

# BTI 2014 | Lesotho Country Report

<b>Status Index</b>	1-10	<b>5.48</b>	# 71 of 129	
Political Transformation	1-10	6.25	# 57 of 129	↗
Economic Transformation	1-10	4.71	# 88 of 129	→
<b>Management Index</b>	1-10	<b>4.96</b>	# 63 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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**Key Indicators**

Population	M	2.1	HDI	0.461	GDP p.c.	\$	1963.1
Pop. growth <sup>1</sup>	% p.a.	1.1	HDI rank of 187	158	Gini Index		52.5
Life expectancy	years	48.2	UN Education Index	0.501	Poverty <sup>3</sup>	%	62.3
Urban population	%	28.3	Gender inequality <sup>2</sup>	0.534	Aid per capita	\$	96.4

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

The period under review was characterized by changes that could determine whether economic stability lies ahead for Lesotho. The country held general elections on 26 May 2012, and Thomas Thabane, the leader of All Basotho Convention (ABC), became prime minister. Since no party won a majority, Thabane had to form an alliance with two other parties to form a government: the Basotho National Party (BNP) and the Lesotho Congress for Democracy (LCD). The elections resulted in Lesotho's first democratic transfer of power from one political party to the next. There were no post-election conflicts, and no need for external mediation, which have been routine in almost every prior general election. The country is at a crossroads and the need for reform can be ignored only at the peril of Lesotho and Basotho. The major bottlenecks are with the legislature and civil service, which struggle to execute reforms due to persistent lack of funding and appropriate skills. A key problem is inaccessibility, which inhibits ordinary citizens from taking ownership of the democratic process. More immediate dangers are the country's growing poverty and inequality, along with decreased government revenue during the period under review. Lesotho has been adversely affected by the global financial crisis, which caused Southern African Customs Union (SACU) revenue to decline. However, the period under review saw significant economic gains. This is very significant given that government plays the primary role in an economy that managed to surpass GDP of \$2 billion during the period. The challenge for government is to find alternative sources of revenue in order to become less dependent on customs.

Despite rising poverty, inequality and unemployment, there is very little organized left-wing resistance to the current macroeconomic framework. Organized labor, the traditional opponent of liberal market-based policy, continues to be weak and has yet to present a significant challenge. The real threat to liberalization is corruption and the lack of a regulatory framework.

The period under review is also characterized by increased opportunities for free media. There has been increased coverage, including stories exposing enormous corruption at the higher echelons of power. This has prompted some of the private firms to buy advertorials in an attempt to counter

poor coverage. This presented emerging media houses with an opportunity to publicize the stories that mainstream media were ignoring. The use of social networks as a forum for widespread discussion of national issues ballooned in the period under review.

The country received a massive boost from the U.S. government, with the Millennium Challenge Corporation (MCC) injecting \$362 million into the economy in 2008. The country's ability to implement this project should be a clear demonstration of its intention to aggressively pursue economic development. The implementation of the Millennium Challenge Account (MCA), in full swing during the period under review, was completed in 2013. However, the MCC has demonstrated that it is not willing to continue with the government of Lesotho beyond the end of the project. There are also other development initiatives by the European Union, Japan and China intended to build state capacity to deliver better services to the populace. The government needs to introduce more legislative reforms, as most laws are outdated, and there are often no policies to regulate the economy.

## History and Characteristics of Transformation

Lesotho is a mountainous, landlocked kingdom that is geographically surrounded by the Republic of South Africa. The country has the total area of 30,355 square kilometers. It has arable land of around 10.87%, according to 2001 estimates. In 1868, it became a British protectorate and gained 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 infection rates in the world, which can be regarded as both a cause and a result of its high poverty. Most of its population lives on subsistence farming, and, as a result, the country is highly exposed to the effects of climate change.

Lesotho, at present, is a stable, democratic, constitutional monarchy. After a protracted period of about 25 years of undemocratic rule, which included seven years of military 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 power weakened, the prohibition of political activity was lifted and preparations began for general elections. The Basutoland Congress Party (BCP) won control of parliament with a landslide victory in 1993. The country therefore became a one-party-dominant state immediately after the return to democracy.

In the years that followed, Lesotho experienced several internal challenges to democratic legitimacy. 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, Moshoeshe II, who was deposed and exiled after a fallout with the military government. Civil society groups mobilized all stakeholders in and outside Lesotho in order to put pressure on the king to revert to the constitution and reinstate a democratically elected government. A negotiated

settlement resulted in the reinstatement of the BCP and Letsie III abdicated in favor of his father. He returned to the throne soon after, following Moshoeshe II's death in an automobile accident. The second democratic elections since the return to democracy were held in 1998 and won by Lesotho Congress for Democracy (LCD). Although international election observers described the poll as free and fair, opposition parties and their followers contested the outcome and widespread violence and looting were the result. That led to a Southern African Developed Community (SADC) military intervention led by South Africa and later joined by Botswana and Zimbabwe. The government of Lesotho invited its southern African counterparts to intervene, as the state apparatus was completely paralyzed by the protests.

A multiparty Interim Political Authority (IPA) was created to oversee the crafting of a new mixed-member proportional (MMP) electoral system, which eventually culminated in peaceful, free and fair general elections in 2002. In 2005, free and fair local government elections were conducted for the first time in Lesotho. The second general elections under the new MMP model were conducted in 2007 and were also pronounced free and fair by observers.

Lesotho's democracy has always been characterized by drama and double standards. On 28 February 2012, Basotho woke up to the news that the prime minister had formed a new political party. It was highly expected that the prime minister would cross the floor with those that followed him to the new party. However, the formation of the democratic congress saw the prime minister retaining his position, even though his party had won only 44 out of 120 seats in parliament. LCD became the opposition party, though its members who were ministers retained their seats. In the general election of May 2012, no single party won a simple majority. The three former opposition parties, namely the All Basotho Convention (ABC), Basotho National Party (BNP) and LCD formed a coalition government, a first in the history of Lesotho.

Since independence, Lesotho has engaged in comprehensive planning exercises, such as the National Development Plans (NDPs), Poverty Reduction Strategy (PRS) and the National Vision 2020. The National Strategic Development Plan for 2012/2017 was approved by the government during the period under review.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Question  
Score

There is no current challenge to the territorial sovereignty of Lesotho, and the government retains its monopoly on the use of force. In April 2009, the highly guarded Makoanyane barracks were attacked and the armory was raided by mercenaries, who later attacked the statehouse. In the wake of the attacks, there was increased pressure on the state to increase its hold on national security. The period under review was characterized by increased stability. The mercenaries from the neighboring countries of South Africa and Mozambique had their day in court after being extradited from South Africa, where most of them had sought refuge.

Monopoly on the  
use of force

7

In the more impoverished areas, informal economies, often based on criminal activity such as cattle rustling, have taken root. There, the influence of the criminal justice system is limited and the rule of law is absent. Generally, however, there is no threat to the state's monopoly on the use of force. The only challenge is for Lesotho to ensure that the armed forces exercise their authority within the confines of the law.

Lesotho is a fairly stable kingdom and it is difficult to find things that divide the nation. This identity is underpinned by the country's cultural, linguistic and religious homogeneity. Citizens respect the state as legitimate, and discrimination, where it occurs, is based on factors other than ethnic or religious grounds.

State identity

9

Although Lesotho remains economically dependent on the Republic of South Africa, the identity of its state, a constitutional monarchy, remains distinct from that of its bigger neighbor. There is a general appreciation and positive feeling among Basotho with respect to the nation-state.

The period between 2009 and 2013 saw a massive increase in calls for Basotho to reconsider its relations with South Africa. The Citizens Amendment Act of 2010 in South Africa poses a new challenge for Lesotho, as the law stipulates that people who come from countries that prohibit dual citizenship cannot hold dual citizenship in

South Africa. Basotho have, over the years, crossed the border to South Africa for economic purposes and maintained their citizenship at home without renunciation, as required by the constitution of Lesotho.

Religion plays a cardinal role in Lesotho, with Christians estimated to be around 90% of the population. The state remains secular, however, in line with the provision of the constitution on religious freedom. Other religious minorities are free to practice their religion without interference or intimidation from the Christian majority. There is an increasing emergence of religious practices that were not predominant in the country, and the integration of their practices has been smooth as the country truly embraces secularism.

No interference of religious dogmas  
8

The period under review was characterized by increased calls by some Christian groups for Christianity to be declared a state religion in the constitution. Some political parties, including two of the three forming a coalition government, have subscribed to this idea. This is a threat to religious freedom in Lesotho, as minority religions will be further marginalized if the government yields to the calls.

The administrative capacity of the state is generally weak and hampered by insufficient financial and human resources. Due to low wage rates, Lesotho is losing a great deal of trained personnel to neighboring South Africa. Most services are accessible to urban dwellers, but the majority of the population who live in rural areas have little access to state resources. The record of public service infrastructure is mixed: Whereas only 26% of the population has access to sanitation, 78% has access to clean water.

Basic administration  
6

Lesotho relies heavily on other nations to help train its labor force. This makes it even more attractive for students who have been trained through the support of the National Manpower Development Secretariat (NMDS) to look for greener pastures abroad. Lack of state investment in higher education has paralyzed the ability of institutions to meet industry demands.

The efforts to decentralize governance has encountered massive capacity challenges because of the lack of infrastructure and skilled labor. The country relied heavily on Southern African Customs Union (SACU) revenues, which dwindled during the global financial and economic crisis. The period under review saw some improvements in the collection of government revenue from SACU, which rose from M2.8 billion in 2010 – 2011 to M5.0 billion in 2012 – 2013.

## 2 | Political Participation

Elections have been a source of social friction since independence from Britain in 1966. The 2002 general elections for Lesotho's lower house, the Assembly, were held under a mixed-member proportional (MMP) system. The model is a mixture of both

Free and fair elections  
8

first-past-the-post voting (FPTP) and proportional representation (PR). There are a total 120 seats in the Assembly, 80 of which are elected by popular vote, 40 of which through proportional representation. The elections were declared free and fair, though a few opposition parties protested the results. A multiparty parliament was then formed, and a period of general stability began.

In 2005 the country held its first local government elections with a voter turnout of less than 40%; the elections were peaceful. The 2007 elections, which were once again won by the ruling Lesotho Congress for Democracy (LCD), but markedly weakened by the All Basotho Convention (ABC), a party formed shortly before elections by the former LCD Foreign Minister Tom Thabane. The ABC won 17 seats, reducing LCD's tally to 62, and the LPC won the remaining seat. The opposition parties again contested the outcome of the elections, which were declared free and fair by local and international observers. The matter could not be resolved, and with the need to prepare for the 2012 elections, parties agreed to begin a process of amending the electoral laws in order to avoid a repeat of the problems witnessed with the 2007 elections.

There have been major improvements in the runup to the 2012 general elections. However, the opposing political parties continued to have limited or no access to the media, as the ruling party held a monopoly over the state-owned media. Clearly, this gives the ruling party an unfair advantage, which undermines the concept of a level playing field. Nonetheless, the elections were declared free and fair by all observers, with the exception of a few incidents reported to the Independent Electoral Commission (IEC). The election resulted in no single party winning a majority of seats in parliament, which resulted in a Lesotho's first-ever coalition government. There were minor clashes between supporters of different political parties during election campaigns. This prompted the Lesotho Defence Force and the Lesotho Mounted Police Services to increase security measures during election campaigns. It should be noted, however, that these clashes were not significant enough to have influenced the elections.

The government has effective power to govern; no significant veto powers contest its authority. The formation of a coalition government after the 2012 general election brought a huge challenge with respect to the decision-making process. However, the government has demonstrated its willingness to challenge the status quo simply by letting elected officials make decisions. There is reportedly massive resistance by supporters of the former ruling party to implementing the government's policies.

The government's challenge is that few individuals within the coalition parties wield much power. The period under review saw the former minister of trade, Mpho Malie, come out of political retirement and become a political advisor to the deputy prime

Effective power to govern

8

minister. This has been seen by others as a clear demonstration of Malie's continued influence within the Lesotho Congress for Democracy.

Although the military has been instrumental in the formation of prior authoritarian governments, a reform program aimed at depoliticizing the military has, over the past decade, brought the military under the firm control of the government. The office of the prime minister has the ministerial portfolios of defense, police services and national security. While this allows the government to keep the country's security within its sphere of influence, the impartiality of the country's security apparatus is in doubt. Although they do not by themselves constitute a veto power, the harassment of independent critics, and abductions and shootings of politicians have raised questions about the country's armed forces.

In general, citizens enjoy the freedoms to associate and assemble as granted by the constitution. Lesotho's small formal civil society sphere, which is primarily active in the fields of poverty alleviation, healthcare (HIV prevalence is estimated at 23%) and governance issues, is organized under the umbrella body of the Lesotho Council of Non-Governmental Organizations (LCN).

Association /  
assembly rights  
7

While workers in the private sector are able to form trade unions, public sector workers are excluded from this right to association. Given the fact that government is one of the primary employers in Lesotho, union membership is small and its influence limited. There are also too many trade union federations in Lesotho, which further dilutes the influence of the trade union movement. There were reported cases of intimidation at the National University of Lesotho, where employees of the university protested the appointment of the vice chancellor.

Labor laws are generally ignored and union meetings prohibited in many sectors of the economy. This is because of the size of investments by multinational corporations relative to the economy of Lesotho, which allows investors to work with impunity and without government regulation. The government has failed to respond to calls to amend the labor code to protect workers. Since the procedures for calling legal strikes are complicated, strikes have been rare. Where spontaneous protests occur, workers risk legal action and/or losing their jobs.

While the country's constitution does subscribe to the principle of press freedom, tolerance of media criticism remains low, and legislation dating back to country's authoritarian period has been used to silence the government's critics. The state broadcaster, the Lesotho National Broadcasting Corporation (LNBC), dominates the broadcast media and is the most cost-efficient and accessed source of news for ordinary Basotho. Its views are generally pro-government, while that of private print and broadcast sources take a more critical posture towards government. There has been increased coverage by some privately owned broadcasters as they aligned their views with those of the ruling party in the period under review.

Freedom of  
expression  
6

Sedition Proclamation No. 44, dating from 1938, prohibits specific forms of criticism of the government, which can result in charges of seditious libel. Even under democratic rule, this proclamation has been invoked on a number of instances in libel suits against critical media sources. Privately owned media depend on government advertising revenue. The choice for most media houses is between profiting monetarily by being less critical of the government and facing closure for criticizing government policy.

The Lesotho chapter of the Media Institute for Southern Africa has been working tirelessly for the past 13 years advocating media freedom. The period under review saw a major setback when the cabinet referred the draft policy back to the minister of communication, science and technology. Also, the government refuses to relinquish control of the LNBC. The new regime has surely changed the government approach towards freedom of expression and members of the public are freer to criticize the government even on government-owned media.

### 3 | Rule of Law

The constitution makes a clear distinction between the executive, legislative and judicial spheres of government. The executive arm of government has continued to undermine checks and balances in the period under review. The judiciary has demonstrated its willingness to be independent from the executive. Parliament has also started to advocate for greater independence. This includes a campaign for the establishment of the Legislative Service Commission, which will be responsible for employing parliamentary workers. The limited capacity and resources of the legislature and other institutions diminish their impact. These deficiencies are present in the public sector but also in the legislative sphere, in which Parliament's capacity to provide oversight over the executive, and craft quality legislation to regulate social affairs, is limited due to insufficiently qualified members of parliament and an inefficient parliamentary committee system. The fact that members of the executive are also members of Parliament in the Westminster system does not help the situation. Members of parliament from political parties such as the Lesotho Congress for Democracy are barred from voting against party leadership under penalty of loss of party membership. It is totally unacceptable for a country ravaged by corruption to have political parties that have constitutions that coerce MPs to vote regardless of the consequences.

Separation of powers

5

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, including administrative issues such as employment of staff, falls under the jurisdiction of the executive. For instance, contrary to international best practices, in which judicial service commissions nominate candidates for parliamentary approval, the chief

Independent judiciary

6

justice and the president of the Court of Appeal are appointed by the king on the 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. There is a need for the judiciary to address the issues of practicing lawyers who also serve as judges. These lawyers are appointed to serve for prolonged period of time while they continue to represent clients.

There is, however, a serious problem of political influence in the delivery of justice in Lesotho. There is a skills shortage, as most lawyers are trained by the National University of Lesotho, leaving the country with little option but to opt for attorneys from neighboring South Africa to serve as judges.

The Law Society of Lesotho has demanded to have a say in the judicial service commission. The position of the law society is that the current composition of the commission compromises independence of the judiciary, as judges are appointed without their participation. All members of the commission happen to be public servants, which means that there is a high likelihood that the ruling party can influence or even dictate their judicial appointments.

The other challenge facing the judicial system in Lesotho is that magistrates and prosecutors are poorly paid, which puts them at high risk of being bribed. There is a need for serious judicial reform in Lesotho if the integrity of the judiciary is to be restored.

The period under review saw a number of officeholders investigated immediately after the change of government in May 2012. Former Minister of Natural Resources Monyane Moleleki faced allegations of misappropriating public funds. According to reports, Moleleki issued licenses to mining companies without following the procedure outlined in the Mines and Minerals Act of 2005.

Prosecution of  
office abuse

7

The former CEO of the Lesotho Highlands Development Authority, Masupha Sole, was released from prison on parole after being sentenced for taking, from Lanmeyer, the biggest bribe in Lesotho's history. He was immediately appointed as advisor to the government, and represents Lesotho in the Lesotho Highlands Water Commission. This move prompted public criticism, and the Republic of South Africa, a partner in the Lesotho Highlands Water Project, filed a complaint with the Lesotho government.

The period under review saw the Lesotho Highlands Water Commission taking a giant step in the fight against corruption by adopting the Lesotho Highlands Water Project anticorruption policy on 1 October 2011. The project has been embroiled in massive litigation that involved the former CEO of the Lesotho Highlands Development Authority and multinational corporations. This policy is intended to curb corruption within the project as it moves into the second phase.

There has been an increase in the number of senior government officials brought before courts of law since the change of regime in May 2012. There are cases where very senior officials in the prime minister's office were implicated in corrupt practices and some were even suspended from service.

The constitution of Lesotho guarantees basic civil liberties and their enforcement by the state. Yet in some instances, practice diverges from the constitution. Intimidation and brutality by the police and army persist, a remnant of the country's long autocratic history. Whether in the cases of suspected criminals, informal traders or street vendors, public protests or individuals criticizing the government, several instances of alleged brutality and/or torture have been documented in recent years. The death penalty remains on the books, despite not having been used since the return to democracy in the early 1990s. The period under review has seen increased freedom of expression, and the government has been compelled to release more information for public consumption.

Prison conditions remain harsh. Overcrowding results from inadequate facilities. The government of Lesotho pays hundreds of thousands of dollars annually in compensation to people who have been tortured by police. The courts of law have been very firm on this particular matter; hence the police directorate keeps making settlements with torture victims. The number of victims of police brutality has increased significantly since the change of regime.

Women in Lesotho continue to fight for their emancipation. Gays and lesbians have formed a number of organizations to fight for their rights. However, it has been reported that many have been expelled from their homes after disclosing their sexual orientation to families.

#### 4 | Stability of Democratic Institutions

Lesotho has undergone significant democratic reforms, particularly since 2002. At present, democratic institutions, including the legislature, executive and judiciary, remain insufficient to meet the challenges facing the country. The legislature remains weak for reasons mentioned above. The executive struggles with capacity deficits and an inefficient criminal justice system, which is characterized by weak enforcement and a judiciary that struggles with extensive case backlogs, compromising the rule of law.

There is a need for the High Court to deal with these backlogs, which result in cases being deferred for more than two years. All judges of the High Court, including the chief justice, must be committed to the cause. The chief justice has been criticized by the Law Society of Lesotho for his failure to preside over cases, even despite the

Civil rights

6

Performance of  
democratic  
institutions

5

current backlog. The number of acting judges is alarming and poses a threat to the stability of the judiciary.

The chief justice has become a burden to the judiciary as he only acts as an administrator and often calls administrative meetings at the time judges are scheduled to preside over cases. There has been a general appreciation that the High Court was inclined to decide cases in favor of one faction of the then ruling party, while the Court of Appeal was inclined to favor the other.

There is a backlog of financial statements to be audited, and the Office of the Auditor General is understaffed. The fact that the Auditor General reports to the minister and not parliament leaves it at the mercy of the same minister when it comes to budgetary allocations and appointments. The office of the Auditor General submitted the 2008 – 2009 audited financial statements on 22 February 2012. This means that the public has to wait years before for corruption or misappropriation of funds can be reported.

All actors accept and support the existence of democratic structures in Lesotho. Security sector reform since 1998 brought sweeping changes to the armed forces. There are, however, enormous challenges, which were highlighted by persistent allegations of military and police intimidation in the wake of the 2007 general elections. The role played by civil society organizations in order to settle disputes between political parties after the 2007 elections has ensured the country's progress toward a sustainable democracy. The build-up to the 2012 general elections demonstrated that the nation had learned a lot since the 2007 elections. For the first time since 1970, there was no post-election need for mediation.

The formation of democratic government in the parliament of Lesotho was seen by many stakeholders as contravention of the constitution. Pakalitha Mosisili formed a government on the 28th February in 2007, though his party did not have a majority in parliament. Mosisili spend the period after the elections claiming that his party, the Democratic Congress (DC), should have been given the first chance to form a coalition government, as it had won more seats than any other party. Clearly the interpretation of Section 87 of the constitution is likely to be misused by the executive, depending on who has the support of the speaker of the National Assembly. In the future, procedures for forming governments in Lesotho should be better defined.

## 5 | Political and Social Integration

Political parties in Lesotho are largely polarized. There is no single stable major political party. Lack of intra-party democracy resulted in the split the Lesotho Congress for Democracy just before the 2012 elections. Political parties are membership-based and registered under the Societies Act. A political party is eligible

Commitment to democratic institutions

6

Party system

4

to contest for elections upon collection of 500 signatures of the electorate. These 500 signers need not be members of the party in order for the Independent Electoral Commission to recognize the party as eligible to contest. People are free to form, reform, join and split political parties at will, and this has resulted in the massive mushrooming of political parties, especially since the inception of the mixed-member proportional (MMP) voting model in 2002.

The ruling coalition of ABC (30), BNP (5) and LCD (26) hold 61 out of 120 seats in the Assembly. The largest political party in parliament is DC (48), the party that ruled for only three months, following its controversial formation in parliament by the former prime minister. The remaining 11 seats are distributed among eight smaller political parties, with most just able to secure one seat. The most notable decline is the number of seats that the National Independent Party (NIP) secured during the 2012 general elections.

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 weak and policy-weak parties that struggle to retain their international cohesion. In general, the party system is not stable and voter volatility remains high. After the 1993 elections, which was held under first-past-the-post rules, all constituencies were won by one party. In the wake of the 2012 elections, there are 12 political parties that have been able to secure parliamentary seats under MMP.

The country's provision for "floor-crossing" – allowing members of parliament to defect from one party to another, or create a completely new party – has compounded this problem. The formation of DC in February was almost similar to what Ntsu Mokhehle, the former prime minister, did in 1997 when he formed the LCD. The only exception is that DC did not have a majority in parliament, which left opposition parties and many commentators stating that the speaker was in breach of the constitution by declaring Mosisili prime minister.

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 remote for meaningful public participation in policy processes at the national level. As such, its weak oversight capacity and consequent shortcomings related to the transparency and accountability of the executive make 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. Furthermore, the dominance of the ruling party has offered little incentive to strengthen the channels for civic participation in the national legislature.

Interest groups

5

In several instances, however, civil society organizations have supplemented the limited reach of the government, particularly in the socioeconomic and healthcare spheres, but also in governance, where such organizations have also played a significant role in fields such as voter education and registration.

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 the violation of such laws, particularly in the textile sector, has been overlooked. Workers in the public sector are prohibited from joining unions and are only allowed to join associations with consultative status. Labor unions are also fragmented, and this has resulted in the formation of four trade union federations.

The most recent data of the Afrobarometer survey, which was released in 2009, shows that democratic rule in Lesotho has not been received without reservation by the populace. Although military rule has been rejected by 75% of the population, just more than half of Basotho indicated that they prefer democratic rule. This figure has declined from 83% in the previous survey, conducted in 2005. In 2008, only 46% of the population was said to prefer democracy to any other form of governance, which is a decline from 50% in 2005. In some circumstance, about 29% of the population would prefer nondemocratic governance. This is a massive increase, given that it was 16% in 2005. To 17% of the population, the type of governance did not matter in 2008, which is a decline from 27% in 2005.

Approval of  
democracy  
6

According to Afrobarometer, 60% of the populace indicated in 2008 that if the political system failed to deliver changes soon, another system of governance should be tried, an increase from 48% in 2005. Only 26% in 2008 thought the current system should be given more time to deal with inherited problems, down from 50% in 2005. In 2008, 58% expressed a lack of satisfaction with the way democracy worked in Lesotho, up from 43% in 2005. Only 30% expressed satisfaction in 2008, down from 40% in 2005. The 2008 survey introduced another important indicator, of the freeness of elections; 83% said elections were completely free in Lesotho.

According to the International Institute for Democracy and Electoral Assistance, the 2012 general elections saw an increase in voter turnout, from 49.00% in 2007 to 50.04%. Turnout has fluctuated in Lesotho since the first general elections in 1965. The highest turnout was 81.90% in 1970, followed by 72.28% in 1993.

Basotho are chiefly known for their trust and interpersonal relationships, which can be traced back to the founding of the nation. Moshoeshe I founded the nation based on these principles, and they proved to be central in the struggle to withstand the Lifaqane wars precipitated by Shaka. These were instrumental later on in resisting pressure to join the union of South Africa. The only major challenge is the

Social capital  
5

marginalization of people who do not belong to the ruling clan. The new local government structures are perceived by many from the Bakuena clan as a move by the ruling party to redress the mishaps of the past. There are generally very cold relationship between the ruling clan and the ruling party. Members of the ruling clan are normally discouraged from joining the ruling party and are predominantly active in the opposition parties.

Poverty has given rise to a growth in criminality and a decline in interpersonal trust. But the most negative impact on social capital formation has come as a result of AIDS, which largely overlaps with the question of poverty. As the number of dependents begins to overtake the number of contributors, the social capital of these traditional systems increasingly erodes.

## II. Economic Transformation

### 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).

Lesotho's human development index remained as low as 0.450 in 2011. The country has seen a sharp decline in its human development ranking, from 141 in 2010 to 160 in 2011. However, Lesotho continues to perform surprisingly well when it comes to the gender equality index, which was 0.532 in 2011. The HDI estimates the ratio of female to male enrolment at 97.6%, 136.2% and 124.5% at primary, secondary and tertiary level education, respectively. On the other hand, the gross enrolment ratio is estimated at 103%, 46.4% and 3.5% for primary, secondary and tertiary schools, respectively. Although accurate poverty statistics are difficult to obtain, the country's National Strategic Development Plan departs from an estimated figure of 56.6% of citizens who live under the poverty line (\$2 per day). While most growth is being generated in urban areas, an estimated 76% of the country's population resides in rural areas, which makes Lesotho one of the world's most unequal countries, with a Gini coefficient of 0.53 in 2003. Although improvements have occurred in recent years, weak infrastructure continues to exacerbate inequality.

Lesotho's score on this indicator has declined significantly because of the country's overreliance on customs revenue, which leaves it in a precarious condition as customs revenue continues to dwindle.

The country has also relied on remittances from workers in South Africa. With the increasing levels of poverty and inequality in South Africa, as well as an influx of

Question  
Score

Socioeconomic  
barriers

2

other African citizens, competing for jobs in South Africa has become even more challenging. However, the contribution of remittances to Lesotho's GDP is estimated to be among the highest in the world. According to the World Bank, remittances contributed 28% of GDP in 2011. The most threatening factor is the effect of AIDS on the economy, as it affects the workers at their most active years – between 15 and 49.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	1716.8	2203.9	2524.5	<b>2447.6</b>
GDP growth	%	3.6	7.9	3.7	<b>4.0</b>
Inflation (CPI)	%	7.4	3.6	5.0	<b>6.1</b>
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	5.8	5.2	5.2	-
Export growth	%	-4.3	6.2	1.5	<b>5.6</b>
Import growth	%	-2.6	9.7	4.6	<b>2.8</b>
Current account balance	\$ M	-49.8	-440.3	-520.1	-
Public debt	% of GDP	37.8	35.4	39.1	<b>41.9</b>
External debt	\$ M	756.3	776.7	791.9	-
Total debt service	\$ M	38.3	34.5	39.9	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	39.5	37.7	33.1	<b>38.1</b>
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	7.0	8.1	9.5	-
R&D expenditure	% of GDP	0.03	-	-	-
Military expenditure	% of GDP	2.8	3.2	2.3	<b>1.9</b>

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

## 7 | Organization of the Market and Competition

The government of Lesotho espouses free market principles, yet the country's high level of unemployment and the absence of an efficient social safety net make the majority of Basotho dependent on a largely unregulated informal economy. The country has declared its intention to stimulate private sector growth in the National Development Strategic Plan, which also envisages a regulatory function for the state. Lesotho has introduced a number of structural reforms in financial markets, has also privatized a number of public enterprises and parastatals.

Market-based  
competition

5

According to the World Bank's ease of doing business index, 2013, Lesotho made enormous progress in the period under review, reducing the number of days it takes to start a business and improving its rank by a staggering 65 places, from 144th in 2012 to 79th in 2013. The reforms have resulted in a massive jump on an indicator of protecting investors, from 147th place in 2012 to 100th in 2013. The other indicator that saw massive improvement is that of enforcing contracts, where the country jumped 15 places, from 154th in 2012 to 139th in 2013. These improvements came about as a result of the enactment of the 2011 Companies Act.

Getting credit is another indicator that depicts grey areas in creating an enabling business environment in Lesotho. Access to financing remains a huge challenge for businesses in Lesotho. The effort to improve the situation has been derailed by corruption in the tendering process of the national identification program. The other area that makes Lesotho less attractive, according to Doing Business 2013, is the fact that the country stands at 140 in 2013 on dealing with construction permits, compared with 138 in 2012.

A number of state-owned monopolies have been transformed into privatized monopolies. The privatization process has therefore not contributed towards the perceived results of having more players within the economy. This may be largely because of the size of the country's economy. This is made worse by the fact that there is no legislative framework in place to promote and regulate competition, despite the attempts by many stakeholders to help the country build such a framework. The drafting of a competition bill and formulating of competition policy has been tardy and, at the time of writing, had not resulted in any breakthroughs. The government said it wished to have a policy formulated in accordance with WTO guidelines in order to do away with the current regulation of the Industrial Property Order No.5 of 1989.

Anti-monopoly  
policy

2

The country is lagging behind the rest of the region in terms of regulating its economy in order to prevent development of monopolies and cartels. The competition policy remains a draft and the period under review saw little movement towards approval.

The government of Lesotho appeared to lack willingness to address the issue of monopolies.

Lesotho is one of the most liberalized economies among LDCs. It therefore has a relatively open economy and, with its small manufacturing base, is a net importer. The country is a member of the Southern African Customs Union (SACU), together with South Africa, Botswana, Swaziland and Namibia. SACU has been a major source of government revenue, accounting for more than 60% of the national budget in fiscal year 2008 – 2009. The country's revenue dropped as a result of the global financial crisis, reaching as low as 14.4% of GDP in 2010 – 2011. However, there is an expected increase of SACU revenue for the 2012 – 2013 fiscal year, to about 28% of GDP.

There are signs that members of SACU are more determined to make the union sustainable, as the future of the greater regional integration program that involves other southern African countries under SADC looks bleak. SACU member states have to establish national tariff boards in order to have national bodies to determine eligibility for infant industry protection and regulate imports and export of restricted commodities. The national bodies will also work in collaboration with the SACU Tariff Board. Lesotho lags behind its regional counterparts in that other countries have moved to establish national bodies through acts of parliament.

Lesotho was one of the first countries in the region to sign the Economic Partnership Agreements (EPAs) with the European Union in 2007. The country is fully engaged in the negotiations of the EPAs, which have been dragging on for some time without any breakthrough.

The country failed to record any progress after liberalizing trade in services under the World Trade Organization, which casts more doubts on the readiness of the country to take full advantage of trade benefits. SADC member states started the process of negotiating intra-regional trade in services during the period under review. The change of government does not seem to have had any impact on Lesotho's stance when it comes to trade liberalization. The private sector is not in any way ready to export goods and services to developed countries and the country is largely relying on the inflow of FDI, as it was able to attract huge injections of investment under the African Growth and Opportunity Act (AGOA.) However, the looming expiration of AGOA in 2015 has cast doubts on the future of the textiles industry in Lesotho.

The Lesotho banking system, which is dominated by well-regulated South African banks, is under the supervision of the autonomous Central Bank of Lesotho (CBL). The country belongs to a Common Monetary Union (CMA), which includes South Africa, Namibia and Swaziland. The CMA provides for parallel circulation of the South African rand in Lesotho and pegging of the loti on par with the rand. Although this means that the Central Bank of Lesotho does not have influence over the

Liberalization of  
foreign trade  
8

Banking system  
7

determination of interest rates or exchange rate margins, the country does benefit from the policy credibility of the South African Reserve Bank. The financial sector in Lesotho was therefore not directly affected by the global financial crisis. Its solidity can also be proved by the low number of nonperforming loans.

According to the World Development Indicators, the bank capital to asset ratio increased from 8.4 in 2010 to 10.9 in 2012. On the other hand, banking charges remain very high in Lesotho, which is a huge burden to customers. The country is currently working on the establishment of a credit bureau, which is intended to increase access to financing. Banks have been very reluctant to lend Basotho money, given that once individuals decide to default it proves very challenging to trace them. In the period under review, there were attempts by the government to partner with commercial banks and launch partial credit guarantee schemes. The initiative has not yet taken off and many Lesotho enterprises find it difficult to get financing.

According to FinScope 2011, the level of financial inclusion in Lesotho is unexpectedly high, with only 19.1% of the adult population being financially excluded. The main reason for the high level of financial inclusion is the high level of usage of products related to funeral cover. Of the adult population, 62.4% use informal financial mechanisms.

## 8 | Currency and Price Stability

Lesotho enjoys relatively steady currency, especially given the 1:1 pegging of the loti and the South African rand. Membership in the Common Monetary Area (CMA) ensures that the country does not experience currency fluctuations, as South Africa is its major trading partner. However, this means that rand fluctuations against major currencies have a direct impact in Lesotho. Lesotho surrendered most of its monetary policy to the Republic of South Africa. The country imports most of its goods and services from South Africa, meaning that it imports inflation and any price fluctuations from South Africa. Inflation targeting in South Africa resulted in relatively low price levels in Lesotho during the period under review. The country, however, faces serious price hikes; it is a net importer if food and fuel prices continue to rise.

According to the World Development Indicators, inflation as measured by the rate of change in the consumer price index slowed from 3.6% in 2010 to 5.0% in 2011. This was a further decline from the 10.7% in 2008. The decline in inflation in 2010 is attributed to weak demand in South Africa and a strong rand. The decline in 2009 was due to falling prices of fuel and food. The rand depreciated steadily against the dollar in the period under review, and, by the end of 2012, the exchange was around

Anti-inflation /  
forex policy

6

R9:\$1. This will surely have consequences in Lesotho, as the country imports around 70% of its inflation from South Africa.

After a period of consistent and prudent macroeconomic policies, which ensured that Lesotho recorded fiscal budget surpluses between 2004 and 2008, the country is faced with an increase in the fiscal budget deficit. Dwindling government revenues from SACU has put the country in a serious quandary. The introduction of government bonds in 2010 is a clear indication that the country needs to use more tools and instruments in order to mobilize resources. The objective of the Debt Management Unit within the Ministry of Finance is to continue reducing debt stock; that has been the government's policy since 2004. According to the World Development Indicators, the country's total external debt reached \$791.9 million in 2011.

The influence of the 2012 general elections might be very significant in determining the country's macroeconomic position. Members of the coalition are questioning the wisdom of stable macroeconomic policies. There is a high likelihood that these policies will not be on the government's agenda as it prepares for the 2017 general elections. The search for alternative sources of revenues is proving to be a mammoth task for Lesotho. The country is running a huge risk in public debt management as the legislature has absolutely no say in terms of whether or not the country acquires more debt; this is purely the decision of the prime minister and the minister of finance.

## 9 | Private Property

The state respects private property and the right to it, which is also enshrined in the constitution and is actively enforced by the judiciary. While provisions are made for expropriation when it is in the public interest, the state is obligated to compensate owners in full and to ensure that compensation occurs as speedily as possible. The government has repeatedly called on people who are on land earmarked for development to cooperate. It has become very difficult for the ruling party to enforce resettlement of people, especially in urban areas, the opposition parties' stronghold. In some instances in which communities resisted resettlement, it had to be enforced by the military. There was a noticeable shift in the land tenure system during the period under review, as the barrier to foreigners owning land in Lesotho was lifted. This was labeled one of the major obstacles to the generation of higher FDI.

The country has regressed on a number of areas that clearly calls for more reforms. It moved seven places downward on the registering property indicator. This has left it at the 157th position in 2013, as compared to 150th in 2012.

The Land Administration Authority launched in the period under review, and enormous strides were made to ensure the proper documentation of land ownership. The authority has begun surveying some of the villages in Maseru in order to address

Macrostability

6

Property rights

7

the challenges of land allocation, which was for a very long time in the hands of traditional leaders. Land owners will now be able to use land as collateral for the first time, as opposed to the communal land ownership that prevailed under the old regime. According to the World Bank Doing Business 2013 indicator, it takes 101 days and six procedures for an entrepreneur to purchase land and a building that is already registered and free of title disputes. The country is far worse than other economies.

Lesotho actively promotes private enterprise and has strongly committed itself to the privatization of all state entities and parastatals. This process is supposed to be regulated by the 1995 Privatization Act, which paved the way for the creation of a privatization unit within the Finance Ministry. The unit has become less active in recent years, which has left much to be desired with respect to the transparency of some of the state entities that are being privatized. The unit has privatized approximately 50 state-owned commercial enterprises since its inception. The government has embarked on a massive campaign of privatizing merit goods through PPP, and the period under review saw a sharp increase, especially in healthcare.

Private enterprise

7

According to the World Bank Doing Business 2013 indicator, it takes 24 days and seven procedures to start a new business in Lesotho. The May 2012 change of government resulted in uncertainty about the future of the Business Council. This is the body, created by the former prime minister, intended to create an environment conducive for private investment. The Lesotho Chamber of Commerce and Industry had disassociated itself from the newly formed Business Council, and did not participate in the Private Sector Foundation of Lesotho, which represents the interests of the private sector in the council. The government has to make sure that its relationship with business associations are clarified in order to facilitate smooth business operations.

The minister of trade and industry, cooperatives and marketing led a campaign to crack down on companies that sell expired goods. The ministry has failed to promulgate laws to protect consumers and prohibit anticompetitive practices.

## 10 | Welfare Regime

Against the background of its LDC status, the government of Lesotho has neither the financial resources nor the physical infrastructure to provide a social welfare system. The majority of its population lives under marginalized circumstances. Government provision of social welfare is largely supported by international donor money, while local and international NGOs play an important role in supplementing the services rendered by the ministries of health and social development. The Ministry of Social Development was established by the new regime as a demonstration of its commitment to social development. Economic growth is not sufficient to bring down the country's high poverty rate. AIDS has become the single biggest burden on the

Social safety nets

3

country's social security infrastructure, and the pandemic explains to a large extent the low life expectancy of 48 years.

With HIV prevalence at 23%, the country is faced with a challenge of having to take care of over 140,000 orphans. The government does not have either the political will or the capacity to support community-based support groups, which are intended to care for the infected and affected.

The country introduced universal primary healthcare in 2008, only to result in a massive shortage of drugs and poor delivery of essential health services. The matter was worsened by the fact that the Christian Health Association of Lesotho (CHAL), which gets a 70% subsidy, was forced to provide healthcare services free, without making provision to increase subsidies to 100%. The 30% was collected from the patients through service fees, which were very minimal, and the majority of the populace resorted to CHAL health centers, given the poor services in government-run centers. This was a huge burden to CHAL, as most of its centers became heavily indebted in an attempt to keep customer satisfaction high. The result was a complete collapse of the health system in Lesotho. The period under review saw massive investment in healthcare, with the assistance of the U.S. government. This is expected to result in the decentralization of primary healthcare, whereby local authorities will take full responsibility for running health centers.

The government of Lesotho subscribes to and promotes the cause of equal opportunity. 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, the 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. The country moved in the right direction with the enactment of the Married Person's Equality Act of 2008. The challenge facing the country is to deal with issues of traditional leadership, since women cannot become heirs to the chieftainship or kingdom.

The country has also adopted the SADC quota on the role of women in political and public life, which sets a 30% target for parliamentary seats to be occupied by women. The May 2012 general elections saw a mere 22.7% of female candidates. There are 31 women out of 120 members of parliament, which translates to 25.8% female representation in the legislature. The country is also experiencing a different form of inequality for access to education: Girls are more advantaged than boys. This is largely because, in a country where subsistence farming takes precedence, many boys look after animals instead of going to school.

The country has made an important admission: that for years minorities have been denied an opportunity to be taught at schools in their native languages. This has

Equal opportunity  
5

resulted in the acceptance of Sephuthi as a language that should be written and taught within the formal education system in the southern districts of Lesotho. There was very slow progress in the execution of the plan in the period under review.

## 11 | Economic Performance

As a least developed country, Lesotho faces enormous challenges when it comes to economic performance. The country is seriously affected by the global economic crisis, as it exports textiles to the U.S. market. There have been significant declines in textiles exported to the United States since the expiration of the Multi-Fibre Agreement in December 2004.

The economy's high dependency on remittances puts it at risk of continually being affected by turbulence in other economies. As a result of low wages and lack of employment opportunities, many Basotho have sought work in South Africa. The current trends in unemployment are such that even South Africa's bigger economy cannot absorb an influx of job seekers from Lesotho, among other African countries.

Lesotho is finding it difficult to finance government expenditure as there have been massive declines in revenue. The major source of revenue to Lesotho has been the Southern African Customs Union (SACU) revenue pool, which has dwindled in recent years. Signs of recovery in the SACU revenue pool have been welcomed by many players in the economy. Lesotho's GDP growth was 5.8% in 2011, a slight increase from 5.6% in 2010. However, this shows that the country is struggling to reach 7% annual growth, which is necessary for poverty reduction. The weakness of the economic recovery is reflected in GDP growth, up to \$2.4 billion in 2011 from \$2.2 billion in 2010. The most noticeable increase followed 2009, when it stood at \$1.7 billion. Lesotho had gross capital formation of 34.9% of annual GDP in 2011, a slight increase from 29% in 2010. There was no data available for 2012 at the time of writing. The country should do more to increase this indicator in order to increase its output, especially given the size of GDP, which is just above \$2 billion. The country realized a slight increase in per capita GDP based on purchasing power parity in current prices, from \$1,571 in 2010 to \$1,703 in 2011. The country lags behind Botswana and South Africa, which were at \$14,746 and \$10,960 respectively in 2011.

## 12 | Sustainability

Since more than half of 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. The country is not an important player in global climate change prevention, and its focus rather falls on coping with its effects, particularly with respect to soil erosion and agricultural produce. Because

Output strength  
5

Environmental  
policy  
4

the country is mountainous, agriculture is commonly practiced on slopes with fragile soil formation. Another factor is the lack of investment in agriculture. Despite the country's water endowments, agriculture depends on rainfall.

The country is estimated to be losing about 40 million tons of arable soil per year as a result of perennial drought, overgrazing, population movement and the resultant soil erosion, and destruction of biodiversity. This, in turn, has an impact on food security and poverty. Lesotho has ratified a number of U.N. environmental conventions, but has had limited success with implementation. In 2001, the country enacted the Environment Act ahead of the Sustainable Development Summit in Johannesburg, 2002. However, the law didn't take effect until it had to be revised, in 2008. The major challenge here is lack of political will. Politicians have opted to endow the National Environment Secretariat with limited regulatory authority. The country has made international news as a result of a spirited struggle between environmental activists and government on the issue of industrial pollution.

Compared to other sub-Saharan African countries, Lesotho does have a relatively high literacy rate, of 86%. The country prioritizes education in its annual budget, and, in the 2012 – 2013 fiscal year, education remained the single largest expenditure, at 22.61% of recurrent expenditures. The country introduced free primary education in 2000. Enormous challenges remain, however, with regard to the quality of such education, the retention of pupils in the primary system, the transition rate from the primary to secondary level, and the generally poor quality of the secondary and tertiary sectors. The government made education compulsory in 2009 in an attempt to ensure that parents and guardians take full responsibility for their children's educations. Apart from that, the government's Examination Council of Lesotho has been working on phasing out the O-level, a legacy of colonialism.

Tertiary education was hit by enormous strikes between August 2010 and May 2012; at one point, almost all tertiary institutions were on strike at the same time. Tertiary education in Lesotho has not been adapting to market demand and there is a huge skill gap between demand and supply of skilled personnel. The establishment of the Council on Higher Education, in 2009, is said to be a direct response to the need to address the mismatch, and in the period under review the body became more effective. The institution has taken a long time to settle and begin devising strategies on how to regulate the education system. Lack of investment in research and development by both government and private sector leaves the country with a mountain to climb in order to be at par with its regional and global competitors.

Education policy /  
R&D  
3

# Transformation Management

## I. Level of Difficulty

Lesotho is a small, mountainous, landlocked and least developed country, where resource deficits both human and physical have a debilitating effect on governance. The majority of the labor force is unemployed, with a relatively small formal economy, dominated by civil service. An estimated 58% of the population lives below the poverty line of \$1 per day. Poverty is particularly acute in the mountainous 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 increasing regularity of protracted droughts and soil erosion, the scope for such farming continues to diminish. In addition, the country's unacceptably high rates of both poverty and HIV-infection have had devastating effects on family units and the greater social cohesion of the society.

Structural  
constraints

8

The country bore increased natural disasters for the period under review. There is a need to bolster the Disaster Management Authority (DMA), a government body intended to facilitate disaster response. The institution is currently under-resourced and does not have the capacity to respond to even small-scale disasters.

The country's dependency upon South Africa's economy is a structural weakness that makes it particularly vulnerable to fluctuations of the rand.

The size and character of civil society in Lesotho is largely reflective of the country's historical and socioeconomic 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 AIDS. Given the country's relatively short democratic history, formal civil society, particularly in terms of advocating for good governance, is small, underfinanced and under-resourced. 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, the relationship with government has proved to be very efficient.

Civil society  
traditions

7

One of the most shocking revelations for the period under review was the fact that the former minister of natural resources and current opposition leader Monyane Moleleki ran a charity trust of which he is the sole signatory. The change in regime resulted in a police investigation, which found that Moleleki and the trust held \$400,000.

The change of government seems to have resulted in the abandonment by the Ministry of Gender, Youth, Sports and Recreation of its plan to form an umbrella organization for civil society groups. Slated to coordinate civil society organizations within Lesotho, the umbrella organization had been subject to considerable criticism that was driven by fears that it would undermine existing civil society groups. Government had failed to support the efforts of umbrella bodies like the Lesotho Council of NGOs and Lesotho Youth Federation, yet it initiated another coordinating body. The period under review saw the establishment of the National Youth Council, desired by the nation's youth since the return to democracy in 1993. The body's primary challenge is that it is not fully representative, as the previous regime sought to maintain full control over it rather than allowing it to be guided by young leaders in civil society.

Elections have traditionally been a source of social conflict, but since the 2002 general elections, such conflict, where it has occurred, has been low in intensity. The build-up to the 2012 general elections saw an increase in pre-election conflicts. Political parties' supporters engaged in riots, including political rallies where the incumbent prime minister attempted to mobilize voters from opposition strongholds. No lives were lost or significant property destroyed during the riots. The security forces were quick to foil the unrest and the campaigns concluded without further disruption.

Lesotho is culturally homogenous and the overwhelming majority of Basotho profess to be Christians. Conflict along ethnic or religious lines is therefore unlikely to emerge. The country unaffected by the xenophobic attacks on African citizens that took place in South Africa. Low levels of inter-communal conflict over natural resources, pastures and water in particular, are a growing problem. In this regard, Lesotho has become a case study of the relationship between climate change and social conflict.

Conflict intensity  
5

## II. Management Performance

### 14 | Steering Capability

Question  
Score

Lesotho's greatest developmental challenges are unemployment, poverty and inequality, the related issue of AIDS, and insufficient governance capacity to meet these challenges. The key development steering documents (PRS and Vision 2020), which are aligned with the United Nations' Millennium Development Goals (MDGs), articulate the government's longer vision and strategies. However, there is very little evidence from the ground to suggest that all stakeholders are committed to bridging the gap of inequality and poverty. The priority is largely given to short-term political gain rather than the country's long-term objectives.

Prioritization  
6

The country's position puts it at risk of being easily misdirected from its long-term development goals by the influence of foreign governments and multinational corporations. The country's lack of financial and human resources leaves it in a very compromised position, where it cannot independently set its objectives of becoming a full market economy. It has therefore failed to set priorities that will ensure that all the challenges that have to be addressed are properly done with wide consultation.

The period under review saw the country come up with the National Development Strategic Plan for 2012 – 2013 to 2016 – 2017, which is supposed to take over from the PRS. The new Ministry of Planning was established in order to champion development, and the government has demonstrated the importance of establishing the National Planning Board. There is a need to continue developing the plan in order to incorporate issues such as the role of migration in the development of Lesotho. There are no policies intended to ensure that the country maximizes the benefits of remittances.

The adoption of the Medium Term Expenditure Framework (MTEF) has not made any major difference in facilitating implementation of government policies. The internal conflict within the then ruling party resulted in party stalwarts pointing fingers on policy implementation, corruption and elitism in policymaking. The change of government in May 2012 brought about a massive shake-up to jump-start implementation. The government immediately subsidized summer cropping to alleviate hunger. There is a need, however, for the government to ensure proper coordination. The government has demonstrated its willingness to change policies or implement them when it is put under pressure by development partners. The change of government should teach those in power the importance of service delivery and policy implementation.

Implementation  
5

Lesotho's public service still lacks the skills and capacity to meet the country's daunting developmental challenges within specified timelines. Despite a restructuring of the service to make it more efficient, weakly enforced performance management systems, low salaries and consequent dire shortage of critical management and technical skills all hamper its ability to provide a comprehensive social, physical and regulatory infrastructure.

The country does not seem to be learning anything from its failure to achieve policy objectives. It heavily relies on the support of intergovernmental organizations and international financial institutions to dictate its policy direction. Policy formulation is not based on scientific research, making it a merely subjective exercise. The period under review saw the establishment of two independent think tanks working on policy monitoring in order to ensure that lessons learned from previous or existing policies are incorporated into future decision-making processes. The government prefers an incremental approach to policymaking, which does not offer much by way of innovation. For instance, government expenditure patterns have not changed much except on education or sectors where there are huge aid inflows. Military expenditures have been kept to around 5% of the total budget, precisely the level that existed during the military rule between 1986 and 1993.

Policy learning

5

The government of Lesotho has shown mixed results with respect to its ability to innovate. This is largely due to the change in regime. The Mosisili government failed to find new ways of responding to the ever-changing challenges of the 21st century. The new regime has many lessons to learn from the Mosisili failures. It must improve data collection and management in order to reduce costs. Currently, there is hardly any data available for researchers, and information is not reliable, or accessible to the general public.

## 15 | Resource Efficiency

The introduction of the Integrated Financial Management Information System (IFMIS) has improved the government's ability to monitor expenditures. The IFMIS will not approve a transaction that exceeds the budgeted amount. The country has not produced public accounts since the inception of the IFMIS, which makes it challenging to see if the system is worth the investment.

Efficient use of assets

4

The country is failing to put its civil service to good use; more and more people are being employed in the areas outside their specialization. There are instances in which civil servants spend weeks, and others months, without doing anything at work.

The country experienced massive shocks with respect to public expenditure accountability. Ministers were called before a hearing of the ombudsman in relation to the alleged misappropriation of public funds intended to subsidize farmers.

Ministers ended up rebuking the call of the ombudsman and simply dismissed the claims as intended to tarnish their political image. The alleged perpetrators remain at the center of the government, despite the regime change, and they are working hard to protect their interests and hold on power.

The Public Account Committee (PAC) of the National Assembly plays an oversight role on public funds. The committee is chaired by Moeketse Malebo, a leader of the Marematlou Freedom Party, an opposition party. The backlog of the government financial statements, however, adversely affects the committee's effectiveness. The principal secretary of the Ministry of Agriculture and Food Security was shot dead on the eve of appearing before the PAC.

The Public Service Improvement and Reform Programme (PSIRP) has played a pivotal role in the restructuring of the civil service into a more efficient system. It has provided an impetus for the reform of the country's financial management and accountability procedures. In this regard, the government, with international support, embarked upon the introduction of Integrated Financial Management Information System (IFMIS). The Ministry of Finance is simply too powerful, with great influence on what other ministries do – even if it means compromising the long-term objectives of other sectors. There are clear signs of a lack of coordination of government policy by the prime minister, as he appeared unaware of what is happening within government. The head of government should demonstrate more commitment and vision. There is fierce competition between government ministries, which most of the times results in duplication of efforts. It is very common in Lesotho for the minister of agriculture and the assistant minister of the same ministry to pursue conflicting policies at the same time.

Policy  
coordination  
3

There was very poor policy coordination in the period under review. It is very challenging for the government to have a coordinated approach to policy formulation, as the most important feature of politics in Lesotho has to do with personalities rather than policy. Government ministries are often competing for resources and policy implementation. The inability of the office of the prime minister to coordinate policies is the major weakness of the government machinery. Lack of coordination could be attributed to corruption and lack of leadership on the side of both bureaucrats and politicians. The Mosisili government failed to show leadership in policy coordination, and there are signs that the new regime is likely to struggle.

The office of the auditor-general is understaffed and does not possess sufficient capacity to execute its mandate. The major challenge is that the office depends on the ability of the accountant-general to release financial statements in time for auditing. There is a need for the office to be granted autonomy in order to minimize political interference in how it conducts its business. The greatest challenge for Lesotho is not only the identification of persons who misappropriate public funds, but also what is

Anti-corruption  
policy  
4

done once misconduct has been reported. A number of individuals have been reported, but no actions have been taken against them.

Corruption and political interference has intensified so much that there is utter disregard for the law by the executive.

There is no whistleblower protection for civil servants reporting instances of corruption, so corruption flourishes. Thieves and fraudsters are the most influential people in Lesotho. They have accumulated a lot of wealth and are closest to the decision-making processes. This has resulted in files disappearing from court registries. Whistleblowers cannot be protected in a system as corrupt as Lesotho's public sector.

The Directorate on Corruption and Economic Offenses (DCEO) has not been effective in executing its work of investigating allegations of corruption in the public sector. The body has been essentially paralyzed by lack of human and financial resources. There is a general feeling among the public that corruption has been institutionalized to the extent that even the DCEO protects corrupt officials.

The DCEO exists to investigate alleged cases of corruption in both the public and private sector, but it does not have power of prosecution, which is the responsibility of the National Directorate of Public Prosecution. The anticorruption body has insufficient resources to carry out its mandate, given that endemic corruption has become the order of the day in Lesotho.

## 16 | Consensus-Building

The period under review gave contrasting signals on the extent to which political actors agree on democracy and the future of the state. There were serious divisions within the then ruling party, which were mainly due to personal interests, not the well-being of Basotho. The fact that the current government is made up of different parties that make only a simple majority in parliament provides an opportunity for greater engagement.

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 National Strategic Development Plan (NSDP).

The country's major political actors remain by and large committed to the basic tenets of democratic governance.

As a result of the change in government, many agreements by the previous regime, including the second phase of the Lesotho Highlands Water Project, came under

review. Government should engage all stakeholders in the renegotiation of these agreements in order for Lesotho to maximize returns from all possible opportunities.

Although the military previously played a significant role in the determination of political power, its influence has waned over the years. Since 1993, great efforts have been made to bring the military back under democratic control. Those efforts have been met with fierce opposition by those within the government who still want military backing in order to suppress opposing views.

Anti-democratic  
actors  
6

The formation of a coalition government has produced antidemocratic veto actors. Some people who have invested their resources in sustaining political parties have become so powerful that the decisions of government depend on their consent. The coalition government is faced with a mammoth task of removing the actors who controlled the previous regime. The new regime will have to work hard to convince bureaucrats who were appointed by the previous government to be fully committed to the new dispensation. There are signs that bureaucrats are deliberately sabotaging the policies of the new government: An example is the reported case of a senior official who failed to grant scholarships to Basotho students to study for free in Austria.

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 generations. The younger generations suffer from high unemployment and are largely excluded from political power, which leads to political alienation. Lack of space and intra-party democracy will only make young people more vulnerable to be manipulated by political elites for their political ends. The country relies heavily on the role of the Council of Non-Governmental Organizations (LCN) and the Christian Council of Lesotho (CCL) to intervene during conflicts, yet the governments does commit resources to ensure that there are enough people within civil society with skills to handle such conflicts.

Cleavage /  
conflict  
management  
7

The formation of a coalition government has demonstrated the ability of Basotho to unite regardless of class, ideology, and religion. Formerly, there were two schools of thought in Lesotho: the nationalist and the congress movements. The nationalists are mainly the descendants and the members of the clan of the founder of Lesotho (Moshoeshoe I). The congress movement has been led by commoners who wanted to have a share in government and believed that no man should inherit power. There is a well-established thesis that there is no way in which people from these two groups can govern together. The period under review demonstrated the willingness of Basotho to redefine the future of their nation. This marks the beginning of a new era, and it was the first time that mediation was not required after an election. The smooth

transition of power from one political party to another is the most remarkable event in the history of Lesotho's politics.

There is no entrenched cooperative relationship in Lesotho between the government and civil society. In several instances, the government has 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, especially on AIDS issues. However, the process of public policy formulation remains secretive and civil society organizations are normally informed about the decisions. When they attempt to raise their concerns with the policy and suggest alternatives, they are normally accused of belonging to the opposition parties. During the period under review, the government worked on the development of the National Strategic Plan without participation of civil society. This is despite enormous strides made during the development of the PRS.

Civil society  
participation  
5

During the period under review, politicians in Lesotho demonstrated their ability to leave those who contradict them out in the cold. The Lesotho Chamber of Commerce and Industry (LCCI) continued to be sanctioned by Mosisili's government for its stance on the position of government.

Civil society organizations find it very challenging to have access to information that they deem essential in the advancement of their cause. It is therefore a huge challenge for government to open the decision-making process and make information publicly accessible.

There is a need for closure on a number of issues dating back to colonial era. The mysterious deaths of Basotho chiefs who opposed Lesotho's incorporation into the Union of South Africa remains unresolved to this day. The Paramount Chief of Basutoland between 1939 and 1940, Simon Griffith Seeiso, died in a manner that left many questions.

Reconciliation  
n/a

The period under review showed that Basotho have not forgotten the atrocities committed by all previous government dating back to the 1970s. The country has never closed the chapter of the conflict between BNP and BCP in the early years of independence. Basotho suffered serious violations of their rights under the stewardship of all those who led the country thereafter.

There were mysterious cases of people who died under the BNP government, among them a famous journalist by the name of Edgar Motuba. BNP members were brutally killed by the military regime in the 1980s after the collapse of the government of Leabua Jonathan. The BNP government committed atrocities against members of the Basutoland Congress Party between 1970 and 1986. The military regime that took over continued to kill innocent people. On 15 November 1986, Desmond Sixeshe, Montši Makhele and their wives were killed by members of the Lesotho Defence Force. The former deputy prime minister and Minister of Finance

Selometsi Baholo were killed by members of the Lesotho Defence Force in 1994. These issues subsided during the regime of the congress movement.

There is case between Lesotho and South Africa that was filed with the United Nations between the 1960s and 1970s about Basotho land that was taken by the Boer Free State Republic during the colonial era. This remains a very contentious issue amongst Basotho and is raised every time there is tension between Lesotho and South Africa.

## 17 | International Cooperation

Overseas development assistance (ODA) for Lesotho peaked in the review period. There have been fluctuations since 1992, when the country prepared to return to democratic rule, but ODA declined to new lows between 1998 and 2000, following violence that resulted from the disputed 1998 elections. Its position has improved significantly since 2001, due to measures mentioned above, and as a result of attempts to restructure and strengthen the country's fiduciary systems. According to recent data on ODA, Lesotho has experienced a massive increase in development assistance. In 2010, per capita ODA received by Lesotho was \$118.00, an increase from \$59.53 in 2009. This is the highest per capita ODA received by Lesotho since 1992, when it stood at \$86.83. The country can improve its use of ODA by adopting the Millennium Challenge Account approach, by which Basotho professionals are given full control of program implementation without political interference.

Effective use of support

6

Programs implemented with foreign assistance have the advantage of bypassing the inefficiencies inherent to the Lesotho government system. However, the administrative costs of such programs are very high. The most important question is whether the government financial management system can be trusted to implement time-bound projects that are supported by development assistance. The other important player in the use of development funds is civil society, which has proved to be more efficient than government in most instances.

The government approved the National Strategic Development Plan (NSDP) 2012 – 2017. The plan will be implemented through the support of development partners. The United Nations office in Lesotho has committed around \$180 million in order to support the implementation of the plan.

The country's international credibility has increased since peace and order were restored after 1998 by external intervention. The international community has, however, expressed some concerns about the reliability of the country in recent years. Basotho were not required to have visas when they visited countries like the United Kingdom, but, with increased terrorism threats and the ease of getting a Lesotho passport, many countries have introduced very strict conditions for Basotho.

Credibility

7

The credibility and reliability of Lesotho as a partner in international relations was adversely affected by a series of scandals and corruption cases in the review period. The government failed to implement a simple national identity program supported by the U.S. government through the Millennium Challenge Account (MCA). The process could not pass through tendering processes as every time when the tender was awarded there were allegations of its being fraudulently awarded. This resulted in unnecessary delays in the implementation of compact one of the MCC-supported project. Therefore, the government was not asked to submit an application for the second compact, irrespective of its good overall performance in the implementation of the project. The change of regime has brought hope for many, including the international community, that Lesotho will be able to change the way it conducts business. The fact that senior government officials and former ministers have faced justice in courts of law demonstrates the willingness of the new government to bring about necessary change.

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). It is also a member of the African Union (AU). There are, however, enormous challenges to the existence of the SADC as an economic region, given fragmentation and lack of cooperation when it comes to negotiating with other economies. The recent economic partnership agreements (EPAs) with the European Union showed that the region has a long way to go before it can realize full integration. Some countries negotiated the agreements with the Eastern African region while others, like Lesotho, remained in the SADC EPA configuration. Lesotho was among countries criticized for having rushed to initial the EPAs without considering the concerns of South Africa, thereby contributing to the fragmentation of regional platforms. The period under review was characterized by continued negotiations by SADC member states to liberalize trade in services, and Lesotho is fully committed to the process.

The challenge that faces Lesotho and other countries in the region is whether to pursue the project of regional integration under the SADC. An alternative view on this matter is that SADC members should build on the successes of the world's oldest customs union.

Lesotho is committed to regional integration. The country was one of the first to volunteer to be assessed by the African Union under the African Peer Review Mechanism (APRM). This has provided an opportunity for all stakeholders to assess the progress the country is making in service delivery. The period under review saw the government taking a back seat when it came to supporting the initiative.

Regional  
cooperation  
6

## Strategic Outlook

The country is facing a very bleak future, given that there seems to be increasing political intolerance that emerged after smooth elections that led to a power shift. Disconnection between the state and an impoverished society creates possibilities for frustration and potential social friction. Education remains the single most important sector of a fragile economy, and the move to do away with the pre-colonial education system is in line with the national vision of having a well-trained labor force by 2020. This should be accompanied by massive investment in human resources in order to make use of the country's strategic position at the center of the powerful South Africa. The fact that the national strategic development plan stipulates the need to build the capacity of the only state-owned university, the National University of Lesotho (NUL), demonstrates the government's good intentions. The period under review saw a huge change with the management of Lesotho Polytechnic (LP), one of the oldest institutions of higher learning in Africa. LP intends to introduce degree programs by 2015, as it has only been providing certificates and diploma courses. The next major challenge for Lesotho's education system will be to provide courses that will support the sectors where the country has a comparative advantage. Sectors such as water, mining and tourism can provide the capital Lesotho needs to graduate from the list of least developed countries by 2020.

The implementation of the National Development Strategic Plan will go a long way in determining whether Lesotho will remain deeply rooted amongst LDCs. There is a need to fast-track the declaration of assets by stewards in order to curb corruption. The need for mining policy cannot be overstated, and the coalition government should avoid repeating the Mosisili government's mistake of not regulating the sector. Lesotho cannot afford to join scores of other resource-cursed countries. Therefore, the management of the proposed Lesotho Highlands Power Project, which will generate wind power and export it to South Africa, should be properly negotiated by all stakeholders. The implementation of the second phase of the Lesotho Highlands Water Project, intended to increase water supply to South Africa, is also key. However, there is a need for the country to continue pressing South Africa back to the negotiation table in order to strike a better deal than what Mosisili's government secured. The debate on whether Lesotho should allow dual citizenship should be given sufficient time to avoid conflicts.

The government should make massive investments in building capacity for all state institutions. The fact that the government is made up of three different political parties should be used as a stepping stone to much-needed service delivery. The success or failure of the coalition government will depend on its ability to deliver on campaign promises and craft effective programs. The government cannot afford to lose partners that have supported Lesotho. Redefining the roles of civil society, development partners and the private sector will help deliver a better Lesotho. There is no need for private firms to be discriminated against along partisan lines. Nor is there a need to

deny civil society space in order to silence dissent. There is a need for access to information in order to enhance full participation and monitoring of public officials.

The future of political stability depends on the ability of the three parties to work together. The most striking challenge in Lesotho is that corruption and crime have become institutionalized. It will be very difficult for the new government to fight corrupt officials, especially when very influential people within the parties are suspected of corruption. There is a high likelihood that the country will be forced to go for snap elections in the event that the three coalition partners fail to agree on policy. The challenge for Lesotho's politics is that members of parliament have already been given interest-free loans against their future benefits. This might deter MPs from engaging in conflict, which may cause the government to collapse.