted a Medium Term Expenditure Framework (MTEF) for the first time in the 2005/6 budget. This budgetary approach has allowed the country to make forward projections about the country's budgetary needs in terms of three-year cycles. The MTEF approach, which was initially piloted within six government departments, has since been expanded to other departments. As this system becomes entrenched, it is hoped that it will help departments to align themselves in a more systematic way with the country's Poverty Reduction Strategy (PRS). The Public Service Improvement and Reform Program (PSIRP) has played an important part in the restructuring of the civil service into a more efficient system; it has, for example, resulted in the merger of the Finance and Economic Planning Ministries to ensure enhanced coordination and efficient implementation of the country's developmental agenda. The PSIRP also provided the impetus for the reform of the country's financial management and accountability procedures. In this regard, the government, with international support, embarked upon the creation of a new Integrated Financial Management Information System (IFMIS). The launch of the system, which was scheduled to take place at the end of 2008, has been postponed to 2009. From time to time, frictions exist between the king and the prime minister that postpone reforms.

Policy
coordination

At present, however, the lack of proper financial management remains a major Achilles' heel of the Lesotho state, despite impressive anti-corruption legislation. The office of the Auditor General (AG) is understaffed and does not possess sufficient capacity to execute its mandate. No public accounts were prepared between 1996/7 to 2000/01, and this backlog, which was supposed to be cleared by 2002, has put immense pressure on the office of the AG. This, in turn, has created a backlog for the submission of public accounts for subsequent years. The 2003/2004 accounts were, for example, submitted only in January 2008. This state of affairs creates the space for potential abuse of public finances. The Directorate on Corruption and Economic Offences (DCEO) exists to investigate alleged cases of corruption in the civil service, but it does not have powers of prosecution, which is the responsibility of the National Directorate of Public Prosecutions. Although the Lesotho government is outspoken about its commitment to the fight against corruption and has acted strongly in this regard, as prosecutions of the former Principal Secretary of Justice and Constitutional Affairs, the former Deputy Commissioner of Police, and various parties in the Lesotho Highlands Water Project suggest, anti-corruption bodies such as the DCEO have to execute their mandate with limited financial and human resources.

Anti-corruption
policy

16 | Consensus-Building

As mentioned above, the country's goals and objectives, which focus primarily on questions of growth, poverty eradication, the Millennium Development Goals (MDGs) and governance, are articulated clearly in strategic documents such as Vision 2020 and the country's Poverty Reduction Strategy. Both documents were the products of extensive public participation processes that included voices from across the broad spectrum of the Lesotho society, making them representative of the major social stakeholders.

Consensus on goals

The country's major political actors remain by and large committed to the basic tenets of democratic governance. Although available survey data still show lukewarm support for democratic principles amongst the general populace, such support seems to be growing. At the local government level, however, tensions do occasionally arise around issues of authority and jurisdiction between local chiefs, whose authority is derived from their hereditary status, and local government representatives, who were elected in the country's first local government elections in 2005 after the country's decentralization process was completed that same year.

While the country's constitution does subscribe to the principle of press freedom, tolerance of stinging media criticism remains low, and legislation dating back to the country's authoritarian period has been used to silence the government's principle critics.

Despite commendable levels of economic growth under a liberal market-based macroeconomic policy, levels of poverty and inequality, as well as unemployment, have increased significantly since the turn of the millennium. There is, however, very little organized left-wing resistance against the LCD's macroeconomic policy framework. Its major left-wing political opponent, from which it splintered in 1998, is the Basotho Congress Party (BCP). The latter does, however, only command two of the 120 seats in the lower house of parliament. Organized labor, the other traditional opponent of liberal market-based policy, continues to be weak and up until now has not presented a significant challenge in this regard.

Although the military has in the past played a significant role in the determination of political power, its influence has waned over the years. In 1986, the Lesotho Defense Force, under Major-General Metsing Lekhanya, overthrew the autocratic BNP government of Chief Leabua Jonathan. Lekhanya's rule was then overturned by another coup by General Elias Ramaema in 1991, who returned the country to democratic government in 1993. In the years since, great effort has been made to bring the military back under democratic control. Such steps, which included the cooption of the defense and national security portfolio within the office of the prime minister, have contributed to prevent the military from once again becoming an

Anti-democratic
veto actors

anti-democratic actor. Its alleged involvement in the intimidation of critics and opposition voices does suggest, however, that its role during the period under review has not been entirely apolitical.

Lesotho has had a protracted history of political fragmentation and intra-elite fighting for power. Since Lesotho gained independence in 1966, elections have proved to be the most prominent cause of both political instability and the autocratic rule that followed in their wake. In 1998, after the second general election since the country's return to democratic rule, a contestation of the election results once again degenerated into widespread public violence, which was only ended after military SADC intervention by South African and Botswana troops. In the wake of the violence, an Interim Political Authority, consisting of representatives from the major political parties, was convened to develop a new electoral system that had to give broader representation to the scope of the country's political interest groups. This process resulted in the acceptance of a multimember proportional representation system, but the process also significantly contributed to consensus-building and mutual trust. While the results of both the 2002 and 2007 general elections were contested, such contestation has largely taken place within the boundaries of the democratic process. So far, the government has failed to address the traditional line of conflict between the generations. The younger generations suffer from high unemployment and are largely excluded from political power, which leads to alienation from the political system.

Cleavage /
conflict
management

While there is not an entrenched cooperative relationship between the government and civil society of Lesotho, the government has in several instances consulted a broad section of civil society stakeholders not only about key strategic documents, such as the PRS and Vision 2020, but also on the disbursement of donor assistance, such as its allocation from the Millennium Challenge Account (MCA), of which Lesotho is a beneficiary. Civil society, however, remains weak and underfunded, and only a selected few groups are able to make meaningful contributions to the policy process.

Civil society
participation

N.A.

Reconciliation

17 | International Cooperation

Overseas development assistance (ODA) for Lesotho peaked in 1993 as the country returned to democratic rule, but declined again significantly to new lows in the period between 1998 and 2000 following the violence that resulted from the disputed elections of 1998. Since 2001, its position has again improved significantly due to the measures that have been mentioned above, and as a result of the attempts that have been made to restructure and strengthen the country's fiduciary systems.

Effective use of
support

The most recent ODA data for Lesotho (2006) shows that it has received an estimated \$69 million from donor countries and institutions. This comprised about 5% of its GDP and amounted to a per capita ODA of about \$36. For this period, the largest targets of ODA to Lesotho were economic infrastructure (16%), education (15%), water supply (13%), health (13%) and HIV/AIDS (9%). The country's ODA figure is significantly lower than that of other LDCs in the Southern African region, such as Zambia and Mozambique, which received more than double this figure. This situation has, in all likelihood, improved as a result of the country's signing of the Millennium Challenge Account agreement with the United States' Millennium Challenge Corporation in 2007. The compact, which came into force in September 2008, consists of a five-year development assistance program with a total value of \$362 million. Although limited donor coordination existed in the past, the finalization of the PRS in 2004 provided the government and its development partners with a more structured framework within which the country's developmental agenda could be discussed and its funding harmonized. The IMF, which provided a funding facility for the development of the PRS, has continued its annual consultations, despite the fact that this facility reached its completion in 2004. The facilitating role of intergovernmental organizations, such as the UNDP and the World Bank, as well as global donors and NGOs, has given them key roles in Lesotho's developmental debates.

The country has made an effort to eliminate previous inefficiencies related to donor coordination, including the tasking of the United Nations Development Program (UNDP) to provide technical assistance in the creation of a government focal point for the coordination of development assistance. In addition, it has also become a signatory of the Paris Declaration regarding development assistance.

The country's international credibility has increased since peace and order was restored in 1998 by external intervention. The international community is not concerned about the reliability of the country but has doubts in its implementation capacity. In general, the government is viewed as reform-oriented. The small Lesotho army, comprised of not more than 2000 soldiers, has not yet participated in peacekeeping missions.

Credibility

In terms of regional integration, the country belongs to the Southern African Development Community (SADC) and is one of 11 countries within the SADC that in 2008 launched a free trade area (FTA) in the Southern African region with a market of 170 million people and an estimated worth of \$360 billion. Participants will be exempted from 85% of all tariffs in the FTA. The signatories to this agreement intend to create a customs union by 2010, a common market by 2015 and a common currency by 2018.

Regional
cooperation

As mentioned above, Lesotho also belongs, together with South Africa, Botswana and Swaziland to the Southern African Customs Union (SACU). As a small economy, the country has greatly benefited from the revenues that have been generated on the SACU borders, particularly by South Africa, the regional economic powerhouse. Constituting more than 50% of the state's revenue, the SACU revenues represent the single biggest contribution to the country's GDP. The continued existence of the union, however, was jeopardized after Lesotho, together with Swaziland and Botswana, initiated an Economic Partnership Agreement (EPA) with the European Commission in 2008. This move was rejected by South Africa, a party to the SADC EPA negotiations, not only because it contained stipulations that South Africa argues will harm some of its nascent industries, but also because the SACU agreement states that no free trade agreements can be made with third parties without the consent of all SACU members. In the event of a dissolution of the SACU, Lesotho stands to lose significant revenue income.

On the continental level, Lesotho acceded to the African Peer Review Mechanism (APRM) of the African Union in 2004. In 2008, the country completed its self-assessment report, which will now be followed by a peer review by a group of eminent Africans.

Strategic Outlook

Despite its protracted history of political instability, Lesotho has experienced comparative stability during the period under review. While the contestation of its 2007 general election results threatened to undo this achievement, the potential for full-scale violence has been mitigated through peaceful mediation and the pursuit of a democratic resolution to the disagreement. Although the state still remains weak and its reach limited, this does however bear testimony to the progress that has been made in the creation of confidence in democratic processes and the institutions that regulate them. It has to be noted that the advances that have been made in this regard have taken place against the background of significant economic growth fueled by its textile exports, primarily to the United States, and the significant growth in revenues that was generated by increased economic activity in the SACU region. Its dependence on the latter does, however, make the development of state capacity and the ability to address high levels of poverty highly dependent on externalities. Against the background of global economic volatility and the current lack of consensus on its likely duration, the country remains highly vulnerable, as the food crisis during the period under review vividly demonstrated. This should compel the country to work on longer-term strategies to reduce its dependence on SACU and, in particular, the South African economy. Moreover, in this regard, it will have to consider carefully how it will optimize the benefits of the free trade agreements it has entered into, such as AGOA and the EPA. Should global sentiment, however, move towards more protectionist policy, Lesotho, because of its dependence on externalities, will be one of those countries that may suffer most.

The strength of the country's political governance capacity will largely be determined by its ability to reduce levels of poverty and inequality within society. Should poverty levels increase and the inequality gap continue to widen, the rule of law will come under further pressure and threaten the country's evolving, but brittle, political stability. The global economic crisis poses a severe challenge in this regard, yet the country can ill afford to neglect structural challenges that will continue to obstruct equitable growth. In the medium term, the following areas should receive priority:

- **Education:** Even where developmental resources are available, the absence of requisite skills diminishes impact at implementation level. Attempts to reform the education system should focus on universal access to quality education that empowers scholars to participate in the economy. In addition, strategies should be sought to retain them on secondary and tertiary levels, despite the demands that subsistence economies may place upon them.
- **HIV/AIDS:** The scourge of HIV/AIDS has left virtually no aspect or facet of life in Lesotho untouched. It has destroyed social capital and cohesion in several parts of the country and in the process placed an additional burden on an already under-resourced state. But it has also punched holes in the country's economically active human resource infrastructure, both in the public and

private sector. Awareness and prevention campaigns must be sustained, and specific consideration should be given to the gender dimension of this epidemic.

- **Judicial Reform:** The country's judiciary is creaking under the burden of extensive case backlogs resulting from a shortage of resources and appropriate capacity. As a result of the breakdown in social cohesion due to poverty and HIV/AIDS, this burden will continue to grow. If the system fails to dispense justice in a considered yet timely fashion, the rule of law will become a casualty.
- **Human Rights:** Civil society groups are promoting a human rights commission that could deepen and institutionalize human rights in Lesotho. This should be backed by the donor community.
- **Skills and Capacity:** Close attention needs to be paid to the quality of the country's education system. In the interim, careful thought should be given to methods to attract and retain skilled individuals.
- **Public Sector Reform:** Particular attention needs to be paid to the promotion of financial management capacity and the strengthening of measures for transparency and accountability. The country's Public Sector Improvement and Reform Program (PSIRP) provides the framework for such reform, but its success will largely depend on the ability to implement its content.

Given the limited resources that the Lesotho state has at its disposal, the underlying consideration for each of these would be efficiency. Least developed countries like Lesotho are potentially hardest hit by the global economic crisis and it will therefore be imperative that they use the resources at their disposal optimally. In this regard, there will be a need for a significant strengthening of its management capacity.