



# INTERIM NATIONAL DEVELOPMENT FRAMEWORK

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**GOVERNMENT OF LESOTHO**

**2009/10 – 2010/11**

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## Table of Contents

Executive Summary .....	3
1. Background.....	7
2. Building upon the Poverty Reduction Strategy Paper: Addressing a changed development climate .....	7
3. Learning Lessons from the PRS process – the need for a National Development Plan .....	12
4. The Interim National Development Framework.....	15

# Executive Summary

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This document provides an interim bridge to guide the development process between the end of the Poverty Reduction Strategy Paper and the publication of the National Development Plan, which will facilitate the implementation of the National Vision (*Vision 2020*).

## 1. Introduction

1.1 In response to the call by His Majesty King Letsie III for the Nation to prepare a vision of how Basotho would like to see Lesotho in 2020, the National Vision document was published in 2002. It followed an extensive national consultative process that involved representatives of Chiefs, Parliament, villages and professional, economic, cultural and church groups. The views, beliefs and priorities of these groups were incorporated and published in the Vision 2020. This National Vision is a framework for the long term aspirations of Basotho, outlining where they would like to see their country in 2020.

1.2 The Vision 2020 is summarised by the Vision statement:

By the year 2020, Lesotho shall be a stable democracy, a united and prosperous nation at peace with itself and its neighbours. It shall have a healthy and well developed human resource base. Its economy will be strong, its environment well managed and its technology well established.

## **2. Poverty Reduction Strategy Paper**

2.1 In 2004, a three year Poverty Reduction Strategy (PRS) was published by Government to map out development efforts that were required to set Lesotho on a path to achieve the goals and priorities outlined in the Vision 2020.

## **3. Purpose of the Interim National Development Framework (INDF)**

3.1 The purpose of the Interim National Development Framework is to bridge the period between the end of the PRS and the start of a National Development Plan in 2011/12. It will guide planning and budgeting processes. Section 1 reviews the achievements of the PRS and draws lessons on which the INDF builds to prepare for the National Development Plan (NDP).

## **4. Achievements and Lessons from the Poverty Reduction Strategy**

4.1 A number of lessons can be drawn from the Progress Report on the PRS of 2007 with regard to its implementation. However, only four will be touched in this paper.

4.2 Firstly, the PRS did not pay sufficient attention to long term sources of economic growth without which poverty reduction cannot be addressed sustainably. In addition, it was not comprehensive enough to inform the budgeting process and tradeoffs in the use of available resources. Similar to the Millennium Development Goals (MDGs), the PRS focused very much on social sectors which depend much more on external support.

4.3 Secondly, the PRS turned out to be over ambitious in anticipating external resources to support it. As a result, action plans were not fitted within available resource ceilings thereby forcing even tougher choices.

4.4 Thirdly, the disbanding of the Project Appraisal Committee and the subsequent poor project cycle management and the delinking of Ministerial Planning Units from functional accountability to the coordinating Ministry of Finance and Development Planning meant that the quality of projects at entry into the portfolio was poor. This led to delays and low execution of projects (with only 65% to 75% of the capital budget spent per year).

4.5 Fourthly, the separation of planning and budgeting, although under one Minister, made the systematic implementation of the PRS difficult. Government has since combined planning and budgeting thereby leading to the preparation of the Medium Term Expenditure Framework (MTEF) and the reestablishment of project appraisal and management processes within the Ministry of Finance and Development Planning.

## **5. Objectives of the Interim National Development Framework**

5.1 Since preparation, discussion and approval of the National Development Plan will take some time, it is essential that Government approves a document that will guide the preparation and approval of Annual Budgets, especially in light of fiscal challenges resulting from the current global economic and financial crisis and from the projected declines in SACU revenue and the painful adjustments that can be anticipated.

5.2 The overarching objectives on which the INDF are premised is to promote good government, improved public service delivery and accountability and to reduce poverty through:

- Pursuing **high, shared, sustainable, private sector led economic growth** that generates employment by:
  - Promoting high private sector investment through removing unnecessary constraints and promotion of an investor friendly competitive investment climate
  - Developing legal and regulatory institutions that will support high investment by the private sector and quick decision making by policy makers and licensing authorities
  - Promoting industrial development and SMMEs
  - Developing agriculture, tourism, human skills and infrastructure
- Reducing social vulnerabilities through **enabling the disadvantaged** to participate in the growth process and **protecting the vulnerable** who are unable to benefit from the growth process
- **Fighting HIV and AIDS** by promoting testing through the Know Your Status campaign, care and treatment of the infected and affected persons and promotion of protection through education and use of all channels of communication

# 1. Background

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1.1 The Government wants to develop a five year National Development Plan (NDP) covering the period 2011/12 to 2015/16. This will build upon the expired Poverty Reduction Strategy (PRS) as the medium term operational plan for the implementation of the National Vision (*Vision 2020*).

1.2 In the interim, between the expired PRS and the NDP, the Government will use the Interim National Development Framework to guide planning and resource allocation.

## 2. Building upon the Poverty Reduction Strategy Paper: Addressing a changed development climate

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2.1 In response to the call by His Majesty King Letsie III for the Nation to prepare a vision of how Basotho would like to see Lesotho in 2020, the National Vision document was published in 2002. It followed an extensive national consultative process that involved representatives of Chiefs, Parliament, villages and professional, economic, cultural and church groups. The views, beliefs, aspirations and priorities of these groups were incorporated and published in the Vision 2020.

2.2 The Vision 2020 is summarised in the Vision statement:

By the year 2020, Lesotho shall be a stable democracy, a united and prosperous nation at peace with itself and its neighbours. It shall have a healthy and well developed human resource base. Its economy will

be strong, its environment well managed and its technology well established.

2.3 To implement the Vision, the Government developed a *Poverty Reduction Strategy* (PRS), published in 2004. This outlined what development efforts were required over a three year period to put Lesotho on a path towards the achievement of the Vision priorities.

2.4 The PRS ended in April 2008. Therefore, there needs to be a second medium term operational plan to guide development efforts towards achieving the Vision.

2.5 The Government believes that the priorities and goals contained within the PRS remain valid as a credible expression of the aspirations of the Basotho nation. However, an updated strategy is required to address the change in the development climate since the PRS was developed. There are three main components of this strategy:

### **2.5.1 Building upon the progress made under the PRS**

2.5.1.1 As outlined in the review of the Poverty Reduction Strategy process made in late 2007<sup>1</sup>, many of the programmes and projects contained in the PRS were implemented over its tenure. For example:

- The Government introduced the Old Age Pension in 2004 for all Basotho aged over 70; the first LDC to do so. This has proved to be a vital intervention to address vulnerability as the elderly tend to disproportionately bear the burden of caring for the sick and those orphaned from HIV and AIDS.

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<sup>1</sup> Progress Report, Government of Lesotho, 2007



- The Government, in collaboration with many Development Partners, have rolled out free Anti Retro-Viral therapy for all Basotho who test positive for HIV and require treatment; Lesotho is one of the few countries in Africa where this is the case.
- There has been much progress in investing in ‘social infrastructure’ to directly improve the quality of life of many Basotho; for example, the proportion of people with access to electricity rose by 49% over the PRS period. Similar improvements were made to village water and sanitation services.
- The first Local Government elections were held in April 2005 for the 128 Community Councils. This will drive improved service delivery at local level.
- Much has been done to promote gender equality; the Legal Capacity of Married Persons Act was passed in 2006 removing the status of women as legal minors and Child and Gender Protection Units have been established. This has had real consequences; 58% of Community Councillors elected in 2005 were women.

2.5.1.2 These successes mean that, in many areas, new development activities need to be identified to build upon those implemented over the PRS period.

## **2.5.2 New Government structures have been established**

2.5.1.1 As shown above, one of the success of the PRS period was the establishment of Local Government structures in 2005. The next medium term operational plan must take into account these structures as a basis for planning and poverty reduction at a local level.

### **2.5.3 There are new development challenges facing Lesotho**

2.5.3.1 The Poverty Reduction Strategy Paper was developed to address the challenges facing Lesotho at that time. Many of these challenges, like HIV and AIDS, the vulnerability of the textiles sector and mining retrenchment remain with us; indeed, many have intensified. However, the changing nature of these challenges – and the new ones that have emerged – means that new development strategies need to be pursued to address them. The next medium term operational plan needs to reflect these new strategies.

2.5.3.2 In brief, the main contemporary development challenge is addressing widespread vulnerability both for individual households and the country as a whole.

2.5.3.3 This vulnerability stems from an over-reliance on external revenues, which are currently under threat. Firstly, the economy is highly reliant on revenue from the Southern African Customs Union, which contributes around 60% of domestic receipts. There are several emerging threats to the size of the SACU revenue pool and to the respective shares of member states. This means that Lesotho's revenues from SACU are expected to shift to a lower level and a slower growth path from 20010/11.

2.5.3.4 Secondly, many rural households who have, in the past, based their livelihoods on remittances from family members in South African mines and industries, increasingly have to rely on unpredictable agricultural output as these workers are retrenched. This retrenchment, in tandem with the HIV and AIDS pandemic and changing employment patterns within Lesotho, have also increased vulnerability through their impacts on household structures and social sharing mechanisms.

2.5.3.5 These factors are further exacerbated by the current global recession, which has drastically reduced textile exports to the United States, putting at risk the 42 000 jobs in the textiles sector, and speeded up mining retrenchment as global commodity prices collapse.

2.5.3.6 Left unchecked, these drivers of vulnerability could intensify rural poverty and destitution both directly, as households are unable to generate enough resources to satisfy their basic needs, and indirectly, as too much pressure is put on already stretched social sharing mechanisms and Government is forced to cut back on social expenditure to maintain macroeconomic stability.

## 3. Learning Lessons from the PRS process – the need for a National Development Plan

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3.1 The Poverty Reduction Strategy was highly credible in terms of addressing the priorities of the Basotho. However, the Government believes that there are lessons to be learned from the process which can ensure that the next medium term operational plan is even more successful. The following lessons derive from the Progress Report of 2007. Some of them relate to the design of the PRS, and others concern broader issues relating to the national planning and budgeting processes. The proposed solutions are also discussed.

### 3.2 Design Issues

#### 3.2.1 The Poverty Reduction Strategy focussed too heavily on direct poverty reduction

3.2.1.1 The overwhelming priority for the PRS was poverty reduction; therefore, the document gave it disproportionate focus. It did not focus enough on economic growth, which is crucial for reducing poverty and for offsetting potential falls in SACU revenue. It also did not pay enough attention to other components of the work of Government that are important but do not directly reduce poverty- such as safety and security, environmental issues and land reclamation. Whilst these sectors were included in the PRS, they were not analysed in detail and activities to address their sectoral issues were not pursued.

3.2.1.2 Because the PRS was incomplete, it was unable to comprehensively inform the budgeting process. The budgeting process requires difficult trade-offs and prioritisations as desired expenditure always far outstrips available resources. As

the PRS did not adequately address several sectors, it was unable to inform these inter-sectoral trade-offs.

3.2.1.3 Therefore, the next medium term operational plan should be in the form of a comprehensive National Development Plan that will cover all sectors and agencies. This will enable it to make better recommendations about the allocation of resources across sectors and hence better inform the budget process.

### **3.2.2 The Poverty Reduction Strategy turned out to be too ambitious when additional resources were not forthcoming**

3.2.2.1 The planned activities in the PRS were based on an expectation that Donor Partners would scale up aid to Lesotho. For various reasons, including the prioritisation of Heavily Indebted Poor Countries (HIPC) by the international community, these extra resources did not materialise. Therefore, the planned activities were not constrained by a realistic resource ceiling.

3.2.2.2 This meant that the action plans contained within the PRS were too aspirational compared to available resources, and these action plans were not sufficiently prioritised to effectively guide the budget allocation process within a smaller available resource envelope.

3.2.2.3 To address this, the National Development Plan will be rigorously grounded by a realistic resource envelope calculated from the projections derived from macroeconomic forecasts and the Medium Term Fiscal Framework. Agencies will be forced to plan based on their expected resource ceilings.

### **3.3 Other issues relating to the National Planning Process**

3.3.1 There are several other shortcomings associated with the PRS process that relate not to its design, but to weaknesses in the planning and budgeting systems of Lesotho in general.

#### **3.3.2 Weaknesses in Project Cycle Management**

3.3.2.1 Whilst the PRS was a highly credible plan, and many of its projects and programmes were enacted, overall implementation was not as systematic as had been hoped.

3.3.2.2 This weakness in implementation largely stems from systematic flaws in Project Cycle Management processes in the Government. For example, over the last few years, there has been limited systematic appraisal of new projects before they are included in the annual budget. This has prevented the filtering out of projects that would have minimal impact on national development. It also means that projects have been included in the annual budget despite not being ready for implementation; for example, if a site has not yet been procured, or a feasibility study completed. This frequently means that resources allocated cannot be spent in the fiscal year, leading to substantial under-spending, especially in the capital budget.

3.3.2.3 Furthermore, there has been weak monitoring and evaluation of development projects that links expenditures and outputs. This prevents lessons being learned which could improve future project design and implementation effectiveness.

3.3.2.4 The Government recognises that implementation levels need to improve. Therefore, several reforms are being undertaken to address this problem. All Ministries have been required to submit detailed implementation schedules for

2009/10 so that delays can be identified – and solved – quicker. The Project Appraisal Committee has been re-established and a new template for project proposals has been developed to better facilitate project appraisal.

3.3.2.5 To address the problems with monitoring and evaluation, the National Development Plan will identify clear, monitorable performance indicators for all agencies and activities. The national monitoring and evaluation system will be further capacitated to oversee this process.

### **3.3.3 Separation of the planning and budgeting processes**

3.3.3.1 Historically, planning and budgeting workstreams have operated separately within the Government of Lesotho, making it difficult for plans to have systematic impact on the Annual Budget, irrespective of the design of the plan.

3.3.3.2 To address this, the Government has introduced the Medium Term Expenditure Framework (MTEF). Here, when Government agencies submit their desired expenditures, they have to show how they will contribute towards the attainment of the priorities included in the medium term operational plan. Activities will be selected according to their expected impact on these priorities.

## **3.4 Towards a National Development Plan**

3.4.1 Based on the lessons learned from the PRS experience, the Government will replace the PRS with a 5 year National Development Plan that will be:

- Comprehensive, covering all sections of Government activity
- Realistic, based on a forecast of available resources
- Focussed on achieving the National Vision, organised around the Pillars of the Vision 2020 document

## 4. The Interim National Development Framework

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4.1 Developing a National Development Plan will be a highly involved process which will require developing appropriate institutional infrastructure. It is intended to be completed within two years and become operational in fiscal year 2011/12 and will cover five years.

4.2 Therefore, there is a temporary vacuum between the PRS, which has expired, and the forthcoming NDP. This current strategy is intended to fill that vacuum and act as the Government's strategic plan for the two intervening fiscal years to guide resource allocation and planning activities.

### 4.3 National Development Priorities

4.3.1 The number one priority of Government is to generate **high, shared, sustainable, private sector led economic growth**. There are two core reasons for this: firstly, Lesotho needs to generate more domestic income to replace the external revenue that is under threat due to mining retrenchment and threats to SACU revenue. Secondly, significant poverty reduction cannot be achieved in an environment of stagnant or declining economic growth. Only sustained high economic growth can generate the extra resources required to lift people out of chronic poverty. This growth needs to be 'shared' to ensure that the poor and vulnerable also benefit; primarily through employment creation.

4.3.2 Accelerating growth in this way requires a large increase in the domestic productive base, which requires high levels of investment from the private sector.



4.3.3 The appropriate role of Government is as an ‘enabler’ for private sector generated growth. This requires the Government to focus upon:

- Accelerating cross-government reforms in order to create a more conducive investment climate, for Basotho entrepreneurs, domestic investors and Foreign Direct Investment
- The provision of complementary physical infrastructure to ensure investment is productive (including the development of a ‘minimum infrastructure package’)
- Creating good legal and regulatory institutions and support services to ensure sustainability of growth; for example, the development of a sound financial system
- Investment in health and education to ensure a highly qualified, skilled and healthy workforce

4.3.4 How the Government can achieve this is explored in more detail in the draft ‘Growth Strategy’, prepared by the Government of Lesotho in 2008. This examines potential drivers of growth in Lesotho as well as the key ‘binding constraints’ holding back each sector. It then identifies appropriate interventions.

4.3.5 The Growth Strategy identifies the expansion and diversification of the manufacturing sector into higher value added product lines and new markets as a key potential future driver of growth in Lesotho, along with the continued expansion of mining, support for SMMEs and a much greater emphasis on tourism, which can have a strong impact on poverty as it is labour intensive and focused in the Highland areas.

4.3.6 The Growth Strategy also focuses on agricultural development, reflecting its importance for an ever increasing number of livelihoods at a time when production

is low and unpredictable. Increasing and stabilising agricultural output is of paramount importance for those who rely on agriculture both directly – through their own production – and indirectly through supplying labour or other goods to farmers. Initiatives should focus on supporting food insecure households in intensifying and diversifying their agricultural production.

4.3.7 Whilst growth is the number one priority, the Government recognises that not all citizens will benefit from economic growth, even if it generates employment. Because of this, the Government is committed to **protecting the vulnerable** households who lack income earning potential (for example, those headed by orphans and the elderly) and **enabling the disadvantaged** to participate in the growth process (through livelihood promotion activities e.g. community based income generating activities such as homestead gardens). Development interventions need to be focussed on those who bear the highest burden from the major development challenges; for example, the pension introduced in 2004/05 is crucial in supporting the elderly, on whom the burden of caring for orphans and chronically ill individuals falls disproportionately.

4.3.8 The other key challenge is dealing with the **HIV and AIDS epidemic**, which has the potential to reverse the progress made in human development over the past three decades and continues to threaten the productive sectors of the economy, public service delivery and social development. HIV and AIDS obviously causes immense suffering to those with the virus and their families and friends, but also has many indirect effects such as diminishing labour productivity and causing many children to be orphaned and deprived of a nurturing environment and educational opportunities. Substantial investment is needed in both prevention and treatment, the first to halt the spread of the virus, and second to improve the lives of those who have it and those who care for them or rely on them.

4.3.9 The third priority of the Government is fostering **good governance** to improve public service delivery. The most important component of this is improving Public Expenditure Management (PEM). In acknowledgement that economic growth is unlikely to fully offset potential future falls in SACU revenue, the Government is committed to planning for the eventuality that public spending has to be reduced to ensure macroeconomic stability. This includes both reducing future expenditure requirements and improving the effectiveness and efficiency of remaining expenditures. To achieve the latter, the Government has embarked on a comprehensive and ambitious Public Sector Improvement and Reform Programme (PSIRP) on top of other initiatives.

4.3.10 Whilst the focus of Government is on the above strategies to combat vulnerability, which is deemed the most pressing threat to Lesotho, the Government is also committed to maintaining existing interventions which seek to directly improve the quality of life enjoyed by Basotho through promoting **human development**. These include improving the quality of, and peoples' access to, healthcare and education facilities, providing 'social infrastructure' such as water and sanitation services and improving the levels of safety and security in the country.