

BTI 2016 | Lesotho Country Report

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Economic Transformation	1-10	5.00	# 80 of 129	→
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	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. 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	0.486	GDP p.c., PPP \$	2599.8
Pop. growth ¹	% p.a.	1.2	HDI rank of 187	162	Gini Index	54.2
Life expectancy	years	49.3	UN Education Index	0.504	Poverty ³	% 77.3
Urban population	%	26.8	Gender inequality ²	0.557	Aid per capita \$	153.6

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

Following the formation of a coalition government in 2012, there was optimism that Lesotho was on course to graduate from the list of least developed countries – this hope was short-lived. The coalition government collapsed, due both to corruption and a lack of trust among the coalition partners. On 30 August 2014, the military attempted to overthrow the government in a foiled coup. After intervention by the Southern African Development Community (SADC), Lesotho headed into early elections on 28 February 2015.

Under the coalition, the government's reform agenda was soon overtaken by allegations of corruption against coalition partners. The period under review saw some of the lowest points in Lesotho's democratic history, including the selective administration of justice, political interference on state institutions and the prorogation of parliament by the prime minister (after a motion of no confidence was tabled by opposition parties). The attempted military coup on 30 August 2014 brought a final end to the coalition government. The downfall of the coalition government was largely brought on by the fact that many did not accept that the country's constitution grants powers to the prime minister. Deputy Prime Minister Mothetjoa Metsing and his supporters wanted the coalition parties' agreement to supersede the constitution – in complete disregard of the supreme law of the country. Prime Minister Thomas Thabane responded, in accordance with the constitution, by firing ministers and senior government officials only to have those terminations defied.

Lesotho's reputation as an investment destination received a huge blow as a result of this political unrest. Even so, the country continued to host numerous textile companies who benefit from cheap labor and enjoy access to the United States and neighboring Southern African Customs Union (SACU) markets. During the period under review, the Lesotho National Development Corporation embarked on a massive program to support the participation of local enterprises in manufacturing. In addition, the mining sector continued to grow, with Letseng Diamonds, a subsidiary of British-based Gem Diamonds, reporting a leap in profits. Nonetheless, Lesotho continued to be a net

importer, importing most of its goods and services from neighboring South Africa. Economic growth remained relatively weak and unemployment continued to be one of the greatest challenges for the country.

HIV/AIDS continued to pose a huge political threat to the government. Lesotho's HIV prevalence rate is the second highest in the world. With the implementation of public-private partnership within health care, the government found itself in the spotlight. The World Bank has sold the project, the first of its kind in a developing country, as a model to be replicated. Given Lesotho's structural constraints (even legal and financial advice had to be outsourced), the project's implementation exposed the government to considerable risk. Beyond this project, Lesotho's overreliance on customs revenue and royalties from natural resources left the government vulnerable to minor fluctuations in commodity prices and export revenue. Notwithstanding, the country did take a giant step towards the creation of a stock exchange. Once established, this will go a long way towards ensuring private investment within the economy.

The National Strategic Development Plan (NSDP) for 2012/17 was implemented by the government during the review period. However, implementation of the plan left much to be desired. The economy has been way off the mark when it comes to creating the target 10,000 new jobs per annum.

Fundamentally, there is urgent need to address historical injustices that continue to impede Lesotho's democratic development. Until broad-based reconciliation heals these wounds, they will continue to be used to manipulate the electorate and stifle progress.

History and Characteristics of Transformation

Lesotho's mineral resources endowment has yet to be properly utilized. Irrespective of its recent history of producing some of the largest gems in the world, the country has diamond deposits which have not been exploited. There have been very few geological surveys of the country's mineral deposits. This may be due to the difficult terrain, making it less attractive than neighboring South Africa. In recent years, however, the country's natural resources have attracted massive investment. This resulted in initiatives like the Lesotho Highlands Water Project (LHWP), which channels Lesotho's clean and abundant water to neighboring South Africa. In the private sector, the country's biggest employer is the textile industry, which has achieved immense growth under the Africa Growth and Opportunity Act (AGOA) of the U.S. government. By far the single biggest contributor to GDP has been the revenue generated by Southern African Customs Union (SACU) tariffs (the Union consists of Botswana, Lesotho, Namibia, South Africa and Swaziland). SACU revenue accounted for 42.6% of the national budget in the 2013/14 financial year.

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 the levers of power weakened, the prohibition on 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 its return to democracy. The then new government, however, failed to address or bring about reconciliation on historical injustices committed during the 1970's and the undemocratic period that followed.

In the years that followed, the democratic legitimacy of the state experienced several internal challenges. In 1994, King Letsie III staged a military-backed coup and appointed an interim government after he failed to persuade the ruling BCP to reinstate his father, Moshoeshoe II, who had been deposed and exiled after a fallout with the military government. Civil society groups mobilized stakeholders inside and outside Lesotho 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. Letsie III, however, returned to the throne soon thereafter as a result of Moshoeshoe II's death in an automobile accident. Lesotho's second democratic elections since returning to democracy were held in 1998 and won by the Lesotho Congress for Democracy (LCD). Although international election observers described the poll as free and fair, opposition parties and their followers contested the outcome. As a result, the country experienced widespread violence and looting following the 1998 elections. The government invited its Southern African counterparts to intervene as its own state apparatus were completely paralyzed by the protests. This led to a Southern African Development Community (SADC) military intervention led by South Africa and later joined by Botswana and Zimbabwe.

A multiparty Interim Political Authority (IPA) was created to oversee the crafting of a new mixed-member proportional representation (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. However, the opposition parties fiercely contested the validity of the results, arguing that the Independent Electoral Commission had fiddled with the MMP model and improperly allocated seats. The SADC and local civil society organizations intervened to calm tempers which were approaching levels of conflict seen after the 1998 elections.

Lesotho's democracy has always been characterized by drama and double standards. On 28 February 2012, Basotho woke up to the news that the then prime minister had formed a new political party. It was highly expected that the prime minister would cross the aisle with those that follow him to the new party. In the general elections of May 2012, no single party won a simple majority. The three former opposition parties, the All Basotho Convention (ABC), Basotho National Party (BNP) and Lesotho Congress for Democracy (LCD), formed a coalition government. This was the first time in the history of Lesotho that political parties joined forces to form a government.

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 government has attempted many strategies to address the country's structural challenges and implemented public sector reform programs to improve efficiency. The success of these programs, however, remains hampered by significant financial and skill constraints.

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

The period under review was marked by serious challenges to the state's monopoly on the use of force. This challenge came not from irregular armed groups from inside or outside the territory, but rather from the state's security forces themselves.

Monopoly on the
use of force

6

The military was at loggerheads with the prime minister cum Minister of Defence and National Security. Eight military officers are suspected of having been involved in the bombing of homes belonging to the partner of the prime minister and the commissioner of police on 27 January 2014. The army commander, Lieutenant General Tlali Kamoli, refused point blank to handover suspects for police questioning, arguing that the police are known for torturing suspects. Lieutenant General Kamoli cited that Lesotho Mounted Police Service (LMPS) had not involve the army in the investigation from the initial stages and therefore saw no point in working together with the LMPS on the investigations. The commissioner of police had requested that the army furnish the police with information on the acquisition and deployment of RD 40mm HE M848 between 1993 and April 2014.

The prime minister appointed a new commander of the army on 29 August 2014, which sparked rebellion within the armed forces. This ended with an attempted military coup on 30 August 2014. For his safety, Prime Minister Thomas Thabane ended up fleeing to neighboring South Africa. He was only able to return to Lesotho after he was given protection by the SADC. The observer mission comprised of military and police officers from SADC member states and provided security to the prime minister and other senior ministers until the 2015 general elections. Ultimately, the SADC had to intervene and send the security chiefs on a leave of absence until after the elections in February 2015. The deputy commissioner of police, Masupha Masupha, and deputy commander of the army, Khoantle Motsomotso, were appointed the acting security chiefs.

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.

State identity
9

The major challenge for Lesotho during the period under review remained the fact that an estimated quarter of its population hold citizenship in another country. A majority of these other citizenships are South African. Lesotho does not allow dual citizenship, yet most of its workforce migrate to South Africa. It is often very easy for Basotho to acquire South African citizenship. In an attempt to address issues related to the role of migrants in the development of Lesotho, the government developed a migration and development policy. The government has introduced a new National Identification Programme, which aims at documenting Basotho. While this had previously not been the case, the government has made it a requirement that everyone an identification document. In addition, the government has continued to naturalize people from all backgrounds as Basotho.

Religion plays a cardinal role in Lesotho with Christians estimated to be around 90% of the population. The state, however, remains secular 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. The integration of these practices has been smooth as the country truly embraces secularism.

No interference of
religious dogmas
8

Unlike the period leading up to the 2012 general elections, the period under review saw a decrease in calls for Lesotho to be declared a Christian state. Political parties that had subscribed to the call did not actually implement any measures which threaten the religious rights of minority religions. However, Christianity continues to play a pivotal role in Lesotho. For instance, a prayer is said before and/or after government events.

The administrative capacity of the state is generally weak and hampered by insufficient financial and human resources. Due to low wages, Lesotho is losing a great deal of trained personnel to neighboring South Africa. Most services are accessible to the urban dwellers, but the majority of the population who live in rural areas have little access to state resources. Lesotho relies heavily on other nations to help train its labor force. This makes it even more attractive for students who have 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.

Basic
administration
5

The state's ability to provide services was paralyzed by a dysfunctional coalition government. Political parties have turned the ministries they control into fiefdoms where services are enjoyed by party members.

The construction of Metolong Dam, which will supply urban areas with clean water, has progressed well and the dam is scheduled to be handed over to government in early 2015. This new water reservoir, based some 30 kilometers from the capital Maseru, will go a long way towards increasing access to clean water for both households and industry.

As far as providing judicial services, law enforcement and collecting revenue, the relevant structures are in place. On the other hand, the media are in the hands of private actors, though the state holds some stake in these ventures. The government-owned Lesotho Freight Bus Services Corporation has continued a downward trend. The company is in a state of utter collapse, which has driven citizens in remote areas to rely on private transport operators. The government has continued to struggle with building sufficient road infrastructure. Where roads are tarred, it is often a huge challenge for the Road Directorate to maintain them.

According to the World Development Indicators (WDI), Lesotho's access to sanitation increased from 29% in 2011 to 30% in 2012. Notwithstanding, access to water sources remained stable at 81% during the same period. Basotho continue to use pit latrines in many areas, including in the capital, Maseru. In other parts of the country, people continue to use forests and gullies.

2 | Political Participation

The last parliamentary elections were held in 2012. They had been declared free and fair by all observers and only a few incidents were 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. During the period under review, Lesotho organized by-elections (special elections). The elections were free and fair and the opposition Democratic Congress (DC) won the two constituencies of Thaba Phechela and Thaba Moea that were contested. A secret ballot was ensured and all political parties and independent candidates contested the elections without any form of intimidation.

The leadership of the Independent Electoral Commission (IEC) saw a huge shake up. The three commissioners who oversaw the 2012 general elections all left the IEC. Commissioner Malefetsane Nkhahle died in 2013 following a brief illness, Fako Likoti served for only one term of five years and Limakatso Mokothu (the chairperson) had exhausted her two terms. The process of recruiting new commissioners was highly polarized and nepotistic. The best candidates during the

Free and fair
elections
8

interviews were not awarded a position. Instead, those affiliated with the three coalition parties succeeded. All coalition partners are represented on the IEC. At the time of the appointments, the Lesotho Times newspapers reported that the appointment process was biased. The Political Leaders Forum submitted six names to the Council of State which, in turn, advised the king on the appointment of the final three commissioners. The sixth candidate was Fako Likoti who obtained the lowest score among the six candidates. Mahapela Lehohla was then appointed the chairperson of the IEC for a period of 5 years.

The period under review marked Lesotho's darkest period in recent memory. The military refused to subject itself to civilian rule. The Commander of the Lesotho Defence Force (LDF) even organized a press conference where he told the public that the prime minister had been ill-advised on matters of security. The prime minister appeared intimidated by the LDF.

The prime minister fired the commander of the LDF, Lieutenant General Tlali Kennedy Kamoli, on 29 August 2014. Deputy Prime Minister Mothejoa Metsing and his party refused to recognize the prime minister's decision to appoint a new commander of the LDF. Instead, Lieutenant General Kamoli had to appear before a court martial where he was accused of inappropriate behavior for a member of the armed forces. The prime minister, who is also the Minister of Defence, dismissed the court martial when he appointed the new LDF chief. Lieutenant General Kamoli refused, however, to leave office and the military attempted a coup on 30 August 2014. The military attacked three police stations in the capital, Maseru, confiscating weapons and ammunition. The prime minister, the Minister of Gender, Youth, Sports and Recreation, and Commissioner of Police Khothatso Tšooana were among the high-ranking government officials who fled to the neighboring South Africa. They returned after the SADC intervened and South Africa provided armed forces as bodyguards. The SADC deployed an observer mission consisting of military and police officers in order to provide security and to monitor the situation. The commissioner of police stated that Sub-Inspector Ramahloko was killed by soldiers looking for documents related to a corruption case against the deputy prime minister.

Generally, citizens enjoy the freedom to associate and assemble as granted by the bills of rights enshrined in the constitution of the kingdom. Section 15 of the constitution outlines the right to peaceful assemble. Lesotho has a rather small formal civil society sector, which is primarily active in the fields of poverty alleviation, health care (HIV prevalence is estimated at 23%) and governance issues. The sector is organized under the umbrella body of the Lesotho Council of Non-Governmental Organizations (LCN). Although weakly resourced, it fills critical gaps in a state with limited capacity to reach its citizens. Civil society has not shied away from being vocal on corruption and issues of social importance, but has generally found it

Effective power to govern

4

Association / assembly rights

7

difficult to engage with the national legislature, which offers limited opportunity for public participation.

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 the government is one of the primary employers, union membership is small and consequently the influence of the many small unions is also limited. Labor laws are generally ignored and union meetings prohibited in many sectors of the economy, such as mining. This is because of the size of investments by multinational corporations relative to the economy, 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.

There are groups of political cadres who strongly believe that they deserve certain benefits by virtue of belonging to the ruling coalition. The build-up to the tightly contested 2012 general elections saw citizens challenge the old culture of political intimidation. People were free to wear their party regalia without fear of being victimized. People continued to join the political parties of their choice during the period under review as the parties prepared for the 2015 general elections.

Freedom of expression is respected in principle, though the nature of the state's relationship vis-à-vis private media points to its discomfort with, and sometimes antagonism towards, the role of media in Lesotho. While the country's constitution does subscribe to the principle of press freedom, tolerance of stinging media criticism remains low and legislation dating back to country's authoritarian period has been used to silence the government's principle 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.

Sedition Proclamation No. 44, dating from 1938 still in Lesotho's statutes, prohibits specific forms of criticism of government, which can result in charges of seditious libel. Even under democratic rule, this proclamation has been invoked on a number of instances and libel suits pursued against some robustly critical media sources. The continued existence of oppressive laws which were used to suppress opposing voices during authoritarian rule is a clear signal that there are people within the government who are not fully committed to the principles of democracy. Given the size of the economy and the significance of public advertising to their operation, privately owned media depend on government advertising for their continued existence. The

Freedom of
expression

6

dilemma for most media houses is to choose between economic gain by being less critical of government or facing closure because for being harsh on government policy.

The Lesotho chapter of the Media Institute for Southern Africa has been working tirelessly over the past 15 years advocating for a just media policy in Lesotho. The period under review saw a major setback when the cabinet referred reform legislation back to the Minister of Communication, Science and Technology. In addition, the government is not yet ready to relinquish control of the national broadcaster, the Lesotho National Broadcasting Corporation (LNBC). The change of regime in 2012 saw a lot of people openly criticizing the government more strongly than before. The new regime has changed the government's approach towards freedom of expression and members of the public are enjoying space and time to criticize the government even on government-owned media. There were no shutdowns of media houses by the state during the period under review. However, journalists were harassed by people in the higher echelons of power. Tšokolo Toi, a journalist on a local radio station called Tšenolo FM, was attacked on duty by thugs. Tšenolo FM has been the mouth piece of the opposition Democratic Congress.

Access to public information is not guaranteed due to the lack of a freedom of information act in Lesotho. During the period under review, citizens and media continued to struggle to access public information.

3 | Rule of Law

The constitution provides for a clear distinction between the executive, legislative and judicial spheres of government. The country's legislature consists of two houses: a lower house (National Assembly) with 120 members (80 elected through the first-past-the-post voting method and 40 on the basis of proportional representation) and an upper house (Senate) consisting of 22 principal chiefs and 11 members who are appointed by the king.

The executive arm of government has continued to undermine checks and balances during 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 the 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

Separation of
powers
4

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 the leadership of the party.

After lengthy squabbles between the president of the Court of Appeal and the chief justice on the issue of seniority, the executive intervened by requesting that the two to resign. However, the president of the Appeal Court, Justice Michael Ramodibedi, did not handover his resignation letter until he was threatened with impeachment. Ramodibedi was accused of having ordered his driver to fraudulently claim insurance after the justice's official car was involved in an accident while it was being driven by his son.

The prorogation of parliament by Prime Minister Thomas Thabane amidst threats from opposition parties tabling a motion of no confidence demonstrates the extent the executive went to silence dissent. The parliament was prorogued in accordance with section 83 of the constitution, which grants the prime minister the power to advise the king to prorogue the legislature for a period of not more than 12 months.

The impartiality of the country's security apparatus is in doubt. Although they do not by themselves constitute a veto power, instances such as the harassment of independent critics, abductions and the shooting of politicians have raised questions about the partiality of the country's armed forces.

The judiciary is by and large independent and it is not uncommon for it to rule against the state. There are nevertheless certain matters that seem to compromise this independence. The capital and recurrent budgets of the judiciary, including administrative issues such as employment of staff, falls under the jurisdiction of the executive. For instance, contrary to international best practices, in which the Judicial Service Commission nominates candidates for parliamentary approval, the chief 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 their clients. In the case *Potjiri vs. Resident Magistrate-Butha-Buthe and Others*, Judge Maqutu ruled that Teele AJ cannot practice in any court in Lesotho while he is acting judge. This judgement has been ignored by the legal fraternity and more judges have since been appointed on an ad hoc basis. Justice Maqutu had stated that the problem stemmed from Teele AJ's appointment not specifying the period he would be an acting judge.

Independent
judiciary
6

The period under review saw an increase in the number of officeholders that were investigated. The case against the former Minister of Natural Resources Monyane Moleleki continued in the courts. According to reports, Moleleki had issued mining licenses to companies without following the procedures outlined in the Mines and Minerals Act of 2005. The most shocking revelation made by the Public Eye Newspaper was that Moleleki issued three mining licenses to one company immediately after his party lost the 2012 general elections. The mining companies are suspected of being linked to one South African citizen who bankrolled the campaign of the Democratic Congress during the 2012 general elections. The cases against Moleleki were never heard by the courts as he suddenly fell ill and went into treatment in South Africa. By the time he recovered from his illnesses, the country was in turmoil and Moleleki became active again in politics ahead of the 2015 general elections.

Deputy Prime Minister Mothejoa Metsing was also subjected to police investigations for alleged misappropriation of public funds. The Directorate on Corruption and Economic Offences (DCEO) wanted Metsing to explain the source of LSL 446,000 deposited into his Standard Lesotho Bank and Nedbank Lesotho accounts between April 2013 and January 2014. He also had unexplained deposits into his First National Bank Platinum Account amounting to LSL 524,694.86. Metsing filed a case against the state for accessing his personal bank account without his consent. The case before the constitutional court was heard by South African judges after Metsing questioned the independence of the local judges. Metsing was accused of being behind the 30 August attempted military coup. Commissioner of Police Khothatso Tsooana informed the public that the soldiers who attacked the police stations were looking for Metsing corruption dockets. The police had earlier reported facing challenges in their investigation of Metsing, with the army asserting that Metsing should not be investigated.

Lesotho's Consul General in Durban South Africa, Lerato Tsosane, was accused of leading a lavish lifestyle and misappropriation of public funds. She was said to have not cooperated with the Office of the Auditor General during an external audit. She was reported to have been suspended by the Ministry of Foreign Affairs and International Relations when the investigations were undertaken.

The army refused to cooperate with police on the investigation of the bombings of the residence of the police commissioner and that of the partner of the prime minister.

Prosecution of
office abuse

6

The constitution of Lesotho guarantees basic civil liberties and their enforcement by the state. Yet in some instances, practice diverges from the intentions of Lesotho's founding democratic document. Intimidation and brutality by the police and army, remnants of the country's long autocratic history, have not been entirely purged and continue. Whether in the cases of suspected criminals, informal traders or street vendors, public protests or individuals criticizing government policy, several instances of alleged brutality and/or torture have been documented in recent years. The death penalty remains among the country's statutes, 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 forced to respond to most issues.

The conditions in prison remain harsh and are often characterized by overcrowding as a result of inadequate facilities. The government pays hundreds of thousands of U.S. dollars annually in compensation to people who have been tortured by police. The courts 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. Despite its awareness of the growing number of victims of police violence, the new government has not initiated a change in police staffing. The review period saw the training of police officers to better deal with protestors. The need to train police officers to abolish the use of torture will go a long way in saving scarce resources which could be put into better use in other sectors of the economy. In addition, police officers should be held personally accountable for the people they have tortured. Such personal accountability would discourage police officers from counting on government to compensate victims.

Lesotho does not explicitly protect citizens from discrimination or persecution associated with sexual orientation, religion, political affiliation or ethnicity. Instead, individuals being discriminated against must report these cases like any other crime. The government failed to deliver on its promise of establishing a human rights commission during the period under review.

4 | Stability of Democratic Institutions

Lesotho has undergone significant democratic reforms, particularly since 2002. For the democratic state to build longer-term legitimacy, however, these reforms need to evolve from policy intentions to successful implementations. A divergence between the theory and practice of democratic institutions retards the pace of democratic consolidation. At present, democratic institutions, including the legislature, executive and judiciary, remain insufficient to meet the challenges facing the country. The legislature remains weak, the executive struggles with capacity deficits and an inefficient criminal justice system, characterized by weak enforcement and a judiciary that struggles with extensive case backlogs, compromises the rule of law.

Democratic institutions have been unstable during the review period largely due to the collapse of the coalition government. The judiciary is under immense pressure to reclaim its independence from political influence. Politicians have continued to show an interest in influencing the justice system. The prime minister has indicated his discontent with the performance of the Offices of the Attorney General and the Director of Public Prosecution. The two offices were alleged to have blocked President Thabane's efforts to fight corruption because the head of each office remained loyal to former President Mosisili (who had appointed them).

The Office of the Ombudsman has not been active. There were no reports published by the office during the period under review (the last report published was for 2010). In contrast, the Office of the Auditor General has made enormous inroads during this period. The Auditor General has been able to audit government ministries and agencies. The government finished drafting a new law that aims at giving the Auditor General administrative autonomy.

As the attempted coup revealed, leading politicians from different parties often pay lip service in accepting democratic institutions. In particular, the military did not accept democratic rule and was constantly at loggerheads with the civilian government. According to the South African Institute for Security Studies (2014), the commander of the Lesotho Defence Force went as far as stating that he will not salute Prime Minister Thomas Thabane. The prime minister, who is also the Minister of Defence, did not have control over the military. The government secretary was also told by Major General Motsomotso that he should refrain from interfering in military affairs when he inquired about the continued escort given to a fired minister. Selibe Mochoboroane refused to vacate the office of the Minister of Communications after he was fired by the prime minister. Many associate the refusal of the military to submit to civilian rule to the fact that the military leadership paid its allegiance to the erstwhile prime minister.

Performance of
democratic
institutions

4

Commitment to
democratic
institutions

5

5 | Political and Social Integration

The ruling coalition of ABC (30 seats), BNP (5 seats) and LCD (26 seats) held 61 out of 120 seats in the country's National Assembly following the 2012 general elections. The largest political party in parliament is DC (48 seats), the party that ruled for only three months since its controversial formation in parliament by the former prime minister. The remaining 11 seats are distributed among eight smaller political parties, most were able to secure just one seat.

After two members crossed the aisle, the coalition had 59 seats in parliament. In addition, three MPs for DC died during the period under review. By-elections (special elections) were held in two constituencies and were won again by DC. The life of the 8th parliament, however, was cut short by early elections.

While the MMP system has effectively managed to reduce the prospects for conflict over elections by limiting the possibility for veto actors, it has also given rise to a proliferation of small, financially and policy-weak parties that struggle to retain their internal cohesion. In general, the party system is not stable and voter volatility remains high. In the wake of the 2012 elections, there are 12 political parties who have been able to secure parliamentary seats under MMP.

LCD has split again heading into the 2015 general elections. This follows a trend the party has undergone since the 2002 elections. In 2001, Kelebone Maope left LCD to form the Lesotho People's Congress (LPC). In 2006, just months before the 2007 general elections, Thomas Thabane left LCD to form ABC. In February 2012, a mere three months ahead of the 2012 general elections, Pakalitha Mosisili left LCD to form DC.

There are some structures in the villages and constituencies where membership in the bigger parties is mobilized. In addition, local government elections seem to increase the life of the political parties.

In some parties, there are rules on how constituency party representatives are elevated to the position. Some require that representatives must rise through the party structures – from the village to the pinnacle of the party. However, there is a problem of party consistency in the running of affairs which results from too much responsibility being given to the executive committees. It is common practice that members of the party executive are also parliamentarians and also members of the cabinet, which leaves the political parties prone to elite capture.

Party system
4

The constitution guarantees the freedom of association. The generally fragmented nature of party politics superimposed upon a weak and under-resourced parliament, however, makes the prospect for meaningful public participation in policy processes at the national level remote. 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.

Even if opportunities for public participation and activism were to improve instantly, only a limited number of the country's existing interest groups would be able to capitalize on the opportunity. The majority of extra-parliamentary structures in Lesotho that would normally be expected to provide critical linkages between a state and its citizenry in a democracy are ill-equipped to do so. Limited funding and low levels of skill and capacity have been significant obstacles to broadening the impact of the civil society sector. Although the past decade has seen growth in the number of governance and human rights NGOs, the majority of civil society organizations are informal, community-based and active in grassroots activities that address questions of poverty and health (particularly HIV/AIDS).

There are at least three business associations: the Lesotho Chamber of Commerce and Industry (LCCI), Private Sector Foundation of Lesotho and Mohloli Business Chambers. These three associations are effectively competing for dominance and recognition in a very small business community. As a result, they are too weak to have any meaningful impact in representing the interests of an already weak private sector.

Professional associations are very few and, where they exist, are very weak. For instance, the Law Society of Lesotho, which is a bar association, remained withdrawn from national issues during the period under review.

There is very limited interaction between NGOs, trade unions, business associations and professional associations. This weakened the role of special interest groups in Lesotho during the period under review. The most common feature in all these associations is that they are aligned to political parties.

According to Afrobarometer, Basotho categorically reject non-democratic systems of government. In the 2012 Afrobarometer survey, 70% of respondents said they did not approve of a one-party state, 83% disapproved of military governments, and 86% said they would disapprove of the abolition of elections and parliament.

The 2014 Afrobarometer survey showed that, Basotho respondents believe that the ruling coalition is better able to fight corruption in government than opposition parties (67%), improve basic health services (66%), create jobs (64%) and control prices (62%).

However, democratic institutions have received very low scores largely due to the collapse of the coalition government during the period under review. Just 44% of the 1,200 respondents stated that they trust parliament. A mere 43% of the respondents trusted the ruling coalition in May 2014, when the coalition government was crippled

Interest groups
5

Approval of
democracy
6

with a possible vote of no confidence in parliament. On the other hand, the police enjoyed a healthy 58% trust and the military scored a significantly higher 65% trust from those 1,200 respondents. The survey was conducted before the military became involved in an attempted coup on 30 August 2014. Traditional leaders enjoyed a high 73% trust from the respondents and religious leaders received the highest trust level of 82%.

Basotho are chiefly known for their trust and close 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.

The only major challenge is the marginalization of people who do not belong to the ruling clan. The current arrangement ignored the fact that every clan had its chiefs and stationed the sons of Moshoeshe throughout the country as chiefs. Clans such as the Baphuthi are facing challenges; they are marginalized but have regrouped to elect their chiefs, though the elected leaders are not officially recognized. This move is largely intended to maintain the culture of these clans, not necessarily to challenge the rule of the Bakuena clan. The role of traditional chiefs has been reduced with the introduction of local government structures. The country is struggling to adapt to the new structures and attempting to clarify the role of chiefs under the new arrangement.

Despite a fairly homogenous culture and language, dire poverty has had a ravaging effect on the social cohesion of Basotho society. Poverty is pervasive in the deep rural areas, but has also become increasingly pronounced in urban and suburban areas where families of job seekers, ill-equipped to compete in a small formal economy and unable to rely on traditional social structures, suffer some of the worst poverty in the country. This, in turn, has given rise to criminal activities and a decline in interpersonal trust. The most negative impact on social capital formation, however, has come as a result of the impact of HIV/AIDS, which largely overlaps with the issue of poverty. The HIV prevalence rate is estimated to be 23% and the pandemic has destroyed the social fabric of Basotho, which is based on extended families and traditional communal ways of living that for many years had provided a buffer against the scourge of poverty. As the number of “dependents” begins to outweigh the number of contributors, the social capital of these traditional systems is increasingly eroding.

In addition, there is a divide along political party lines, where by the society or citizens label each other based on political affiliation and tend to not cooperate with the Basotho that do not belong to their political cleavage. This is deeply entrenched in poverty and political patronage: because of poverty and joblessness, people think aligning themselves with political elites and abandoning or ignoring party outsiders will help them evade joblessness.

Social capital

5

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Socioeconomic
barriers
2

According to the WDI, Lesotho's Human Development Index (HDI) improved slightly in 2013 to 0.486 from 0.481 in 2012. Lesotho's HDI rank was 162nd in 2013 which was just one position better than the 163rd seen in 2012. However, the country has declined significantly given that it was ranked 141st in 2010. The country's literacy rate remained fairly healthy during the period under review. An estimated 75.8% of people aged 15 and above were literate in 2013. There is a sharp contrast between males and females when it comes to literacy levels. An estimated 85% of women aged 15 and above are said to be literate while a mere 65.5% of men in that age group are said to be literate.

Lesotho continues to perform surprisingly well on the gender equality index: 0.534 in 2012 and 0.557 in 2013. The education enrollment ratio remained moderate during the review period with a score of 0.504 in 2013. The HDI estimate the ratio of female to male enrollment to be 97.5%, 139.9% and 151.1% at primary, secondary and tertiary education levels respectively. In addition, the gross enrollment ratio in 2013 was estimated to be 110%, 53.3% and 10.8% for primary, secondary and tertiary education respectively. This is a slight improvement over the 2011 scores of 103%, 46.4% and 3.5% for primary, secondary and tertiary education respectively. This ratio measures the level of enrolment regardless of age.

Although accurate poverty statistics are difficult to obtain, the country's National Strategic Development Plan is based on an estimated 56.6% of citizens living under the poverty line (\$2 per day). While most growth is generated in urban areas, an estimated 76% of the country's population reside in rural areas, which makes Lesotho one of the world's most unequal countries with a Gini coefficient of 0.53 in 2003. Women accounted for 45.8% of the total labor force in 2013. Although improvements have occurred in recent years, weak infrastructure continues to exacerbate this inequality.

Lesotho's over-reliance on customs revenues renders it susceptible to shrinking resources as these revenues are on the decline.

The country has also relied on remittances from workers in the neighboring South Africa. With the increasing levels of poverty and inequality in South Africa, as well as an influx of 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 \$543 million or 24.4% of total GDP in 2013. The most threatening factor is the effect of HIV/AIDS on the economy as it affects the workers at their most active years between 15 and 49. HIV/AIDS has without a doubt destroyed the social fabric of Basotho.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	1368.3	2187.4	2147.7	2088.0
GDP growth	%	2.7	7.9	4.6	2.0
Inflation (CPI)	%	3.4	3.6	4.9	5.3
Unemployment	%	36.4	24.7	24.7	-
Foreign direct investment	% of GDP	5.1	8.1	2.1	-
Export growth	%	-8.3	7.5	-4.7	-
Import growth	%	-0.6	7.8	1.4	-
Current account balance	\$ M	-26.6	-404.8	-77.3	-
Public debt	% of GDP	60.3	35.2	43.4	47.8
External debt	\$ M	667.3	778.0	885.2	-
Total debt service	\$ M	79.6	34.5	40.2	-
Cash surplus or deficit	% of GDP	4.2	-	-	-
Tax revenue	% of GDP	46.2	-	-	-
Government consumption	% of GDP	36.7	37.9	36.3	-
Public expnd. on education	% of GDP	14.8	-	-	-
Public expnd. on health	% of GDP	3.3	8.1	9.1	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.5	3.2	2.2	2.3

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

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 intentions 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 the financial markets as well as privatized a number of public enterprises and parastatals. The concerted effort to attract foreign direct investment, which realized a massive inflow of multinational corporations investing in the textile industry around the turn of the millennium, has continued during the period under review.

Market-based
competition
5

Lesotho has yet to fully implement a 2007 competition policy that would assert that competition is guaranteed for private companies. The informal sector remains a very significant part of the economy. Public transport likewise remains an informal industry, which makes free entry and exit extremely challenging. During the review period, the Lesotho Communications Authority (LCA) led the process to draft the Lesotho Competition Management Regime. This is intended to introduce competition features within the telecommunication industry, which currently has just two players: Econet Telecom Lesotho and Vodacom Lesotho.

According to Doing Business 2015, Lesotho is making some progress in introducing reforms. Lesotho was ranked 128th out of 189 economies in 2015. This was the same rank it held in 2014. Lesotho lost some ground when it comes to the number of days it takes to start a business. It was ranked 98th and 108th in 2014 and 2015 respectively. It took an average of 29 days and seven procedures to register a business in 2014 and 2015. However, the One-Stop Business Facilitation Centre introduced an online resource at the end of 2014. That was expected to reduce the number of days it takes to register a business even further. It also made it easier for executives and directors to interact and update their business information online.

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 economy. This is made worse by the fact that there is no legislative framework in place to promote and regulate competition within the economy. This is despite 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 a slow process, which at the time of writing, had not resulted in any breakthrough. The government had made its intention clear that it wished to have a policy formulated in accordance with WTO guidelines in order to replace the current statute (Industrial Property Order No.5) dating back to 1989.

Anti-monopoly
policy
2

Lesotho's competition regime remained very weak during the period under review. The competition policy of 2007 is the only major step towards reducing antitrust measures. The government has yet to formulate a competition law. The government approved a consumer protection policy in 2013. However, the drafting of both the consumer protection and competition laws did not bear fruit and the 8th Parliament of the Kingdom of Lesotho was dissolved before they were approved. This happened contrary to a promise articulated by King Letsie III during the opening of the 8th Parliament that the two laws would be part of the business of that parliament.

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 in draft form and the period under review did not see moves towards its approval. The government of Lesotho appeared to lack willingness to address the issue of monopolies. There have been calls by consumer groups for government to intervene in order to ensure that competition is not compromised. A lack of capacity and willingness on the side of government, however, resulted in monopolies being given a green light. There is surely a need for leadership from the side of government if competitive markets are to be created in Lesotho.

Lesotho continues to play a vital role towards both the economic integration of Southern Africa and Africa as a whole. During the period under review, Lesotho was among the countries that signed the Economic Partnership Agreement (EPAs) with the European Union. Southern African Customs Union (SACU) revenue contributed 42.6% of government expenditure during the fiscal year 2013/14. The contribution is nowhere near the 60% it contributed to the national budget prior to the 2008 economic crisis. The government did not bend to demands for protection by some sectors, as it would limit consumer choice.

There is a positive development in agricultural industry: Obstala Resource Limited acquired a 70% stake in Mountain Kingdom Foods (formerly Basotho Cannery) in 2014. The remaining stake is held by the Lesotho Defence Force (10%) and the Lesotho National Development Corporation (20%). The company has already secured market for canned tomato in the United Kingdom. However, the local private sector is in no way ready to export goods and services to developed countries. Lesotho Mountain Food was yet to begin product shipments at end of 2014. Lesotho's service sector remains very weak and dominated by foreign companies. The country is largely relying on the inflow of FDI as it was able to attract huge injections of investment into the textile industry under AGOA. However, the expected expiration of AGOA in 2015 has casted doubts on the future of the textile industry in Lesotho.

Lesotho's tariff structure remain unchanged from what prevailed in the previous review period. According to information from the WTO, Lesotho's applied tariff on agricultural goods was 8.3% and on non-agricultural goods 7.4%. The simple average on all goods was 7.6%. Non-ad-valorem duties were 2.6% of total tariffs.

Liberalization of
foreign trade
8

Lesotho does hold some preferential tariffs as a member of a customs union and also engaged in regional efforts to form a large customs territory with all other members of the SADC. The period under review saw an increased push towards a tripartite free trade agreement (T-FTA) between the SADC, East African Community (EAC) and Common Market for Eastern and Southern Africa (COMESA).

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). Three out of four commercial banks are South African-owned, only Post Bank is domestically owned (100% by the government). The country belongs to a Common Monetary Union (CMA), which includes South Africa, Namibia and Swaziland. 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 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.

According to the 2014 World Development Indicators, the bank capital to asset ratio decreased from 11.2 in 2012 to 9.4 in 2013. In addition, bank non-performing loans to total gross loans increased from 2.6% in 2012 to 4.1% in 2013. The country continued 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. During the review period, there have been attempts by the government to partner with commercial banks to launch a partial credit guarantee scheme. The initiative has not yet taken off and many enterprises find it challenging to access financing in Lesotho.

According to the FinScope 2011 survey, the level of financial inclusion in Lesotho was unexpectedly high, with only 19.1% of the adult population being financially excluded. The main reason for the high level of financial inclusion was the high level of usage of products related to funerals. About 62.4% of the adult population used informal financial mechanisms. In addition, the report argues that the proportion of the banking population was high (38%) and that most individuals had bank accounts and used transactional and savings type facilities. Almost half (42%) of the banking population used their bank accounts for remittance purposes. Although the high usage of non-bank formal products/services and informal mechanisms is mostly driven by funeral costs, a significant proportion of those who used these did so to gain access to credit facilities offered by non-bank formal institutions and the informal sector. About 31% of those who used non-bank formal products used credit products.

During the review period, all the banks in the economy published their financial statements in the print media. The public had an opportunity to scrutinize their affairs and assess whether they complied with both local and South African banking regulations.

Banking system

7

8 | Currency and Price Stability

According to the WDI, Lesotho's inflation rate has declined from 6.1% in 2012 to 4.9% in 2013. Lesotho has enjoyed stability in the general price level during the period under review. The major reason for this stability is that Lesotho's economy is insulated by the South African economy. Apart from 1:1 pegging of the loti to the rand, Lesotho imports the majority of its goods and services from South Africa.

Anti-inflation /
forex policy

6

The WDI reported in 2014 that the real effective exchange rate index was 84.7 in 2013 from 94.6 in 2012. Lesotho's performance is not different from that of South Africa which had 82.8 in 2013 (down from 92.6 in 2012).

The Central Bank of Lesotho enjoyed independence from government interference during the review period. The major facilitator is the fact that Lesotho is a member of the Common Monetary Area (CMA). The other CMA members are Namibia, South Africa and Swaziland. The CMA assures that monetary policy is governed in accordance with agreements with the Reserve Bank of South Africa (RBSA) rather than to achieve domestic political ends. All members of the CMA pursue an inflation targeting strategy where by a ceiling of 6% is in force (Lesotho is no exception). This is in line with the government's aim to make the economy of Lesotho predictable.

The debt to GDP ratio has experienced a slight increase during the period under review. According to WDI, Lesotho's public debt as a percentage of GDP has increased from 39.7% in 2012 to 42.7% in 2013. External debt also increased, from \$794.8 million in 2012 to \$860.2 million in 2013.

Macrostability

6

According to the Central Bank of Lesotho (CBL), the net international reserves (NIR) target has been increased to a minimum of \$660 million in December 2014. That cushions the Lesotho Loti (LSL) to maintain an exchange rate parity with the South African Rand (ZAR). It is also the level that the CBL considered sufficient to preserve price stability. The CBL reported that the country's NIR stood at \$1,246 million in October 2014. This is an improvement from the 2013 level of \$1,055.2 million.

9 | Private Property

The state respects private property and the right to it, which is also enshrined in the constitution and is actively being 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 reside on land that has been earmarked for development to cooperate. In some instances in which communities resisted resettlement, relocation was enforced by the military. Particularly mining communities are at risk of being forcefully resettled.

The government developed a resettlement policy with the support of the Millennium Challenge Account of the United States. However, the policy was not used by government ministries and agencies during the period under review. With the enactment of the 2010 Land Act, there has been a noticeable shift in the land tenure system as the barrier on foreigners owning land in Lesotho has been lifted. This has been labelled as one of the major obstacles to the generation of higher levels of FDI.

The establishment of the Land Administration Authority (LAA) in 2010 has provided enormous benefits to Lesotho. LAA statistics indicated that the number of registered leases between 1981 and 2013 was 68,212. LAA was able to register 40,458 leases in 2013 alone. According to Doing Business 2015, it takes 43 days and four procedures to register property in Lesotho.

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 most notable examples include Lesotho Bank, Lesotho Flour Mills, Lesotho Airways and Lesotho Telecommunication Corporation. The government of Lesotho continues to play a pivotal role in business. This was demonstrated by the establishment of the Lesotho State Oil Company in 2010 and Polihali State Diamond Mining Company in 2014.

The government initiated the development of a public private partnership (PPP) policy in order to ensure that the engagement of private businesses is proper coordinated. During the review period, the government was heavily criticized for introducing PPP in the health care system. The government does not have the capacity to manage PPP contracts and was exposed by experimenting with health care while a tertiary hospital continued to consume a significant share of the health ministry's

Property rights
8

Private enterprise
7

budget. The government decided to suspend all PPP projects in the pipeline until such a time when it has built the capacity to manage PPP agreements.

According to Doing Business 2015, it takes 29 days and seven procedures to start a business in Lesotho. The country's score is better than the SADC average of 34.1 days and 7.8 procedures.

10 | Welfare Regime

Against the background of its least-developed country status, the government of Lesotho has neither the financial resources nor the physical infrastructure to provide a social welfare system. There is a need to meet the needs of the majority of the population who live 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 European Commission provided €45.6 million to the government to establish a Child Support Grant (CSG). This five-year project aims to help the estimated 200,000 to 300,000 orphans and vulnerable children (OVCs). In 2013, an estimated 62,174 OVCs in more than 19,000 households were reached by the project. This is, however, not a long-term solution; what will happen to OVCs in future is unclear.

According to the WDIs, Lesotho's life expectancy was estimated to be 48.8 years in 2012. Lesotho's public expenditure on health was the highest in the world in 2012 at 9.1% of GDP. However, the increase from 6.1% in 2008 can largely be attributed to the country's decision to introduce public private partnerships (PPP) in health care. The country's lack of capacity to appreciate and manage PPP contracts exposed it to an 18-year contract with Tsepong, which is a private company contracted to build and operate the largest referral hospital. The burden of the contract has contributed to an increase in the share of the recurrent budget allocated to health and social welfare from 10.4% in 2008/09 to 15.7% in the 2014/15 fiscal year.

The government continued to demonstrate its commitment to the elderly during the period under review. The non-contributory pension for people aged 70 and above increased from LSL 350 during the 2012/13 fiscal year to LSL 450 in 2013/14. It was increased a further LSL 50 in the 2014/15 fiscal year.

Social safety nets
3

The government of Lesotho subscribes to and promotes the cause of equal opportunity within its national borders. Since Lesotho is a largely homogenous state, instances of discrimination on the basis of ethnicity are extremely rare. Although the country's constitution subscribes to the principle of gender equality, 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. A challenge that remains is dealing with issues of traditional leadership, where women cannot become heirs to the chieftainship or kingdom.

Equal opportunity
6

The country has also adopted the SADC quota on the role of women in political and public life, which sets a minimum 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 government had a considerable number of women in cabinet for the period under review: 22% of cabinet positions were filled by women.

The country is experiencing a different form of inequality in access to education. Girls are more advantaged than boys. This is largely because, in a country where subsistence farming takes precedence, boys look after animals instead of going to school. According to the WDIs, the female to male ratio was 97.5%, 139.9% and 151.1% for primary, secondary and tertiary education respectively. The country's overall literacy rate stands at 75.8%. The literacy rate among women is estimated to be 85%, while the rate among men is a mere 65.5%. However, the WDIs estimate women's share of the labor force is a modest 45.8%.

Political patronage is a growing problem. People are given temporary employment based on their political affiliation. During the period under review, for example, the Ministry of Finance did not employ permanent staff. Instead, it kept some temporary employees related to the coalition partners employed beyond one year.

11 | Economic Performance

Lesotho's tax revenue has been dwindling in recent years due to the continued decline of SACU revenue, which had been the backbone of government revenue for many years.

According to the World Economic Indicators, Lesotho realized a huge decline in the FDI flow in 2013. Its FDI flow stood at 1.9% of GDP, down from 3.2% of GDP in 2012, which was itself a sharp decline from 8.1% of GDP in 2011. Lesotho has a very manageable level of public debt. However, it increased slightly from 39.7% of GDP in 2012 to 42.7% of GDP in 2013. Lesotho's GDP, \$2,335.0 million in 2013, has remained virtually unchanged from 2012 when it stood at \$2,328.2 million. GDP per

Output strength
6

capita based on purchasing power parity has increased slightly from \$2,433.3 in 2012 to \$2,576.3 in 2013.

In addition, economic growth slowed from 6.5% in 2012 to 5.5% in 2013. This was flanked by a decline in inflation from 6.1% in 2012 to 4.9% in 2013. Lesotho's current account balance reduced significantly from \$-305.9 million in 2012 to a mere \$-77.3 million in 2013. However, the country remained (a net importer) heavily dependent on importation of goods during the period under review. There was no new published data on unemployment during the period under review. The last available data was published in 2008 and showed unemployment at 25.3%. The country has struggled to create 10,000 new jobs per annum in order to meet its target of creating 50,000 new jobs by 2017.

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. Lesotho is not under any direct threat from increasing sea levels. This is largely due to the fact that the country's lowest elevation is 1,000 meters above sea level. While the country is not an important player in global climate change debate, which is reflected in the sophistication of its policies. The country's focus rather falls on coping with the effects of climate change, particularly with respect to soil erosion and agricultural produce. Because the country is mountainous, agriculture is commonly practiced on slopes with fragile soil formation. Another factor is the lack of investment in agriculture. The country's agriculture depends on rainfall despite Lesotho's water endowments.

The country is estimated to be losing about 40 million tons of arable soil per year as a result of a combination of factors, including perennial drought, overgrazing, population movement and the resultant soil erosion and destruction of biodiversity. This, in turn, has an impact on food security and the level of 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 in 2002. However, the law never came into effect and had to be revised in 2008. The major challenge here is a lack of political will. Politicians have opted to endow the National Environment Secretariat with limited authority to regulate environmental issues. The country has made international news as a result of animated engagement between environmental activists and the government on the issue of industrial pollution. The government initiated the process of implementing the African Mining Vision by incorporating its principles in the development of a national mining and minerals policy. However, the policy was not approved when the coalition government was cut short by political instability and early elections.

Environmental
policy
4

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. Education remained the single largest expenditure during the period under review, accounting for 19.3% and 18.8% of the recurrent expenditure during the 2013/14 and 2014/15 fiscal years respectively. The country introduced free primary education in 2000. Enormous challenges remain, however, with regard to the quality of education, the retention of pupils in the primary system and the transition rate from primary to secondary school. This triggered government to make education compulsory in 2009 in an attempt to ensure that parents and guardians take full responsibility for children's educations. In 2014, Lesotho abolished the Cambridge Overseas School Certificate (COSC) and introduced the Lesotho General Certificate of Secondary Education (LGCSC). This was a huge milestone as Lesotho was the only remaining country that relied on the colonial-era school leaving qualification; all its neighbors had also introduced their own. However, the issue of secondary education accessibility in a country where orphans and vulnerable children accounts for between 10% and 16% of the population remains a huge challenge.

Tertiary education in Lesotho has not changed with labor market demand. As a result, there is a huge gap between the demand for 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 this mismatch. In addition, the government has made tertiary education affordable through the provision of student loans administered by the National Manpower Development Secretariat (NMDS). Upon completion, students respectively pay 50%, 65% or 100% of the tuition fees depending on whether they enter the civil service, domestic private sector or move abroad. However, efforts by the government to invest in R&D were drastically reduced between 2011 and 2012.

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 the state's governance record. The majority of the labor force is unemployed with a relatively small formal economy dominated by the civil service. An estimated 43.41% of the population live below the poverty line of \$1.25 a day. Poverty is particularly acute in the mountainous regions, 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 to the country's unacceptably high poverty level, HIV/AIDS has had a devastating effect on both the family unit and greater social cohesion of society. During the period under review, Lesotho's HIV prevalence rate moved from third to the second highest country in the world. The government is struggling to implement HIV/AIDS programs. The National AIDS Council remained dormant for the period under review.

Structural
constraints
8

These realities have placed a tremendous burden upon a state which has neither the financial means nor the human capacity to properly address the needs of the most marginalized in society. To address these challenges in a meaningful way, the country needs protracted growth that is robust and equitable. Growth, however, has been very dependent upon SACU revenues. The country's dependence on the South African economy is a structural weakness that makes it particularly vulnerable to exchange rate fluctuations of the rand.

The small industrial base cripple the tax base and make it difficult for the government to diversify revenue sources. However, the government has failed to prioritize capital expenditure over recurrent expenditure in order to propel economic development.

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

Civil society traditions

7

The capacity of civil society was fully tested during the prorogation of parliament by the prime minister and the subsequent coup attempt. Civil society was divided based on political affiliation and tarnishing the reputations that civil society organizations had built prior to the review period. Most civil society activists do not have the experience or expertise to play an active role in Lesotho.

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.

Conflict intensity

7

The collapse of the coalition government was accompanied by extreme violence. The residences of the police commissioner and the partner of the prime minister were bombed in the early hours of 27 January 2014.

The armed forces have been dragged into partisan politics in order to help protect corrupt politicians. The attempted coup on 30 August 2012 highlighted the lack of respect for the rule of law and willingness of some politicians to employ any means necessary to attain power.

Basotho are now more divided than ever along partisan lines, with supporters of most parties seated in parliament on the one hand and those of ABC, BNP and Reformed Congress of Lesotho (RCL) on the other.

II. Management Performance

14 | Steering Capability

Question
Score

Lesotho's greatest developmental challenges are unemployment, poverty and inequality (which includes the related issue of HIV/AIDS), and insufficient governance capacity to reverse the current situation. The key development steering documents (i.e., the National Strategic Development Plan and Vision 2020), which are aligned with the United Nations' Millennium Development Goals (MDGs), articulate the government's longer vision and strategies to overcome these challenges. 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 for 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 accomplished with broad consultation. These challenges have left regulatory institutions very weak and there is virtually no evidence of monitoring and evaluation of government policies.

In all fairness, the deterioration of human development indicators must be viewed against the background of the decline of subsistence agriculture, which is related to environmental degradation and climate change, as well as the rapid spread of HIV/AIDS during this period. Both have added a significant, almost incalculable burden to the national budget over a relatively short period.

Implementation
4

According to the National Strategic Development Plan (NSDP), the government has set a target of creating at least 10,000 new jobs per annum. However, there is no progress on creating new employment opportunities for the thousands of people who join the labor force every year.

Lesotho's public services largely still lack the skills and capacity to meet the country's daunting developmental challenges within specified timelines. Despite a restructuring of public services to execute their mandate more efficiently, human resource issues, such as weakly enforced performance management systems, low salaries and, consequently, a dire shortage of critical management and technical skills, hamper government's ability to provide a comprehensive social, physical and regulatory infrastructure. This situation is exacerbated by the more attractive remuneration packages that South Africa offers to qualified individuals.

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 mere 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 policy-making, which does not offer much innovation nor the introduction of new ways of doing things. For instance, government expenditure patterns have not changed much except on education and in sectors where there are huge aid inflows. Military expenditures have been kept around 5% of the total budget which is precisely the level that existed during the military rule between 1986 and 1993.

Policy learning
4

The coalition government has not learned from the failures of previous regimes. The fact that the prime minister and deputy prime minister were also holding portfolios posed a huge challenge on implementation as well as on coordinating government business. The office of the prime minister has also been responsible for police services, defense, food and nutrition, poverty reduction, and disaster management. While the deputy prime minister also acted as Minister of Local Government.

15 | Resource Efficiency

The Integrated Financial Management Information System (IFMIS) was adopted by the government of Lesotho in 2009 with support from donors including the World Bank. Technical problems and continuous sabotage by civil servants during the review period have limited revenue and expenditure controls, budget execution, and financial accountability. As such, one major challenge for the government remains optimizing revenue collection.

Efficient use of
assets
4

The period under review saw an increase in the number of politically motivated dismissals. The prime minister has dismissed a number of senior civil servants who were appointed by the previous regime under the pretext that some were none performers or corrupt. The government also took measures such as head counting in order to solve the problem of “ghost workers” within civil service. The process, however, was cut short by the collapse of the coalition government.

The Ministry of Local Government was one of the most inefficient public institutions during the period under review. The ministry failed to ensure that a contractor, Big Bravo, completed road construction in Maseru. The minister (who simultaneously serves as deputy prime minister), Mothejoa Metsing, was investigated for an unaccounted for LSL 53 million. He petitioned the constitutional court in order to stop the investigations.

Lesotho has a very high wage bill relative to the size of its public sector. However, this did not hinder the government from restructuring public servant wages, which increased the bill even further. Lesotho's wage bill to GDP ratio of over 20% is the highest in Sub-Saharan Africa.

Eight very senior army officers are suspected in the bombings of the homes of the commissioner of police and two other civilians. The army refused to account for the acquisition and dispatch of RD 40mm HE M848 during police investigations.

Policy coordination has been very poor during the period under review. There is a need to deepen the role of policy in the development of Lesotho. It has been very challenging for every government to have a coordinated approach to policy formulation since the most important feature of politics in Lesotho is personalities not policies. Government ministries are often competing for resources and the implementation of policies. 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 the absence of leadership on the side of both bureaucrats and politicians. The office of the prime minister is not equipped with experts to provide enough guidance to other government ministries. Where ministries are competing, a decision will be based on factors such as the influence of the minister within the ruling party.

Policy
coordination
3

A major challenge for the coalition government has been that ministries have become fiefdoms for the three political parties. The prime minister's attempts to assert his authority were received by stiff resistance from his coalition partners, who countered that he did not have the power to coordinate the ministries on his own. That brought the government to a standstill as he wields all the powers afforded him by the constitution. Lesotho has been in a constitutional crisis as ministries were taking mandates from the political parties of the ministers rather than from the cabinet. The prime minister's office failed to act with resolution, as the prime minister repeatedly deferred to the coalition agreement.

Another major problem emanates from the ministries with shared responsibilities act in silos and deters progress and policy coordination. The coalition government was not well positioned to address this problem as ministers accounted to the leaders of their political parties rather than to the Prime Minister as the constitution stipulates.

The government's planned move to establish an independent national planning board did not bear fruit. However, the Ministry of Development Planning made some progress in its attempt to coordinate government programs. The Public Sector Investment Database (PSID) was launched in 2014. The PSID should provide a comprehensive, accurate, and up-to-date picture of all projects and programs in the country to enable informed decision-making and planning. The ministry also took a bold move when it established the Department of Project Cycle Management. The

department is aimed at assisting line ministries in the identification, preparation, appraisal, monitoring, and evaluation of projects and provides guidelines for these activities. The department also develops and manages the public sector investment program.

During the period under review, the government appeared determined to fight corruption and other forms of injustice. The official leader of the opposition, Monyane Moleleki, was one of the people prosecuted for abuse of power during Mosisili's regime. However, Moleleki's charges were never heard by the courts as he fell ill during the proceedings.

Anti-corruption
policy

4

The Office of the Auditor General conducted a number of ministerial audits. These kinds of audits tend to be the most important ones since they do not wait for the financial year to end. However, a major challenge of cabinet instigated audits is that they are never publicly released. The Auditor General did not publish reports, for example, on her audits of the Consulate of Lesotho in Durban, South Africa and the Ministry of Mining. The report on the Consulate, however, was mysteriously leaked to the media. Without these leaks, there is no way the media and public could have known that public resources were misappropriated.

The prime minister went public with his fight against corruption but quickly discovered that his top lieutenants were suspected of being heavily involved in corruption themselves. One cabinet minister (Thahane) was even relieved from his ministerial positions in order to face court charges. Mosito Khethisa, the Principal Secretary of the Ministry of Finance, was suspended and recalled home while attending the World Bank Group 2014 Spring Meetings in Washington.

16 | Consensus-Building

The period under review marked the darkest interval in the history of Lesotho with regard to consensus-building. All three ruling partners did not have consensus on the long-term goals of the country. The prime minister faced a vote of no confidence in parliament which was said to be sponsored by one of his coalition partners. Fearful of losing power, he opted to prorogue parliament from 10 June 2014 to 27 February 2015. Prorogation resulted in the formation of an alliance between LCD and DC in an attempt to form an alternative government. However, LCD did not leave government as their aim was to overthrow Thabane's government with a vote of no confidence. Thabane, on the other hand, stated that he acted within the law as the constitution allowed for the prime minister to prorogue parliament without stating a reason.

Consensus on goals

4

Each party turned the ministries they controlled into small fiefdoms. Ministers and government officials were doing as they please. Tenders were awarded to people who

were affiliated with the party that controlled that ministry. For example, within the ministry of health, companies that had been awarded tenders had stop operating in order for the tenders to be re-awarded to followers of the All Basotho Convention (ABC). Though rhetorically all politicians claim to embrace a free market, in practice they use the ministries in their control to advance voter mobilization strategies, hiring temporary staff and even establishing new permanent appointments based on political affiliation.

The government of Thomas Thabane collapsed due to stiff resistance from anti-democratic elements. The major challenge of the coalition government led by Thabane was a serious disagreement on whether the coalition agreement or the constitution should be used to determine the way forward.

Anti-democratic
actors
4

The minister of communications, science and technology, Selibe Mochoboroane, ignored the decree issued by Thabane relieving him of his ministerial duties. The bone of contention for Mochoboroane was that Thabane does not have the power to dismiss a minister. Mochoboroane stated that, according to the coalition agreement, Deputy Prime Minister Mothejoa Metsing was the one who had the power to dismiss him.

The most important anti-democratic actors not under control are elements within the army: Commander of the Lesotho Defence Force Lieutenant General Kennedy Tlali Kamoli ignored the government decree issued on 29 August which released him from his command of the armed forces. Kamoli led what he called an operation to disarm the police, accusing them of having planned to arm youth in order to cause havoc. Surprisingly, this operation was not authorized or approved by the prime minister cum defense minister Thabane. Coincidentally, the same early morning the residence of Kamoli's successor Lieutenant General Maaparankoe Mahao was attacked. Kamoli and Mahao then claimed to be commanders of the army at the same time until the intervention of the SADC which resulted in both men being sent on a leave of absence.

Reformers normally have little control under a coalition government. Any discontent with partners can result in the dissolution of coalition agreements, resulting in an unstable government. This gives enormous power to anti-democratic actors who go against the rule of law.

The formation of a coalition government in 2012 had demonstrated the ability of Basotho to unite regardless of political ideology. Formerly, there were two schools of thought in Lesotho: the nationalists and the congress movements. The nationalists are mainly the descendants and clan members of the founder of Basotho (Moshoeshoe I). In contrast, the congress movement has been led by the masses who wanted to have a share in government and believed that no man should inherit power. There is a well-established thesis which argues that there is no way in which people from these two groups can govern together. The period under review has 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 has been the most remarkable thing in the political history of Lesotho.

Cleavage /
conflict
management
4

However, the collapse of the coalition government due to alleged corruption, lack of consultations among coalition partners and criminal charges against people at the higher echelons of power revived the old divisive politics. The Lesotho Congress for Democracy announced a marriage with the Democratic Congress which was to give birth to a new coalition government. However, SADC intervention after the attempted coup on 30 August ensured that the coalition government between ABC, BNP and LCD lasted until the general elections in February 2015. During the election campaign, the political leadership has been as divisive as ever.

The review period was marked by a very inactive civil society. There were some exceptions where civil society organizations wrote damning reports, exposing, for example, that the health care PPP agreement between the government and Tsepong was not sustainable. The police officers called by the management of Queen Mamohato Memorial Hospital, which is part of the agreement, shot unarmed protesting workers in 2014. Activists from the Lesotho Council of NGOs were intimidated by allegations made by the press secretary in the office of the prime minister that they were taking sides when they approached the SADC Summit in order to press civil society's position.

Civil society
participation
3

The government did try to create more space for civil society to participate in policy formulation. This was the case, for example, in the development of the National Vision 2020, the Poverty Reduction Strategy (PRS) and the recent African Peer Review Mechanism (APRM) country assessment report for Lesotho (during the preparation of which civil society organizations were broadly consulted). LCN became active in consulting stakeholders as part of developing district strategic plans. The plans were aimed at helping districts implement the National Strategic Development Plan (NSDP). However, there were some civil society organizations that were denied access to information and participation such processes. For instance, the Ministry of Mining did not engage some civil society organization and trade unions in the development of its mining policy.

Lesotho has been struggling with unresolved conflicts from the past which have culminated into a very serious political crisis during the period under review. There was an attempt to assassinate former Prime Minister Pakalitha Mosisili in 2008. A report from the commission of enquiry was never published by the government of Mosisili. In addition, Deputy Prime Minister Mothejoa Metsing refused to appear before a court of law. The killing of innocent civilians by soldiers and the resulting lack of prosecution was only a recipe for greater civil unrest in years to come. They have also raised many questions about the role of the military in the silencing dissent dating back to 1994. The army has been used by those in power to kill and torture (and even rape) civilians during the political unrests that followed the 2007 general elections; these were also never investigated.

Reconciliation
2

The country does not have a clear approach for dealing with past injustices. The formation of the coalition government in 2012 provided an opportunity for Basotho to fully investigate the injustices of previous governments, but the leadership ignored calls to establish a commission to investigate and facilitate national reconciliation.

Some of the injustices predate independence. The most commonly referenced by congress parties are the atrocities that followed the declaration of a state of emergency in 1970. The opposition BCP was forced to operate under ground and its leader Ntsu Mokhehle was forced into exile. Political leadership sometimes use distorted accounts to manipulate memories of historical injustices as a political weapon against opponents as a way of seeking sympathetic votes.

The attempted military coup on 30 August and the attack on police stations by the army which resulted in the death of one police officer was one of the lowest points during the period under review. To make matters worse, the country has not established what really happened on 30 August 2014. It has yet to be seen whether investigations will follow.

17 | International Cooperation

Overseas development assistance (ODA) for Lesotho peaked during the period under review. According to the most recently available data on ODA, Lesotho is one of the countries that has experienced a massive increase in development assistance over the years. In 2010, per capita ODA received by Lesotho was \$118, 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 (MCA) approach, by which Basotho professionals are given full control of the implementation of the program without political interference. Lesotho qualified to develop a proposal for the second tier of

Effective use of
support
6

Millennium Challenge Corporation support. The government established the Lesotho Millennium Development Agency (LMDA) to take over from the MCA.

The period under review saw the government taking drastic measures such as developing a partnership policy in order to coordinate development efforts. The government also established a project implementation database which is aimed at increasing transparency in donor supported projects.

NSDP is still active but ministries work in silos, making it hard for development partners to work with ministries. Nonetheless, ministries must work using a model similar to LMDA. Otherwise, the country risk becoming isolated as development partners realize that the lack of coordination jeopardizes their development agenda.

The country's international credibility has been reduced to the level seen in 1998, when security forces destabilized a democratically elected government only for it to be restored by international intervention. The international community has again played a huge role in restoring Lesotho from ruin. The Commonwealth supported the coalition government in order to salvage what was remaining of the state. This support, however, did not bear fruit as the country was hit by an attempted coup on 30 August 2014.

Credibility
5

The country introduced national identity documentation in order to officially document citizens. This has gone a long way towards convincing the international community that national passports will only be issued to their rightful owners (unlike in the past, when people would just bribe Home Affairs officials).

The credibility and reliability of Lesotho as a partner in international relations was brought down by a series of scandals and corruption cases during 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 tendering procedures as every time when the tender was awarded there were allegations of it being fraudulently awarded. The change of regime has brought hope for many, including the international community, that Lesotho will be able to change the way in which it conducts business. Former Minister of Finance Timothy Thahane, the former Principal Secretary of the Ministry of Home Affairs Retselisitsoe Khetsi and the suspended Principal Secretary of the Ministry of Finance Mosito Khetisa are facing a LSL 30 million bribery charge which is alleged to have been paid by Nikuv International in order for it to be awarded the tender. The fact that senior government officials and former ministers have appeared in court demonstrates the willingness of the new government to bring about necessary change.

The process of reforming the economy into a market economy leaves many questions unanswered as the government pretended as if things remain the same to appeal to voters. This, however, compromised the country's preparedness to change since the

populace is often misinformed of processes. The ambiguity of the government towards reform is strongly demonstrated on issues of democracy and good governance where the government says one thing and does the direct opposite. This also affects the credibility of Lesotho.

Lesotho was the among the first countries to support the African Mining Vision (AMV) and used the framework in developing its mining and minerals policy. At the time of writing, the process of developing the policy had not been completed but was supposed to have been approved by cabinet in October 2014. The process was led by the U.N. Economic Commission for Africa.

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 Southern African Customs Union (SACU) members should build on the successes of the world's oldest customs union. This proposal seems to have been well received by SACU leaders in 2010 during its centenary celebration where head of states and governments met for the first time in a SACU heads of state forum. The question is whether Lesotho will decide to abandon the SADC route for a more realistic one within SACU. The most challenging aspect with the process of regional integration is that it has become a platform for leaders to meet annually rather than changing the lives of the peoples of Southern Africa. There is very minimal involvement of stakeholders within Lesotho. Though there is slightly more involvement when there is fragmentation within government on which ministry (foreign affairs, trade and finance) is leading the process.

Lesotho benefitted much from regional bodies during the period of political unrest. It was the involvement of the SADC, AU and Commonwealth that salvaged the country from the brink of a civil war. The regional organizations helped to restore security after the military had forced the prime minister to flee to neighboring South Africa.

Regional
cooperation
6

Strategic Outlook

Lesotho as an independent state is at a crossroads. The fact that political factions attempted a coup on 30 August 2014 highlights the need for sweeping reforms to restore democratic rule in Lesotho. The country was set for general elections on 28 February 2015. Whatever party or coalition of parties win the election will face the mammoth task of rebuilding public confidence in state institutions. Lesotho has been through a serious constitutional crisis during the period under review. It is therefore imperative that the new government reinstall constitutionalism in Lesotho. This may require a new constitution altogether, one which takes into account all of the challenges faced by the country since 1993.

The coalition government has exposed the weaknesses within the current state machinery. The future of Lesotho depends on the ability of the new government to be able to introduce sweeping reforms. Failure to do so could result in a complete collapse of the state. The new government cannot afford to ignore the fact that Lesotho has been caught between selective justice, on the one hand, and the appeasement of felons and mutineers, on the other hand.

The winning party or coalition of parties will serve to conceal or expose what transpired on the 30 August 2014. If SADC mediation ended with the holding of general elections, then criminals would be granted freedom to continue to suppress and intimidate authorities that attempt to bring rule of law to the country. The failure to deal with factions within Lesotho's Defence Force would ensure that the country again plunges into an unstable future. Unless Lesotho embarks on a reconciliation process, there will always be a high likelihood of another coup d'état in the tiny kingdom.

Lesotho's economic development depends heavily on the country's ability to generate its own electricity. The country's reliance on neighboring South Africa for electricity only serves to slow down economic growth in the short to medium term. The decision on whether to go with a wind power project or include a hydropower component into the second phase of the Lesotho Highlands Water Project will define the economic prospects of Lesotho.

The mining sector will continue to play a major role in the economy of Lesotho. Even so, the country should seriously invest in commercial agriculture and tourism in order to create a minimum of 10,000 jobs per annum. Investment in research and development can be the only meaningful way for ensuring that the manufacturing sector takes off. However, this should be accompanied by restructuring the National University of Lesotho and upgrading Lerotholi Polytechnic to a university of technology.

The judiciary is on course to finally serving the nation without fear or favor. A major challenge, however, remains the fact that constitutional court decisions are still appealable. The new government should ensure that there is clear separation of power between the legislature, judiciary and executive. The fact that ministers are also members of parliament weakens the ability of the

legislature to play an oversight role. The appointments of Commander of the Lesotho Defence Force, Governor of the Central Bank, Auditor General, Director of Public Prosecution, Attorney General, Ministers and Principal Secretaries should be approved by portfolio committees of the National Assembly in order to ascertain the independence of those institutions from the executive. That would reduce political interference and reduce the incidence of political appointments occupying critical positions.