

THE INTERNATIONAL DEVELOPMENT ASSOCIATION AND  
INTERNATIONAL MONETARY FUND  
THE KINGDOM OF LESOTHO

**Joint Staff Assessment of the Interim Poverty Reduction Strategy Paper**

Prepared by the Staffs of the International Development Association and  
the International Monetary Fund

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**Introduction**

1. The Interim Poverty Reduction Strategy Paper (I-PRSP) reflects an ongoing effort by the Government of Lesotho (GOL) to formulate a comprehensive poverty reduction strategy. Traditionally, poverty reduction has been addressed in the context of national development plans and associated annual budgets and, in fact, was the overarching objective in the current and previous triennial plans. The I-PRSP reaffirms GOL's commitment to poverty reduction, highlights weaknesses in existing poverty analysis in Lesotho, elaborates on the failure to adequately deal with poverty in the past and therefore the need to develop an alternative framework, and identifies the steps to be taken in formulating a poverty reduction strategy through a participatory process. The paper has been approved by the Cabinet and was transmitted to the Bank and the Fund with a cover letter authorizing its publication.

2. The I-PRSP was prepared by a Technical Working Group (TWG), established in February 2000, under the oversight of the Deputy Prime Minister (who is also the Minister of Finance and Development Planning) and the Poverty Council, made up of Principal Secretaries of various line ministries and the Governor of the central bank. The TWG comprised representatives from government, private sector, non-governmental organizations (NGOs), the National University of Lesotho, and the donor community resident in Maseru. Because of time constraints in preparing the I-PRSP for support under the IMF's PRGF and upcoming IDA assistance for the Utility Sector Reform, consultation was limited to line ministries and Lesotho's development partners resident in Maseru. At the request of the Government, the staffs of the Bank and the Fund provided

informal comments on a draft of the I-PRSP. However, the I-PRSP is a fully-owned government document.

### **Extent and Pattern of Poverty**

3. The I-PRSP points out the lack of consensus within Lesotho on the extent and pattern of poverty. GOL does not have an official measure of poverty, but based on studies sponsored by various development partners, including the Bank, the document states the following: one-half to three-quarters of the population may be considered “poor” and a quarter to one-half may be “ultra poor”; poverty is regionally concentrated in the predominantly rural areas, where more than 80 percent of the people may be poor; and the poverty situation does not seem to have improved over the past decade despite the economic boom that Lesotho has enjoyed since the late 1980s. The staffs agree that poverty is widespread, but would question the assertion that economic growth has not improved the poverty situation. First, the data on which the poverty analysis in the I-PRSP is based are very weak and do not lend themselves to reliable conclusions about the level and trend of poverty. Second, we do not know much about the incidence of economic growth in Lesotho. The staffs would strongly recommend that during the preparation of the PRSP, a major effort be made to improve the data base on poverty and to explore the relationship between poverty and economic growth in Lesotho.

4. The I-PRSP proposes to establish national poverty standards during preparation of the full PRSP, recognizing the limitations of income measures of poverty. The staffs support this proposal, but will suggest that the exercise include an in-depth diagnostic analysis of income poverty and human development in Lesotho. The staffs also support the proposal in the I-PRSP to establish a poverty-monitoring unit under the auspices of the TWG to fill information gaps, set necessary standards for measuring poverty at the national level, set targets for monitoring activities, and take active part in keeping various stakeholders informed. The main information gap that needs to be filled includes: establishment of a poverty line, the proportion of population below the poverty line, regional and gender distribution of poverty, and factors contributing to poverty. The staffs suggest that, as soon as possible, through a participatory approach, a preliminary list of indicators be established based on existing data sources. Such indicators could include, inter-alia, indicators of poverty outcomes as well as on budget management and efficiency of public resource use. The staffs recommend that the full PRSP include a systematic, participatory evaluation of the impact of government programs on poverty reduction. Community monitoring of the impact of government programs on poverty could be supported by the Bank and other donors through technical assistance. The ongoing IDA-supported Learning and Innovation Loan (LIL) for strengthening the Lesotho Fund for Community Development (LFCD) may be used as an instrument for this purpose.

## **Poverty Reduction Policies**

5. The I-PRSP identifies unemployment (estimated by the Bureau of Statistics at about 40 percent in 1998) as the dominant cause of poverty, and lists several factors contributing to high unemployment, including reduced job opportunities in South African gold mines, the slow-down of construction activities in Phase 1B of the Lesotho Highlands Water Project, and constraints to the growth of manufacturing on account of political uncertainties and the lack of essential infrastructure such as reliable low cost electricity supply. It notes that GOL has sought to reduce unemployment mainly by promoting economic growth and using projects as instruments, giving rise to a number of projects to improve service delivery and infrastructure. Rural road construction, for example, while it has helped develop critical infrastructure, appears to have created seasonal jobs only. The government has also promoted privatization and various industrial development projects and has sought to develop small and medium enterprises and encourage indigenous entrepreneurship through, inter-alia, improved access to finance and training. Yet, these measures have not resolved the problem of high unemployment.

6. The I-PRSP also notes that the poverty impact of social sector spending has been mixed, but encouraging. Improvements in access to health services, for example, may have contributed significantly to increasing life expectancy, although this trend is being reversed on account of the spread of HIV/AIDS. Dealing with the effect of HIV/AIDS in the context of Lesotho's high poverty will be a development challenge for the PRSP. In education, adult literacy has not changed significantly, and there has been a substantial drop in the net enrollment ratio at the primary level. The high and increasing cost of education may have been a barrier for the poor; GOL has responded by making primary education free. The education strategy will need to address not only the issue of parental costs, but also issues of cost effectiveness and quality of education. The I-PRSP acknowledges that government has not been able to effectively make a dent on poverty through social sector expenditures, and argues that top-down development and implementation of policies, without adequate community participation, may have been an important reason for the failure.

7. The I-PRSP briefly outlines a medium-term economic strategy that would serve as a basis for developing the poverty reduction strategy. The economic strategy emphasizes economic growth and poverty reduction in the context of macroeconomic stability, and contains the following elements: export-led economic growth, prudent fiscal management, cautious monetary policy, strengthened capacity for national economic management, and increased efficiency and accessibility to quality social services. Private investment plays a key role in the strategy. In this context, the staffs suggest that Government should provide for a more amicable environment for private sector development through the execution of appropriate legal and judicial reform programs.

The proposed policies are expected to restore growth to about 4 percent a year, reduce inflation to about 5 percent a year and help maintain adequate levels of international reserves. This economic strategy is appropriate and consistent with the economic program that will be supported under the Fund's Poverty Reduction and Growth Facility (PRGF).

8. To ensure that economic growth maximizes employment generation, the document suggests that priority be given to those activities that have a direct impact on the poor. In addition, growth policies should be supplemented by accelerated public works programs and by redesigning these programs to target them more effectively at the poorer segments of the population. The staffs agree with the emphasis on employment generation and improved targeting of public works programs, but would caution the government against trying to select and target specific economic activities based on only their perceived employment generating potential.

9. The I-PRSP is relatively weak on sectoral policies for the medium to long-term. The policy matrix outlines ongoing sectoral programs in trade, state enterprise reform, telecommunications, power, water, agriculture, and the social sectors without defining follow-up medium-term policies and actions in these areas. The Government will need to develop reform strategies in each of the sectors which set clear priorities for private and publicly funded service provision. The strategies should also provide for sequencing of policy measures, an indication of the cost of various programs, and an identification of funding sources. Future government budgets will need to take into account the cost estimates of the programs contained in the poverty reduction strategy. The staffs urge Government to seek relevant technical assistance from the donor community to support the development of sectoral strategies in the context of the full PRSP.

### **Towards the Full PRSP**

10. The commitment of the government to a participatory process and the effort that has gone into carefully identifying appropriate mechanisms for participation are attractive aspects of the I-PRSP. The process envisaged for the full PRSP offers substantial scope for participation by various stakeholders, including the Parliament, civic society, private sector, development partners, local governments, community based organizations (CBOs) and the rural population. The staffs believe that, if properly executed, the proposed process could lead to the development of a community-driven and country-owned poverty reduction strategy.

11. The Government feels that, after over half a decade of consultation through various fora, such as the poverty action program, the Roundtable Conference on poverty and the Bank's Country Assistance Strategy, a stock-taking exercise needs to be undertaken. Therefore, preparation of the full PRSP has begun with an assessment of the

performance to date of the TWG, which is central to the entire process. The assessment, which is being undertaken by a local consultant, will look at the management, composition and capacity of the group. A reconstituted group is expected to be in place by February 2001, following which the process of consultation towards a full PRSP will begin. Data collection for the assessment of existing poverty programs and for the preparation of the PRSP has already begun. The final PRSP is expected to be completed by June 2002, 20 months after the completion of the I-PRSP. This time frame is realistic, given the need for careful consultation at the time the country is preparing for elections, which are expected to take place in late 2001 or early 2002. The upcoming elections could affect the consultative process. It is thus essential to provide adequate time for critical steps to be completed.

12. The Poverty Council, chaired by the Deputy Prime Minister, will provide policy guidance and a mechanism for consultations at the highest levels of the government. The establishment of a Civil Society Poverty Reduction Forum by NGOs will be a key instrument for consultation at both national and district levels. Interaction among the TWG, Poverty Council, and the Poverty Forum should minimize the tensions that are likely to occur in participatory processes. Consultations will be held at various levels, the initial round taking place after some background information on poverty is prepared. The proposed institutional framework for preparing the full PRSP is all-inclusive and sound. However, the TWG has proposed that it would prepare an initial draft PRSP as a working document to initiate the consultative process. The staffs caution that the Government should avoid confronting stakeholders with a predefined policy strategy which could adversely affect the quality of the consultative process and undermine ownership.

13. The I-PRSP gives an estimate of the resources required for the preparation of the full PRSP and requests technical support from development partners. However, it does not explicitly state the role it would like these partners to play in developing the poverty strategy. There is substantial scope for technical assistance to the TWG, such as in data collection and analysis and in assessing of the impact of poverty programs. The UNDP and key donors in Lesotho have indicated their willingness to support the Government in its efforts to conduct a wide-ranging consultative process.

## **Conclusion**

14. The I-PRSP constitutes a commendable step towards developing a comprehensive poverty reduction strategy. It makes a fair assessment of the poverty situation based on existing information, affirms government's commitment to poverty reduction, reviews the country's experience in poverty alleviation, outlines a medium-term economic strategy consistent with maintaining macro stability, and suggests a realistic process for developing the full-fledged PRSP. However, there are considerable risks involved in the process, mostly of a political nature. First, the impending elections could result in

insufficient attention being paid to developing the PRSP, which could suffer in terms of quality and timeliness of preparation. The participatory process may also be adversely affected. Second, and more importantly, there may not be full commitment to the PRSP if the government changes towards conclusion of the process, as a new government might not consider the document to be its own. Thus the PRSP may need to be revised. The key to success could be the role of the Bank, the Fund and other development partners in helping the authorities understand that the PRSP process can help Lesotho find solutions that go beyond its immediate problems. In designing their poverty strategy, the authorities may also want to take into account the risks associated with implementing this strategy. These include: (a) the extreme vulnerability of the Lesotho economy to external shocks (such as changes in employment opportunities in South Africa for Lesotho workers, and loss of external markets), (b) weak institutional capacity to implement the strategy, and (c) uncertainties regarding foreign assistance flows.

15. Given the above assessment, the staffs of IDA and the Fund consider that this I-PRSP provides a sound basis for the development of a fully participatory PRSP and for IDA and Fund concessional assistance. The staffs recommend that the respective Executive Directors of the World Bank and the International Monetary Fund reach the same conclusion.

**Annex**

**Lesotho: Key Bank/Fund Events Related to PRSP**

<b>Institution</b>	<b>Event</b>	<b>Date</b>
Bank	Board discussion of JSA of I-PRSP	March 6, 2001
Fund	Board discussion of request for new three-year PRGF arrangement and JSA of I-PRSP	March 1, 2001
Bank	Technical Assistance mission to assist TWG in defining poverty indicators	March/April, 2001
Fund	Board completion of first review under the three-year PRGF arrangement	July, 2001
Bank	IDA Board discussion of Lesotho CAS Update	September, 2001
Bank	Board discussion of I-PRSP progress report	January, 2002
Fund	Board completion of second review under the three-year PRGF arrangement and discussion of I-PRSP progress report	January, 2002
Bank	Board discussion of JSA of PRSP	July, 2002
Fund	Board completion of third review under the three-year PRGF arrangement and discussion of JSA of PRSP	July, 2002