

**AN ANALYSIS OF THE POLICY FRAMEWORK FOR INVESTMENT IN
INFRASTRUCTURE OF THE KINGDOM OF LESOTHO AND ITS IMPACT ON
TOURISM-RELATED INFRASTRUCTURE**

CAPSTONE PROJECT FINAL REPORT

MASTER OF PUBLIC AFFAIRS, SCIENCES PO, PARIS

AUG 9, 2011

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This report is the result of the work carried out for the Capstone Project by Master degree students of the MPA programme of Sciences Po, Paris.

A Capstone Project is a requirement for all second year MPA students. It is a client-based consultancy whose subject is a concrete policy issue and that is carried out by small groups of students (between three to five students). It is based on a series of parallel and complementary activities: research, tutoring, policy study visits, and a professional outcome or “deliverable”.

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The authors are responsible for the choice and presentation of the facts contained in this report and for the opinions expressed therein, which are not necessarily those of the MPA and do not commit the Programme.

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ACRONYMS

ABC	All Basotho Conference
ACP	African, Caribbean and Pacific Group of States
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
BCP	Basotho Congress Party
BOS	Bureau of Statistics, Government of Lesotho
CA	Cotonou Agreement
CET	Common External Tariffs
CHAL	Christian Health Association of Lesotho (CHAL)
CMA	Common Monetary Area
CPI	Consumer Price Index
CTB	Central Tender Board
DCA	Department of Civil Aviation
DFI	Development Finance Institution
DOE	Department of Environment
DTIS	Diagnostic Trade Integration Study
EBA	Everything But Arms Agreement
EIA	Environmental Impact Assessment
EIF	Enhanced Integrated Framework
EPA	Economic Partnership Agreements
EU	European Union
FIRST	Financial Sector Reform and Strengthening
FIP	Finance and Investment Protocol
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNI	Gross National Income
GSP	Generalized System of Preferences
IDI	Information and Communication Technology Development Index
IF	Integrated Framework
IFI	International Financial Institution
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
ILO	International Labour Organisation
IMF	International Monetary Fund
IPPF	NEPAD Infrastructure Project Preparation Facility
ITU	International Telecom Union
LAE	Lesotho Association of Employers
LCA	Lesotho Communications Authority

LCCI	Lesotho Chamber of Commerce and Industry
LCD	Lesotho Congress for Democracy
LIA	Lesotho Institute of Accountants
LDCs	Least Developed Countries
LHDA	Lesotho Highlands Development Authority
LHWP	Lesotho Highlands Water Project
LLDCs	Landlocked Least Developed Countries
LLSS	Lesotho Lowlands Supply Scheme
LNDC	Lesotho National Development Corporation
LRA	Lesotho Revenue Authority
LSL	Maloti
LTDC	Lesotho Tourism Development Corporation
LWSPU	Lowlands Water Supply Project Unit
MCA	Millennium Challenge Account (Lesotho)
MCC	Millennium Challenge Corporation
MDGs	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
MHA	Ministry of Home Affairs, Government of Lesotho
MITCM	Lesotho Ministry of Industry & Trade, Cooperatives & Marketing
MLE	Ministry of Labour and Employment, Government of Lesotho
MNR	Ministry of Natural Resources, Government of Lesotho
MOFDP	Ministry of Finance and Development Planning, Government of Lesotho
MOHSW	Ministry of Health and Social Welfare, Government of Lesotho
MPA	Master of Public Affairs, Sciences Po
MTEC	Ministry of Tourism, Environment and Culture, Government of Lesotho
MTICM	Ministry of Trade and Industry, Cooperative and Marketing
NDP	National Development Plan (Lesotho)
NEPAD	New Partnership for Africa's Development
NES	Lesotho National Environment Secretariat
NEC	Lesotho National Environment Council
NIU	National Implementation Unit
NSDP	National Strategic Development Plan
ODA	Overseas Development Assistance
OECD	Organisation for Economic Co-operation and Development
OSS	One Stop Shop
PFI	Policy Framework for Investment
PIDA	Programme for Infrastructure Development in Africa
PPAD	Procurement Policy and Advice Division
PPR	Public Procurement Regulations
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Plan
PSIRP	Public Sector Improvement and Reform Programme
PTAs	Preferential Trading Arrangements

RUFIP	Rural Financial Intermediation Programme
SACU	Southern African Custom Union
SADC	Southern African Development Community
SMME	Small, Micro and Medium Sized Enterprise
SPV	Special Purpose Vehicle
SSA	Sub-Saharan Africa
TB	Tuberculosis
TDCA	Trade, Development and Corporation Agreement
TRI	Tourism-Related Infrastructure
TRIMs	Trade-Related Investment Measures
TRIPs	Trade-Related aspects of Intellectual Property Rights
TRTA	Trade-Related Technical Assistance
TSA	Tourism Satellite Account
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
UNWTO	United Nations World Tourism Organization
US	United States of America
WASA	Lesotho Water and Sewerage Authority
WEF	World Economic Forum
WFP	World Food Programme
WTO	World Trade Organization
ZAR	South African Rand

1. Acknowledgements

Since the commencement of this Capstone Project (“Project”), the Basotho and other inhabitants of Lesotho whom the Project team encountered together with scholars, researchers, and practitioners who engage in the context of development in Lesotho have envisioned our understanding about the country and driven our passion about the Project. Lesotho is not only a beautiful country full of natural scenery and landscapes, but it is also a place where we experienced warmth and diligence. Official meetings and interviews as well as informal interactions with the local community have contributed to our findings in the report. Government officials, members of the donor community, private sector representatives, journalists and academics we met have given us valuable insights about the challenges and opportunities of Lesotho. For them, we are immensely grateful.

This Project would not be possible if it were not for the leadership and encouragement of Professor Dr. Raymond Saner and Marie Sudreau. In their relentless pursuit of noble causes, their vision and stamina provided guidance and mentorship to our work.

We are grateful for the able coordination and directorship of the Masters of Public Affairs (MPA) at Sciences Po. The Project is the embodiment of a progressive and holistic program that places practical experience and academic excellence as cornerstones of a well-rounded education. Without their foresight, the Project would not have been actualized.

We would like to express our sincere gratitude to the officials and representatives within the Government of Lesotho, specifically to the Ambassador and Permanent Representative of the Mission of the Kingdom of Lesotho in Geneva, His Excellency Ambassador Dr. Mothae A. Maruping, and the Minister of Tourism, Environment and Culture, the Honorable Mrs. ‘Mannete ‘Malethole Ramaili, as well as Mr. Joshua Setipa, Counsellor of the Office of the Director General of WTO. Their insightful input, assistance, and encouragement were sources of inspiration for this endeavor.

Thank you also to the input and comments from Husam Abu Dagga, Jaafar bin Ahmad, Dr. David P. Ambrose, Brian Baltimore, Jean-Francois Baylocq, Andre Beukes, Alka Bhatia, Jason Chen, Thea Chiesa, Colin Clark, Nancy Cockerell, Alfredo Cuevas, Stanley Demane, George Dragnich, Alain Duperyras, Dr. Ekkehard Ernst, Clark Esau Clark, Dr. Pierre Ewencyk, Dr. Magdi Farahat, Carla M.N. Faustino Coelho, Mario Filadoro, Frederic Frantz, Massimo Geloso-Grosso, Maria Carmen Rial Gerpe, Stephen Gill, Thuso Green, Fako Hakane, Geoffrey Hamilton, Adrien Haye, Conrad Hendry, Dale Honeck, Sarah Jurreit, Josephine Kalinauckas, Masebina Kao, Shigehisa Kasahara, HweeWee Kee, Martine Julsaint Kidane, Derick Knoetze, Sari Laaksonen, Wolassa Lawisso Kumo, Fabrice Leclercq, Riaan Le Roux, Refiloe Lehohla, Laura Lindoro, Dr. Victor Litihakanya, Chris Lotter, Lesoetsa Makafane, Makuena, Hon. Mannete ‘Malethole Ramaili, Mamhlongo Maphisa, Thabo Maretlane, Rose Marie, Lerato Matheka, Mazhaidy Mazlan, Lympho Masilo-Motsamai, Matsimane, Bernhard Meyer, Martin Meyer, Lehlohonolo Moea, M Moeketsi, Thato Mohasoa, Mokhosi, Bokang Montsi, Isaac Morienyane, Motebang, Teboho Mothebesoane,

Edmund Motlatsi Motseki, Keletso Motopo-Matli, Samuel Mphana, Dambudzo Muzenda, Jack Nair, Norman Dzulkarnain Nasri, Tebello Ntelo, Tankiso Nteso, Mokitinyane Nthimo, Catherine Commander O'Farrell, Shin Ohinata, M.C. Pama, Simon K. Phafane, Patrick Portes, Eilizabeth Power, Tumelo Rabolets, Sehlabaka Ramafikeng, Leslie Reed, Michael Roberts, Dave Rose, Eva Ruganzu, Olivia Ruggles-Brise, Keratile Thabana, Tebello Thoola, Teboho Tsekoa, Liotla Tshehlo, Clix Salman, Gillian Saunders, Alexander Sharp, Tabarruk, Dorothy N. Tembo, Thamar, Tanka Tlelima, Tiina Turunen, Dr. Prithi Viraj, David Vivas Eugui, Mansor Shah Wahid, Wolfwang Weinz, and Dr. Lichia Yiu.

Finally, we thank the support from our friends and families, together with Wan Nurshima Wan Jusoh, Sonny Jumbo and Hafizi Ghazali for their kind hospitality during our stay in South Africa and Lesotho.

Capstone Project Team, Trade and Investment for Development
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26 April 2011

PART I - INTRODUCTION

2. Introduction

This Project analyzes the framework of investment in the infrastructure sector. Infrastructure development is an important element for economic development, especially for landlocked least developed countries (LLDCs) due to higher transportation costs entailed in trade in goods and development.¹ In that vein, the Capstone Project (“the Project”) sought answers for the effectiveness and efficiency of the policy framework for investment infrastructure in the Kingdom of Lesotho (“Lesotho”), an LLDC in Sub-Saharan Africa (SSA). The objective of the Project aimed to understand is the impact of trade and investment policy on infrastructure development in Lesotho and its impact to tourism-related infrastructure (TRI) and the consequence to tourism development.

The regulatory and institutional settings towards investment in and development of infrastructure is the focal point of the Project. Throughout the process of analyzing national policies, public and private investment activities in TRI, as well as the challenges and opportunities in implementing investment projects, the Project identifies key areas under the **investment framework of Lesotho** that hinge on its attractiveness to investment in TRI. These include land and trade policies, deficient capacity in human resources and know-how due to HIV/AIDS, coordination among development agencies, the Government of Lesotho and private sectors, as well as other limitations arising from the regional dynamics.

PART I: Chapter 3 of this report touches upon the relevance of the Project and highlights the landlocked and underdeveloped situation of Lesotho that faces challenges of developing essential infrastructure, attracting Foreign Direct Investment (FDI), vitalizing the private sector participation and exploring the spillover effects of tourism and infrastructure development as a way towards poverty reduction and its eventual eradication.

PART II: Chapter 4, *Research Methodology*, explains the research hypothesis, the scope of the Project and the methods involved in the research and compilation of this report. The roles of the donor community, government officials and regulatory authorities, private sector agents including business associations, and members of the civil society, in the context of the research are defined and elucidated upon.

PART III: Chapter 5 presents a brief highlight of the development scenario and challenges in Lesotho. A more detailed outlook of the fragile economy and aid dependence of Lesotho are covered in **Chapter 6**.

Chapter 7 describes the context of trade and investment framework in Lesotho by reviewing bilateral and multilateral trade and investment agreements. **Chapters 8** addresses the efforts of the Government of Lesotho and the international community in analyzing and addressing

¹ Stone, J.I. (2001). “Infrastructure Development in Landlocked and Transit Developing Countries: Foreign Aid, Private Investment and the Transport Cost Burden of Landlocked Developing Countries”. Meeting paper, Fifth Meeting of Governmental Experts from Landlocked and Transit Developing Countries and Representatives of Donor Countries and Financial and Development Institutions, New York. 30 July – 3 August 2001.

development challenges in Lesotho, as reflected in namely, Lesotho's National Vision 2020, Poverty Reduction Strategy Paper (PRSP), Enhanced Integrated Framework (EIF) by way of Diagnostic Trade Integration Study (DTIS) and the Action Matrix.

PART IV: Chapter 9 looks into the investment environment in Lesotho while **Chapter 10** focuses on the existing TRI development in the country. Infrastructure development is an important component of economic advancement in LDCs, and the existing infrastructure gap in Lesotho is regarded as a key development challenge. These Chapters review the key TRI, namely roads, information and communication technology (ICT) establishment, health-related infrastructure, as well as water and sanitation in Lesotho.

Chapter 11 looks into the legal and policy framework of investment in infrastructure in Lesotho.

PART V: The Project has conducted a detailed analysis on investment in TRI in Lesotho that is summarized in **Chapter 12**. Additionally, the Chapter examines the role of donors' aid in TRI development in the country, the inter-connectedness of TRI development and tourism. Key observations and recommendations to enable investment in TRI are provided in the latter part of the Chapter.

Chapter 13 explores PPPs as a potential approach to induce public-private collaboration in investing and managing TRI in Lesotho. In addition to donors' efforts such as the MCA to renovate and equip hospital and clinic facilities in Lesotho, the current PPP project to revamp health-related infrastructure and services in Lesotho is a valuable case to learn from. The Project comes up with an "*Implementation Checklist*" for PPP projects in Lesotho and it can serve as an entry point to invite further discussion among the Government of Lesotho, donor community, private investors, local community and other stakeholders.

PART VI: Chapter 14 and 15 conclude the Project with key policy recommendations and implementation strategies. The Project categorizes key implementation areas including formulation of development strategies and plans, policy coherence, effective implementation and capacity building. A final remark is denoted on a sustainable cooperation strategy Lesotho should adopt to steer mutual cooperation with South Africa.

PART VII: As a significant facet of these recommendations, the Project has taken upon the task of updating the current PRSP and engaged in a review of the DTIS, incorporating strategies for the development of Lesotho's capabilities in inducing investment in TRI.

The Capstone project is a client-based research project for the Centre for Socio-Eco-Nomic Development (CSEND) and in partnership with the Directorate for Financial and Enterprise Affairs (DAF) of the Organization for Economic Co-operation and Development (OECD) and the Enhanced Integrated Framework (EIF) Committee. This study is conducted as part of the final year of the Master of Public Affairs (MPA) at Sciences Po, Paris.

3. Relevance of the Research Project

Infrastructure development in LDCs is in the epicenter of the development debate. How has the scope of action of the donor community been aiding development in LDCs? What is the role and responsibility of the private sector? Are the national governments in LDCs leveraging on international effort to facilitate their national development, especially in infrastructure-related development? These are just a few questions underlying the debate behind infrastructure policy within the development community.

The spillover effects that are provided by infrastructure development are not only important for LDCs' sustainable development, but also its long-term integration in the globalized economy. At the national level, investment in infrastructure can usually enable regional and sectoral enhancement, such as the provision of opportunity for tourism development in more remote areas, which can in turn develop job opportunities for local communities and foster poverty reduction and cross-sectoral economic development.

Once in Lesotho, it is not unusual to hear that the country is “*a land of missed opportunities*”. Lesotho is a landlocked least developed country (LLDC). The development challenges for the Basotho² are to identify key drivers of economic enhancement that reduce poverty, notwithstanding its geographical limitations. The interconnectedness of infrastructure development to other sectors of the economy is a facet of great importance due to Lesotho's position as a landlocked country. Lesotho has a deficit in private sector participation and that is partially due to insufficient and below-standard infrastructure.³ Mining, agriculture and manufacturing – sectors that together contribute to nearly 40% of Lesotho's GDP rely heavily on adequate infrastructure for both market access and consistent operations. Most, if not all of the economic sectors rely upon infrastructure for expansion and investment, as well as an economic incentive for private sector participation.

In Lesotho, the slow private sector development and the ongoing public fiscal constraints place greater emphasis on the need for a cohesive investment framework for infrastructure. There is over-dependence on the public sector to invest in basic infrastructure and provide related services. Lesotho is currently undergoing significant economic transformations. Rearrangements in the country's revenue structure, such as decreasing SACU revenue inflows, potential termination of AGOA, rising commodity prices and the volatile global economy would inflict Lesotho with additional fiscal challenges.

While Lesotho possesses development potential for tourism with its natural landscape, water resources, snowy mountains, rich and unique culture, this Project analyzes how investment policy and public governance of infrastructure development could potentially impact its TRI and tourism industry in Lesotho. The Project provides suggestions to the Government of Lesotho, while the country is still in the process of devising its forthcoming National Development Plan (NDP). Additionally, the findings would contribute to future research on development strategy of other LDCs.

² People indigenous to Lesotho.

³ Bogetic Ž (2006).

PART II - METHODOLOGY

4. Research Methodology

RESEARCH QUESTION

Infrastructure development (e.g. a high-quality road network) is a fundamental asset to facilitate the development of a landlocked country, such as Lesotho. While infrastructure development mostly involves large initial capital inputs and is closely related to the consequences of state development, the governmental policy framework of investment in infrastructure is crucial. International organizations have looked closely into these correlations. For example, UNCTAD attributes low levels of investment in LDCs as perpetuating a cycle of poverty that becomes insurmountable due to a lack of investment. This is known as the *poverty trap*, and the “[n]eed to increase public investment not only to meet certain critical needs but also to trigger a rise in private (foreign and domestic) investment, which is lacking due to poor infrastructure, ineffective services delivery and insufficient availability of skilled labour”.⁴

Accordingly, this report sought to answer the following question:

Is the overall policy framework for investment in infrastructure in Lesotho efficient and effective in enhancing the national strategy for development with respect to tourism-related infrastructure (TRI)?

Fifteen sub-questions are formulated and analyzed throughout the report not only in order to test the aforementioned question, but also to add onto a more comprehensive study of policy frameworks in LDCs. These questions were further categorized as Meso and Micro-levels and addressed investment practices, stakeholder engagement, and international and domestic trade, among others.

Meso-Level Questions – Impact of Institutional and Regulatory Framework

Investment Framework in Infrastructure

- How can LDCs, such as Lesotho, effectively attract and implement investment in infrastructure?
- How can the framework for investment in infrastructure be improved?
- Are there key elements lacking in the institutional and the regulatory frameworks for investment in infrastructure?
- Does the existing policy framework for investment in infrastructure entail problems for investors, both domestic and foreign?

Stakeholders' Coordination & Aid Effectiveness

- Is the private investor and donor relationship sufficiently coherent to enable an efficient and effective development of Lesotho's tourism-related infrastructure (TRI)?
- Is the relationship between the Government of Lesotho and the private sector efficient and effective in facilitating trade and investment?
- Given the diverse mandates of international donors, private investors and national government, how can all the development efforts be better coordinated?
- How does aid assistance channel infrastructure development in Lesotho?
- Is Public-Private Partnership possibly more effective in investment projects in the

⁴ UNCTAD (2011).

infrastructure sector? What is the structure of Public-Private Partnership in the country?

International Trade and Donor Agreements

- What do key donor agreements including Poverty Reduction Strategy Papers (PRSP), Diagnostic Trade Integration Study (DTIS) and the Action Matrix represent in terms of investment in infrastructure?
- What does Aid for Trade initiative, such as the Enhanced Integrated Framework (EIF), mean to investment in infrastructure in Lesotho?
- Are there other inputs in addition to international trade and donor agreements that have an impact on Lesotho's investment policy?
- How substantial is international trade and donor activities in shaping Lesotho's policy framework?

Micro-Level Questions – Tourism-related Infrastructure & Tourism Development

- Would better quality investment policy, institutional and regulatory frameworks in Lesotho enhance TRI and tourism development?
- Would a better-coordinated arrangement between the National Development Plan (NDP) and the investment effort led by donors and private sectors on TRI generates greater benefits to local growth?
- Are relatively low levels of foreign and domestic investment in TRI caused by too many bureaucratic regulations?
- Does the investment policy framework in Lesotho require prohibitively high levels of local ownership, which prevents foreign investment in TRI?

SCOPE AND LIMITATIONS

TRI-Focused

The Project sought to put forth a more comprehensive analysis of LLDCs and the challenges that they face, most of all, development of infrastructure. Through an integration of instruments and evaluation methodology already in use by the international community, it is possible to attain an understanding via this Project of the development challenges faced by Lesotho.

The Project focuses on investment in infrastructure as a primary driver to facilitate economic development and poverty reduction in Lesotho. TRI is chosen as a case to look into investment in infrastructure in Lesotho, since the Lesotho National Vision 2020 highlights tourism as a potential service industry to develop, and that lack of TRI is proven a key challenge for tourism development in many LDCs. TRI in the Project includes both “hard” and “soft” infrastructure that relates to tourism activities.

Scope of Tourism-related Industry Sectors

Because tourism is a cross-industry sector involving forward and backward linkages to other industry sectors, the Project focuses more on directly linked industry sectors in the context of Lesotho including agriculture, catering and accommodation, retail sale, tour operator business and credit financial services to illustrate the linkages and leakages between investment in TRI and tourism development. There is room for further study in other tourism-related industry sectors such as car-rental and airline business, ethnic garment, insurance etc.

The Project does not make linkages of investment in TRI to other major sectors with FDI participation in Lesotho, namely garment and textile, mining and other manufacturing industries.

Updates of Development Frameworks

The Project highlights four official documents in **Chapter 8** that steer Lesotho's development. While the frameworks guide the country to devise more business-friendly policy framework to attract FDI and stimulate national economic growth, the documents need further updates. The Project applies valuable findings from the research and highlights the relevance of the DTIS and the PRSP as useful instrument to enhance the policy framework for investment in TRI. Additional information and data updates of the work of this Project would enable the two documents to be more applicable to the development context of TRI in Lesotho.

Limited Number of Players

The scope of Project findings is limited by the relatively small number of players in investment in Lesotho. Further research with the perspectives of other potential investors in TRI in the region can supplement the findings of the Project. At present, FDI in Lesotho mostly comes from South Africa, though a portion of such is originated from other countries via South Africa. It is beneficial to assemble information regarding the opportunities and challenges in investing in Lesotho from the investor community in other Southern African countries such as Botswana, Swaziland, Namibia, Zambia and Zimbabwe.

A Comprehensive Value-Chain Analysis of Tourism

A value-chain analysis is considered useful in analyzing an industry-specific problematique. The Project has emphasized on a microscopic examination of the relationship between investment in TRI infrastructure and general infrastructure development in Lesotho. The research can be further expanded with a more comprehensive scrutiny in the tourism sector using a value-chain analysis. It would help bridge an extensive correlation between policy framework for investment, investment, infrastructure development and tourism development along the supply chain.

Specific analysis with a financial and accounting approach to look at how policy framework for investment and actual investment flow in Lesotho, particularly in TRI would be complementary to what has been found in the report.

Limitation to Compare Investment in TRI Across the Border

Similar research on investment in TRI in the SACU and the SADC countries, where many of them have prioritized tourism as a niche sector for economic development, can provide a comparative approach to complement the findings of the Project.

Data Collection

Data collection is a challenge in LDCs, and Lesotho is of an exception. While some of the official data are missing and unavailable, this research relies on both rigorous analysis of the data accessible by the public as well as the substantial qualitative data collected and recorded in the field. The Project encounters mismatched data and based on Project team's on-site observation, the provision of data and analysis in the Report may have room of further supplementation. While complete, reliable, coherent and up-to-date data are not necessarily available, the Project, at some points, has to rely on old documents with rather obsolete data. Some of the research materials are written in Sesotho, and due to the language barrier, the Project is not able to include some of these valuable sources.

RESEARCH METHODS

Investment in TRI in an LDC can stream from public spending, donors' assistance as well as other private sector investments. The Project examined the investment framework in TRI in

Lesotho and collected first-hand information from the various stakeholders involving in investment in TRI. Multi-track research methods were applied in the Project to facilitate data collection. The Project study has been built on semi-structured interviews based on sets of customized questionnaires targeted to various stakeholders (Annex I) including government officials and agency representatives, members of the donor community, private investors and entrepreneurs in Lesotho, academics, NGOs, as well as local media. To provide an ample perspective of the existing development situation and challenges in Lesotho, particularly in investment in infrastructure and tourism development, a comprehensive literature review of primary sources on the subjects was carried out during the eight months that preceded data collection on the field.

Formal semi-structured interviews were conducted with a total of 103 interviewees, in addition to other informal discussion and exchange with representatives and stakeholders of the development community in Lesotho. A review of the current legislations as well as the official international trade, donor and bilateral cooperation agreements has also aided the analysis of the research.

Significant part of the process went into identifying and conceptualizing TRI in Lesotho and the implications to tourism development. The literature defines TRI in different ways, and the Project opted for a distinction between “hard” and “soft” infrastructure related to the current stage of tourism development in Lesotho and incorporated this approach into the analysis of Lesotho’s policy framework for infrastructure.

Personal observations and inferences are included in the analysis and in the recommendation content in the following chapters.

SUBJECT OF ANALYSIS

- International and regional organizations
Including the donor community

- Government of Lesotho
Including ministry officials, agency executives and representatives, regulatory bodies and project managers

- Private Sector
Including business executives and entrepreneurs, commercial and business associations

- Civil society organizations
Including academia, media, interest groups

PART III – DEVELOPMENT CHALLENGES IN LESOTHO

5. The Landlocked Setting and Dependence on South Africa is a Challenge

GENERAL OVERVIEW

Lesotho is a mountainous country completely surrounded by the Republic of South Africa (“South Africa”). The mountainous landscape limits the availability of arable land, and 9.9% of the total area is available for agricultural activities (2,731 km²). Forests cover approximately around 0.3% of the country and there are 30 km² of irrigated land, of which 0.9% of all cropland is irrigated.⁵

As a landlocked country within South Africa, its geographical nature results in a close collaboration between Lesotho and South Africa in areas including but not limited to economic development, resource allocation, infrastructure development in transportation as well as tourism development etc. A substantial number of the Basotho working population works in South Africa, and the value of remittance from migrant workers accounts for a substantial portion of the GNI. Nearly all the flow of goods and services as well as commuters and tourists has to pass through South Africa in transit to and from Lesotho.

The official population of Lesotho grew at an average annual rate of 0.08% between 1996 and 2006, and reached 1.88 million.⁶ The low population growth reflects the net effect of declining birth rates since the early 1990s, the rising death rates due to the HIV/AIDS pandemic as well as continuous migration of the working population. The population density is of an average of 65 people per km², with a higher concentration in the lowlands and the lower concentration in mountainous areas. About 23% of the population lives in urban areas. Poverty increased and amplified the morbidity and mortality in Lesotho. Average life expectancy at birth fell from 59.9 years in 1992 to 45.4 years in 2009.⁷

⁵ IFAD (2011).

⁶ Lesotho Statistical Yearbook (2010).

⁷ World Bank (2011g)

Box 5.1 - Lesotho: Highest Lowest Point and Districts



Lesotho is one of only three countries in the world within another country (the other two are San Marino and Vatican City). The total area of Lesotho is 30,355 km² and situated at an altitude of 1,000 m above sea level.⁸ For that reason, Lesotho has been referred to “*the Mountain Kingdom*”, “*the Switzerland of Africa*” and “*the roof of Southern Africa*.” The highest point is at 3,500 m and the lowest point is at 1,388 m, which is also the highest low point of any country. The country has four ecological zones that characterize its topography: mountains, foothills, lowlands and the Senqu River Valley, which runs from east to west across Lesotho. As a landlocked country, Lesotho relies heavily upon Port of Durban and Port Elizabeth in South African territory for any imports and exports transit.

Modified from www.mapsharing.org

The climate is temperate due to its altitude with temperatures ranging from -10°C to 32°C. Snow and avalanches are common occurrences in the mountainous area during winter season (from May to September). The annual precipitation is between 700 mm and 800 mm but Lesotho has erratic rainfall, which leads to periodic droughts that adversely impacted crop production and have significant implications for food security.

Lesotho is administratively organized into 10 districts.

District	Capital	Area (km ²)	Population (2006)
Berea	Teyateyaneng	2,222	250,006
Botha-Bothe	Botha-Bothe	1,767	110,320
Leribe	Hlotse	2,828	293,369
Mafeteng	Mafeteng	2,119	192,621
Maseru	Maseru	4,279	431,998
Mohale's Hoek	Mohale's Hoek	3,530	176,928
Mokhotlong	Mokhotlong	4,075	97,713
Qacha's Nek	Qacha's Nek	2,349	69,749
Quthing	Moyeni	2,916	124,048
Thaba-Tseka	Thaba-Tseka	4,270	129,881

Source: Lesotho Bureau of Statistics⁹

LESOTHO'S INDEPENDENCE AND RELATIONSHIP WITH SOUTH AFRICA

Basotho have a unique culture and distinct historical roots that are considered important when assessing the ongoing development of Lesotho and the co-existing relationship with South Africa. The history and geography of Lesotho present structural problems from its conception. Lesotho became independent in 1966 surrounded by apartheid-run South Africa. As South Africa became economically isolated from the international markets due to global sanctions, Lesotho suffered many of the consequences of underdevelopment.

⁸ Lesotho Statistical Yearbook (2010).

⁹ Lesotho (2007b).

In 1868, after years of conflict with the Boers ruling Orange Free State, Lesotho became a part of colonial British territory under the leadership of King Moshoeshoe I. The Convention of Aliwal North defined the boundaries of present day Lesotho in 1869, putting an end to conflict between the Boers and the Basotho, and the British provided political leverage for the Basotho. Lesotho was granted independence in 1966, while retaining its status as a member of the Commonwealth. The constitutional referenda instituted the monarchy without any executive or administrative powers (“constitutional monarchy”), and the country adopted the established framework of Parliamentary system after independence.¹⁰

The first independent government ran by the Basutoland National Party (BNP) managed to address significant bottlenecks of development during its first mandate. These included the establishment of better transport that connected many of the rural population to the rest of the country, including the first national major tarred road, the “Leabua Highway” (later renamed the Main North Highway), the expansion of mining agreements with foreign companies, the establishment of the Radio Lesotho, expanding communications and electricity systems.¹¹

On the other hand, the newly formed Lesotho saw the emergence of new and complex challenges. Transit of people and goods has then become more stringent. Referred as “*alien Bantu*”, Basotho faced increasing difficulties in working in South Africa since independence, and this created pressure in the job market in Lesotho as well as the working rights of Basotho women in South Africa.¹² The landlocked nature of Lesotho within South Africa has resulted in both a “voluntary” and an “involuntary” interdependence in terms of economic development that remains valid at present.

The years that followed the independence of Lesotho did not see the influx of large firms or the development of niche markets that could compete in a regional or international scale. Economic policy was centered on self-sufficiency through import substitution. In turn, much of the industrial development that could have made it possible for Lesotho to benefit from more open and integrated market economy did not happen. The disadvantageous location of the country has hindered its economic development, and Lesotho has to rely more and more on foreign aid. The international community saw in Lesotho a democratic enclave surrounded by a South Africa ruled under the apartheid regime. Textile industry is currently the most important manufacturing industry in Lesotho, and yet the sector did not take off until more important foreign investors considered investing in the country two decades after independence, amid a fairly opened trade regime since independence.¹³

Political stability is regarded as an important pre-requisite to attract foreign investors for LDCs like Lesotho. The military rule in Lesotho since the *coup d’etat* in 1986 caused a challenge to its investment climate and its economic development. The 1998 social unrest was another incidence that Lesotho learnt how national instability could cost its momentum to grow.

THE POLITICAL AND SOCIAL SYSTEM IN LESOTHO

Lesotho is a constitutional monarchy. King Letsie III is the constitutional monarch and the Head of State while Prime Minister Pakalitha Mosisili is the current head of Government who has the executive authority for government decisions and national development. The Senate

¹⁰ Gill (1983):218

¹¹ Ibid.

¹² Ibid.

¹³ Gill (1983): 233

and National Assembly are the two legislative bodies. The Basotho culture of chieftainship has been addressed within the legislative system under the Chieftainship Act.¹⁴ Out of 33 seats, traditional chiefs currently occupy 22 in the Senate, and they still play a role in the political system. Apart from the legislative houses, the national constitution also incorporates regulatory bodies such as the Office of the Ombudsman to monitor the performance and effectiveness of national initiatives.

Specific functions across 19 ministries compose the Government of Lesotho. The Ministry of Finance and Development Planning (MOFDP) is responsible for the strategic planning of overall national development. It is also the main agency to coordinate and manage disbursement of aids and loans from donor communities together with international financial institutions, in addition to its function to manage public finance and the national fiscal policy.

The Government of Lesotho is divided into 19 ministries:

- Agriculture and Food Security
- Communications, Science and Technology
- Defense and National Security
- Education and Training
- Employment and Labour
- Finance and Economic Planning
- Foreign Affairs and International Relations
- Forestry and Land Reclamation
- Gender and Youth, Sports and Recreation
- Home Affairs and Public Safety, and of Parliamentary Affairs
- Health & Social Welfare
- Industry and Trade, Cooperatives and Marketing
- Justice and Human Rights and Correctional Services
- Law and Constitutionals Affairs
- Ministry of Local Government and Chieftainship Affairs
- Natural Resources
- Public Service
- Public Works and Transport
- Tourism, Environment & Culture

The Government of Lesotho has been relatively stable since the social upheaval in 1998. Lesotho Congress for Democracy (LCD) has replaced the Basotho Congress Party (BCP) as the major political party in the Parliament (currently it holds 61 out of the 120 seats in the National Assembly), while the All Basotho Conference (ABC) undermined the dominant representation of LCD and took 17 seats in the 2007 election. The Parliament composition has adopted a mixed formula with both constituencies and proportional representation. The two-in-one arrangement allows a more participatory and inclusive political system for the country. While the next national election will take place in 2012, the dynamics within and between the political parties will play a key role in determining the election result and the national development in the short to medium term.

On the other hand, the Government of Lesotho has undergone a cabinet reshuffle in October 2010. Four ministers and one deputy minister were replaced. The new ministers were appointed to head key sectors including trade and industry development, as well as tourism, environment and culture affairs. The government has shown its political will to formulate new development policies *pari passu* with the NDP as a vehicle for economic growth and poverty reduction in Lesotho.

¹⁴ Lesotho (1968).

6. Vulnerable Economy and Aid Dependence: Implications for Investment

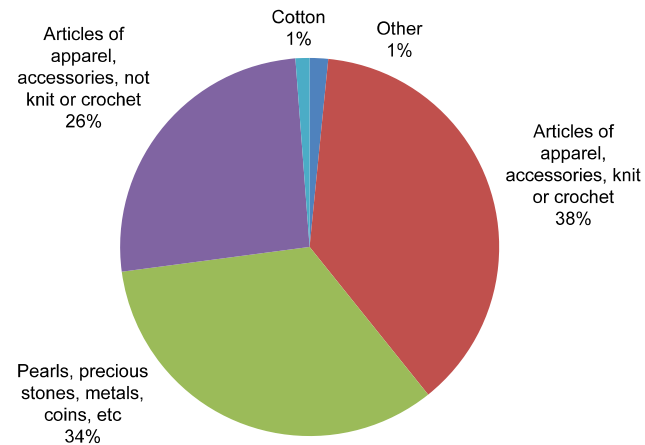
The real Gross Domestic Product (GDP) in Lesotho has maintained a positive growing trend in the past few years. With continuous development in the textile, construction and mining sectors, the country has averaged 4.5% of real growth during 2006-2009.¹⁵ Major sub-sectors including agriculture, mining and manufacturing industries together with tourism comprise a substantial portion of the economy in Lesotho. While development of these sectors relies on the level of investment in infrastructure, the sectors also create a backward linkage to a demand for more investment in infrastructure. A volatile economy and a lack of economic diversification pose high risk to investment in infrastructure, especially from the private sector. The Government of Lesotho has launched remarkable plan to improve public finance and governance capacity, and yet development in Lesotho, remains challenging.

AGRICULTURE AND FOOD SECURITY

Agriculture contributes around 8% of GDP (2009).¹⁶ Though overall output has been increasing since 2006, the level of production has not returned to the levels in the beginning of the decade. The overall role of agriculture in the economy in terms of percentage has decreased partially due to the growth in other sectors, namely textiles and services. The percentage share of the agriculture sector depends on the relative growth of other sub-sectors as well as the agricultural development particularly in the rural area of Lesotho.

With the uncertainty of extension of the African Growth and Opportunity Act (AGOA) as well as the pace of global recovery that affect the external demand, the potential impact on textile and service sectors may have an indirect impact to the agricultural sector. While Lesotho was a “*self-sufficient*” country in the 1970s¹⁷, food security has become a key challenge in the country. Sectoral development such as tourism hinges largely on food production in different regions of Lesotho.

Export of Goods as a share of total exports (%) in 2009



Source: Lesotho Statistical Yearbook (2010)

Box 6.1 - Lesotho's Agricultural Exports

Lesotho's export makeup relies heavily on the output generated from agricultural and farming products. Circa 65% (2009) of Lesotho's agricultural export derives from mohair and wool.¹⁸ Thus, the importance of the resilience of agriculture and livestock is vital for

¹⁵ IMF (2010): 5

¹⁶ OECD/AfDB (2010).

¹⁷ FAO (2008).

¹⁸ Data: ITC Database.

the country. Virtually all of the production of wool and mohair is directed towards exports. Despite Lesotho's economic downturn since the global financial crisis, latest figures suggest that the production remains rather robust.¹⁹

Additionally, the production of mohair and wool provide input for domestic industrial production. One of the country's main sources of urban employment is the textile sector, which employs around 45 000 people.²⁰ The figure is significant considering that the whole working population in Lesotho is around 1.24 millions.²¹

Government data encompasses statistics of five major crops that are economically significant – sorghum, maize, beans, wheat and peas. The production of all five of them is below the output registered in 2000-2001, mainly due to poor climatic and temporal conditions that afflicted the region. The last available data suggests that there has been some recovery.²²

Mining - Mining has been a major source of employment in Lesotho. The sector accounts for 6% of GDP, albeit at a decreasing rate due to the falling prices of diamonds as well as other minerals and commodities due to the global financial crisis during 2008-2009.²³ The recent global recovery has brought up mineral prices back to pre-crisis level, and yet an overdependence on the commodity sector can be risky in potentializing the “*poverty trap*”.²⁴

The Government of Lesotho has put forth new proposal to create a diamond hub in Lesotho. This hub would comprise a “diamond academy”, for lapidating and cutting stones, and a diamond exchange. The government hopes that these initiatives will compliment ongoing efforts to enhance the value added of the mining sector, generate new jobs and enhance export competitiveness. Additionally, the government has proposed a comprehensive geological survey of Lesotho, in the hopes of bolstering future investments.

Manufacturing Industries - Manufacturing in Lesotho is largely based on textiles and clothing. This is in part the consequence of the AGOA, a legislative initiative of the United States to promote trade with underdeveloped nations in Africa. Lesotho has been a beneficiary.

In 2008, almost nine out of ten jobs in the Lesotho's manufacturing employment were found in textiles.²⁵ The textiles sector employs an estimated 45 000 people in Lesotho. The policy of the United States on whether to extend the AGOA can greatly impact the manufacturing industry in Lesotho. Lesotho's heavy reliance in the industry also means high potential risk in case the industry suffers shocks in demand.

Tourism - According to UNCTAD, Lesotho is classified as a LDC with a “*small tourism sector, but demonstrating notable programme*” in tourism performance from 1999-2008. The Government of Lesotho identified this service sector as one of the development focuses under the National Vision 2020.²⁶ The document also highlighted the success rate of implementing tourism policy and the contribution of tourism to GDP as two key indicators of performance

¹⁹ Lesotho Statistical Yearbook (2010): 20.

²⁰ Thahane (2010).

²¹ Lesotho Statistical Yearbook (2010): 64.

²² Lesotho Statistical Yearbook (2010): 20.

²³ OECD/AfDB (2010).

²⁴ UNCTAD (2002).

²⁵ Lesotho Statistical Yearbook (2010): 27.

²⁶ Government of Lesotho (2001): 30-39.

measurement. Besides, the blueprint counted on the labor-intensive nature of tourism and strategized tourism development as a new source of job creation in Lesotho. The number of tourism enterprises owned and run by Basotho people as well as the percentage of total labor force employed in the tourism sector are two benchmark figures to evaluate its tourism development.

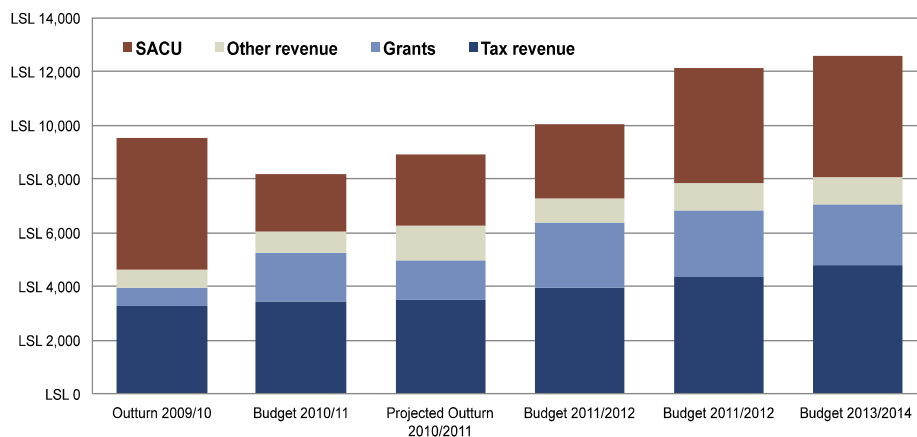
Tourism is officially the second largest sector of export in service in value, accounting for LSL 277 million in 2008²⁷ (USD 36.9 million²⁸), and yet it has not contributed substantially to the overall economy in Lesotho. An estimated LSL 382.7 million (or approximately USD 57 million²⁹) would be invested into the sector in 2011, accounting for 8% of the total investment in Lesotho.³⁰ The share is expected only to rise to only 2.8% by 2020 (LSL 1,042.4 million), considering the current growth rate.

The landlocked nature and considerable lack of TRI are regarded as key challenges for the sector. Foreign tourists must pass via South Africa to enter or exit Lesotho at present. Moshoeshoe I International Airport, the country's only international airport, is located in Maseru, and currently 3 passenger flights fly only to Maseru from Johannesburg daily.

A Dominant Public Sector with Tightening Resources - The Government of Lesotho is the largest employer and investor in the country. The increase of public sector employment increased by 0.6% in the third quarter of 2010³¹, reflecting an impact of the national wage bill after a drastic expansion of the public sector during the financial crisis.

The fiscal situation of the country directly affects the progress of poverty reduction and economic development in Lesotho. The Budget Speech 2010/11 highlighted two major economic and interconnecting shortcomings: the ongoing financial crisis and the significant drop in revenues derived from the Southern Africa Customs Union (SACU). Increasing unemployment and significant decrease in remittances have also contributed to a significant drop. This has significant repercussions not only for government revenues, but also capital inflows in Lesotho.

Revenue Projections 2009-2014 FY



²⁷ Lesotho Statistics Yearbook (2010): 45.

²⁸ Market conversion rate of as of 31 January 2008: 1 Loti = 0.13 USD. www.gocurrency.com.

²⁹ Market conversion rate as of 25 April 2011.

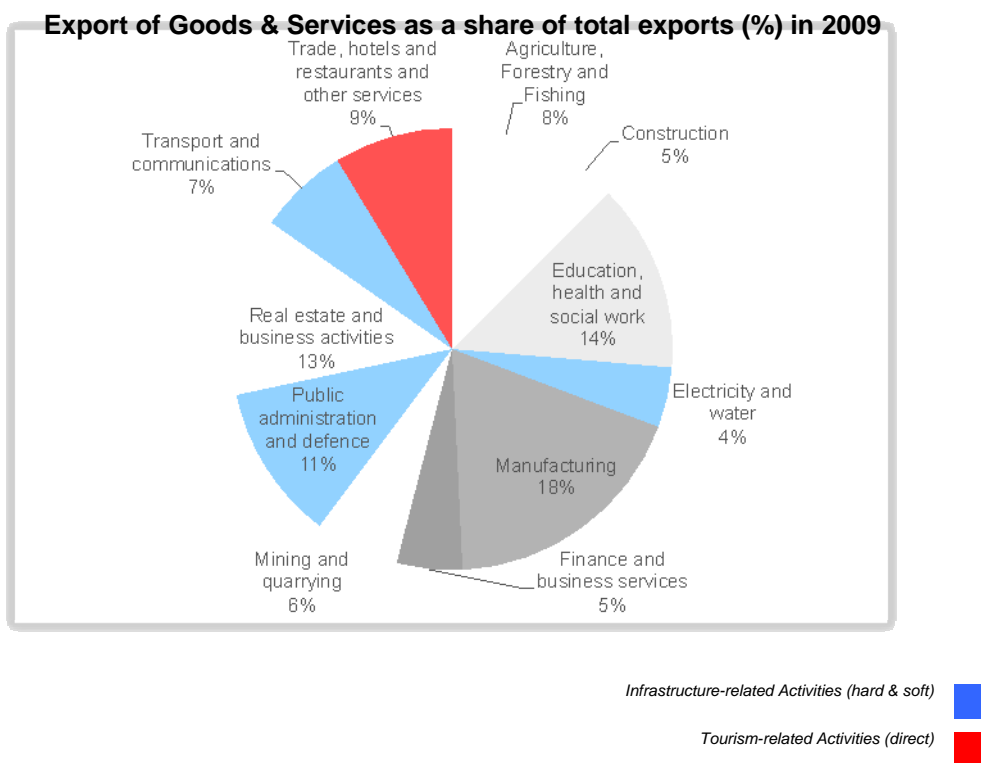
³⁰ World Travel and Tourism Council (2011): 3.

³¹ Central Bank of Lesotho (2010c): 19.

Source: Budget Speech 2010/11

The economic and fiscal performance of Lesotho is pressing due to a decline of nearly 30% in domestic revenue. For the most part, this is due to a drop of 50% in customs revenue share from SACU. The ongoing fiscal situation brings to the forefront public sector constraints and financial fragilities. The fiscal condition of the country will become even more critical with the expiration of the AGOA in 2015 if no new avenue is developed.

While the Government of Lesotho aimed to rationalize and reduce the national expenditure, donors' grants became an important instrument for continuous national development driven by the Government of Lesotho. Infrastructure development remains a key development consideration in the country, which includes road construction, electricity and water infrastructure enhancement. According to the Budget Speech 2010/11, the Government of Lesotho has committed to a Five-Year NDP to implement the National Vision 2020 and the Poverty Reduction Strategy (PRS) from April 2012/13. Under the process, MOFDP would take the lead to engage "widespread consultations with stakeholders"³² to devise an execution plan. With fluctuating SACU revenue during times of global uncertainty, the Government of Lesotho has pinpointed the importance to anchor its expenditure and domestic revenue growth in the long term.³³



Source: African Economic Outlook (2010), with modifications of authors

³² Government of Lesotho (2010a): 8.

³³ Government of Lesotho (2010a): 18.

The Government of Lesotho continues to pursue a strategy of administrative decentralization. Private sector development, allied with macroeconomic stability, job creation and capacity building for the population seem to reflect some continuity in government policy. While the ongoing development of the NDP may provide additional detail in the making of a cohesive policy framework, there has not yet been much publicly accessed information regarding the actual policy implementation plan as of debut 2011.

The Government of Lesotho has also made concerted efforts to improve public service delivery, including public financial management. The Public Sector Improvement and Reform Programme (PSIRP) spearheaded by the Government remained a key enhancement project to strengthen governance capacity and boost foreign direct investment.

To more effectively budget for projects and reform procurement systems, the Government of Lesotho adopted an over-the-spectrum Medium Term Expenditure Framework (MTEF) in all ministries. Besides, the introduction of the Integrated Financial Management Information System (IFMIS) since 2009 in the Government has bolstered management of national revenues and expenditures in both the central and the regional governments.

To strengthen its regulatory framework in the financial sector, the Government of Lesotho has committed to the Financial Sector Reform and Strengthening (FIRST) Initiative Project in collaboration with the World Bank to develop a national policy for Non-Bank Financial Institutions (NBFIs). The step is considered to be crucial to build up potential investors' confidence in market conditions in Lesotho and combat money-laundering activities.

Overseas Development Assistance (ODA) - Donors in Lesotho refer to international organizations, international financial institutions (IFIs), regional development institutions, non-governmental organizations, and countries under bilateral agreements that provide development grants and assistance to Lesotho.

Estimated Percentage of ODA as a Share of National Revenue in LDCs

2009/10 Budget	Budgeted National Revenue	Budgeted ODAs	% of ODA as National Revenue
Tanzania - in TZS Mn	9,514	3,182 ³⁴	33.4
Uganda - in UGX Bn	7,334	2,534 ³⁵	34.6
Zambia - in ZMK Bn	10,646	2,769 ³⁶	18.1
Lesotho (09/10) - in Maloti Mn	9,942	1,462 ³⁷	14.5%
Lesotho (10/11) - in Maloti Mn	8,284	2,182³⁸	26%

³⁴ The United Republic of Tanzania (2009).

³⁵ The Republic of Uganda (2009).

³⁶ Ministry of Finance and National Planning, the Republic of Zambia (2009).

³⁷ Government of Lesotho (2010a).

³⁸ Government of Lesotho (2010a).

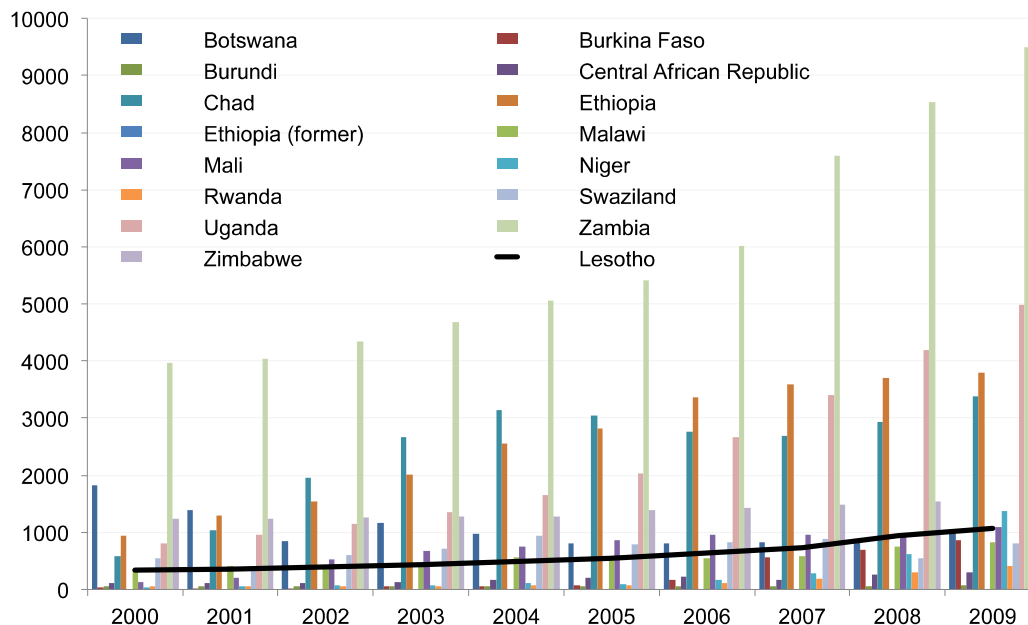
As an LDC, Lesotho has been receiving a substantial percentage of its national budget from the contribution of donor community. According to the national budget in 2010-2011, over 20% of the national revenue would be streamed from donors' assistance, while the share of customs revenue of SACU remained a significant income source for the Government of Lesotho. The ten major donors in Lesotho provided a total of over USD 94 million during the period from 2003 to 2008³⁹.

Box 6.2 - The Current Largest Donor

Millennium Challenge Corporation (MCC) - In response to the Millennium Development Goals (MDGs), MCC of the United States has become the most important donor in Lesotho since 2007 focusing on MDGs-related poverty reduction and economic development. The total grant value of MCC exceeded USD 362 million, and around 60% and 12% of grants have been committed and disbursed respectively as of end September 2010¹. MCC's key programs involve in infrastructure-related sectors like health, water, as well as private sector development, and it addresses the institutional and governance framework of land ownership rights, credit information, and economic development, as well as national identification.

FDI Inflow - In comparison with other LLDCs in SSA, Lesotho has never accumulated FDI inflow of more than 3% of its GDP. Investment flows in Lesotho for the past decades have showed steady and yet low FDI inward investment.⁴⁰ The FDI inflow has shown a decreasing trend during 2007-2009 due largely to the global financial and economic crisis.

Inward FDI for Landlocked LDCs in Sub-Saharan Africa (2000-2009)



Source: UNCTAD (2010)

³⁹ Data: OECD/DAC database

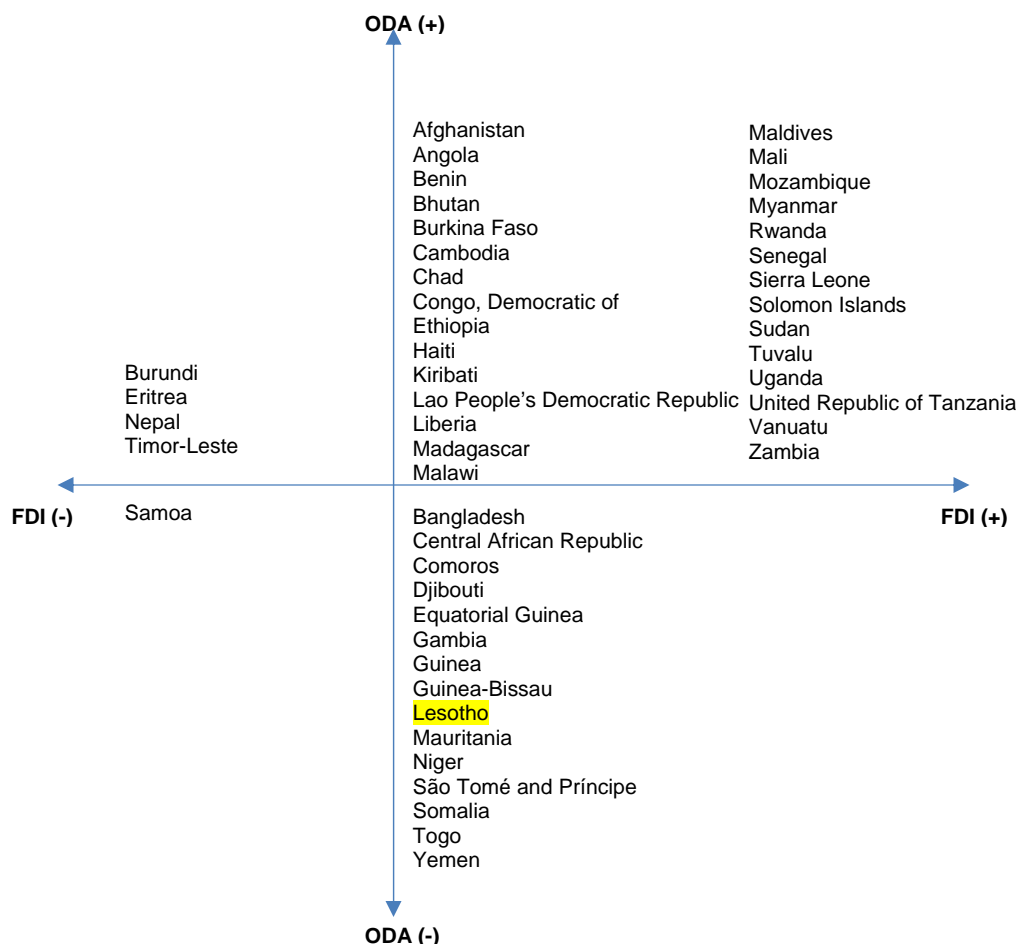
⁴⁰ Data: UNCTAD database

Table I. FDI flows, by region and economy, 2007-2009 (Millions of dollars)

Region/economy	Population (Million) ⁴¹	FDI inflows			FDI outflows		
		2007	2008	2009	2007	2008	2009
Southern Africa	--	18 764	28 742	21 623	3 998	-633	1 590
Angola	N/A	9 796	16 581	13 101	912	2 570	8
Botswana	1.95	495	521	234*	51	-91	3*
Lesotho	1.88	97	56	48	-	-	-
Malawi	15.26	92	170	60	1	1*	1*
Mozambique	22.89	427	592	881	-	-	3
Namibia	2.17	733	720	516	3	5	-3
South Africa	49.32	5 695	9 006	5 696	2 966	-3 134	1 584
Swaziland	1.18	37	106	66	-23	8	-7
Zambia	12.94	1 324	939	959*	86	-	-
Zimbabwe	12.52	69	52	60*	3	8	-

Source: UNCTAD, FDI/TNC database, adaptation from Annex Table 1 of World Investment Report 2010: 168

Table II. Growth in FDI and ODA flows to LDCs, 1990-2008



Source: UNCTAD (2010f): 63.

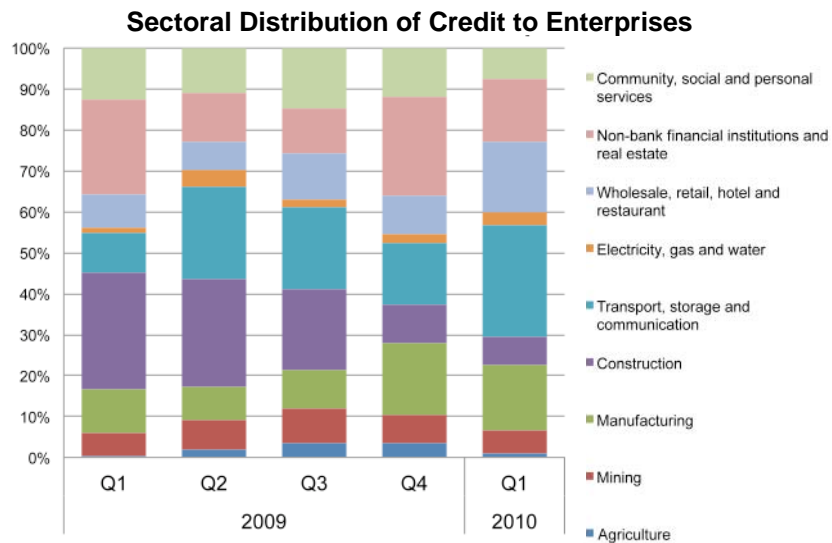
⁴¹ World Bank Data (2009). Except the population figure of Lesotho.

It is a challenge to measure FDI inflows in Lesotho in nominal terms because the huge investment sum of LHWP⁴² distorts much of the data. The treatment of the LHWP as an FDI inflow is also dubious. According to UNCTAD’s methodology in FDI reckoning, the LHWP does not comply with all the definitions of FDI, as the project is a joint venture between the Governments of Lesotho and South Africa. The backing and influence of the World Bank also prevents the data from the LHWP to be considered as a full FDI. In all, much of the inflows that have been put forth since the beginning of the LHWP have distorted the FDI inflow data.⁴³ With the inter-connectedness of investment flow related to the LHWP, no accurate data is available to factor out such distortion when examining the FDI inflow prior to 2003.

Apart from the AGOA incentive where overseas textile and clothing investors provide investment money to Lesotho, the international brand, Philips, has set up a production base in the country in joint venture with South African investors to produce energy-saving light bulbs. This is an example of FDI in sectors such as the manufacturing of electronic products.

Private Consumption - Credit conditions in Lesotho for private sector investment constitute one of the country’s most pressing challenges for development. Despite efforts from the donor community to facilitate structural reforms that might ameliorate credit conditions in the long run, the cost of capital and business start-ups still present significant challenge to the private sector.

According to the Central Bank of Lesotho, “wholesale, retail, hotel and restaurant” sector accounted on average for 11% of credit over the period from January 2009 to March 2010.⁴⁴ While the aforementioned category is the immediate one relating to the Project, it is important to note



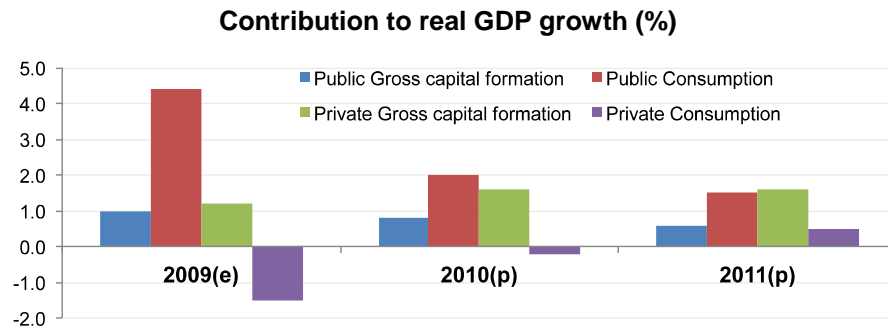
Source: Central Bank of Lesotho (2010b)

that other sectors are increasingly intertwined. For example, a very low level of credit money has gone into the agriculture sector, and this can be understood as a disabling factor for those subsistence farmers who would potentially set up a small shop or restaurant if credit were available for them to extend their business. Their participation in the retail and services industry may eventually contribute to TRI in the countryside.

⁴² Details of LHWP are provided in the Report from page 52-55.

⁴³ UNCTAD (2003).

⁴⁴ Central Bank of Lesotho (2010b).



Source: African Economic Outlook (2010)

Gross capital formation can measure the rate of investment in a given country. In Lesotho, the gross capital formation is derived almost of equal shares from the public and private sectors. In that light, nearly 50% of all infrastructure investment is reliant on public sector investment. Projections from the AfDB show that public consumption is consistently higher than private consumption in Lesotho.⁴⁵ Both indicators, gross capital formation and consumption, may provide evidence for an economically depressed private sector.

Monetary Policy and Inflation Outlook - The local currency in Lesotho, the Loti (LSL), is pegged on the ratio of 1:1 to the South African Rand (ZAR). Because of the bigger economy in capital value in South Africa, the monetary policy of Lesotho closely follows that of South Africa. This has both positive and negative implications for Lesotho. While Lesotho is able to abate some of the transaction costs of currency conversions, it has no autonomy in maneuvering domestic inflations rates and interest rates. The prime lending rates of Lesotho closely follows South African lending rates since 1998⁴⁶, and Lesotho measures its Consumer Price Index (CPI) through a basket of goods and services priced in ZAR and imported from South Africa. Together with the current circumstances where the economy of Lesotho depends heavily on South Africa, a close reference to the macroeconomic situation in South Africa is necessary to better analyze that in Lesotho.

⁴⁵ African Economic Outlook (2010).

⁴⁶ Lesotho Statistical Yearbook (2010).

7. Lesotho's Cooperation Policies on Trade and Investment

To respond to the development challenges, the Government of Lesotho has explored bilateral and multilateral cooperation with trade and investment partners to facilitate investment flows and trade development.

KEY BILATERAL TRADE AND INVESTMENT AGREEMENTS

South Africa - As the only neighbouring country, Lesotho has entered into a range of bilateral trade agreement with South Africa. Among all, supply and distribution of water resources forms a core part of Lesotho's export to South Africa. Affluent with water resources, Lesotho managed to generate 9% of national revenue in 2008/09 via supplying water to South Africa. To enable water resource distribution, South Africa has contributed substantially in the Lesotho Highlands Water Project (LHWP) since the mid-1980s. A new Phase II of the LHWP including the construction of the Polihali Dam in Mokhotlong was signed between South Africa and Lesotho in mid-2010 with an estimated project cost of over LSL 6 billion⁴⁷. Under the custom union arrangement, Lesotho's export to SACU members, mainly South Africa, forms a large percentage of the total exports of Lesotho. Export of services by way of Mode 2 is also fairly high.

United States - Under the Trade and Development Act (2000), the Government of United States (U.S.) enacted the AGOA on 18 May 2000 to provide preferential terms of trade on a range of products to enter the U.S. market. The initiative has facilitated the continuous liberalization of the economy for Sub-Saharan African (SSA) countries including Lesotho. AGOA accords duty-free and quota-free treatment to almost all products exported from Lesotho in two phases. The first phase of the agreement was the most promising part of the scheme in which inputs could be sourced from anywhere in the world (AGOA 1, 2000-2004) while the second phase (AGOA 2, 2004-2008) required products to have inputs sourced from SSA or the U.S. AGOA has been extended to 2015⁴⁸.

With the preferential market access to the U.S., Lesotho attracted FDI in the textile and clothing sector that created significant job opportunities and has been a major economic driver to poverty reduction in the last decade.

European Union (EU) - Based on the Cotonou Agreement (CA), the EU reached the Economic Partnership Agreements (EPA) with the African, Caribbean and Pacific group of states (ACP countries) to grant duty-free access of goods and services exported from LDCs, including Lesotho. Under the "Everything But Arms" (EBA) arrangement, Lesotho is provided with the most favorable regime available to trade with the EU.⁴⁹ Additionally, Lesotho is not obliged to reciprocate preferential trading access to the EU. Since the existing system of preferences will continue to apply until reciprocity will come into effect, Lesotho and six other SADC member states have been negotiating EPAs as a bloc with the EU since its launch on 8th July 2004⁵⁰.

⁴⁷ Government of Lesotho (2010a): 6

⁴⁸ USAID (2008).

⁴⁹ European Commission (2011).

⁵⁰ SADC (2008).

Bilateral Investment Treaties - Lesotho entered into bilateral investment treaties with three countries, namely Germany, Switzerland and United Kingdom. The agreements aim to foster investment opportunities between Lesotho and the counterpart countries to stimulate private business development across the border and foster bilateral investment.

Table III shows the gains from trade activities between Lesotho and the world, especially through trade agreements that Lesotho has entered into thus far.

Table III. Lesotho's Direction of Trade (Million Maloti)

Region	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
World	1468.4	2426	3739.9	3557.3	4533.3	4138	4736.6	5664.3	7183.9	5971.6	5994.7
Africa	607.5	899.1	856.4	695.6	657.5	816	1072.8	1802.9	2861.1	2632.8	2431.5
SACU	607.1	897	856	689.7	622.2	717	969.1	1661.3	2738.9	2563.2	2305.0
SADC	0.4	0.0	0.3	0.2	0.0	0.0	17.8	21.83	21.6	9.4	84.1
Other	0.0	2.1	0.2	0.0	35.3	99.0	85.9	119.8	100.6	60.2	42.3
Europe	1.8	3.5	7.8	3.7	695.0	710.4	629.3	1169.6	1742.5	1138.9	1366.6
EU	1.8	3.5	7.8	3.7	692.0	710.4	629.3	1169.6	1742.5	1138.9	1366.6
Other	0.0	0.0	0.3	0.0	3.0	0.0	0.0	--	--	--	--
America	858.3	1522.5	2874.6	2849.1	3168.6	2597.8	3016.2	2675.4	2536.7	2178.7	2150.7
Asia	0.6	0.9	0.8	8.9	12.2	13.8	18.3	16.32	39.3	15.6	53.2
Oceania	0.1	0.0	0.0	0.0	0.0	0.0	0.0	--	--	5.7	12.7

Source: USAID, April 2008; Central Bank of Lesotho (March 2008, March 2009, March 2010 & March 2011)

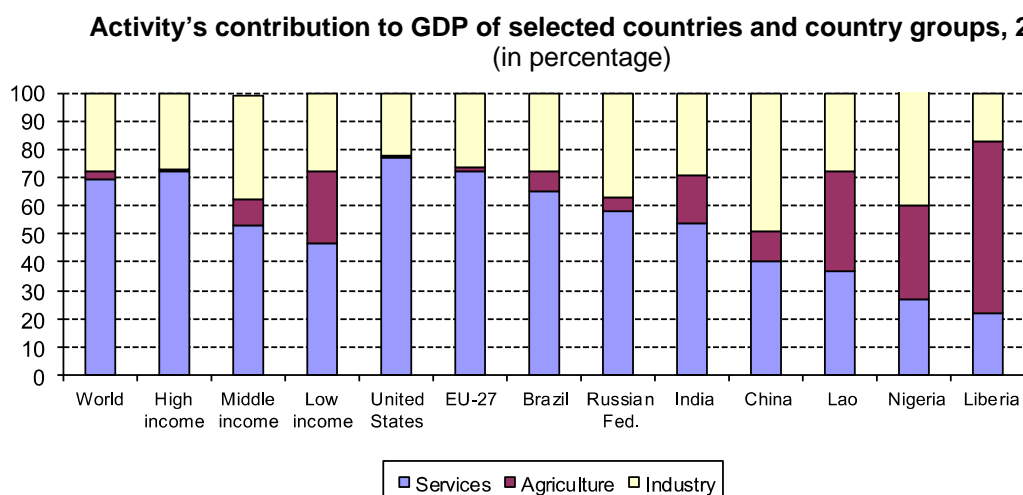
KEY MULTILATERAL AND REGIONAL TRADE AGREEMENTS

World Trade Organization (WTO) - Lesotho has adopted a liberalized approach to multilateral cooperation in trade in goods and services. It successfully acceded to the WTO on 31 May 1995. Lesotho is recognized as a member of the LDC consultative group and committed with other LDC members to implement all WTO rules and arrangements, including progressive liberalization of trade. Under the Generalized System of Preference (GSP) framework, it extends preferential access for Lesotho to North America, Japan and other developed markets, including 18 markets in the Preferential Trade Area in the Eastern and Southern Africa⁵¹. Lesotho has also established preferential access to the Canadian market for all eligible goods.

⁵¹ UNCTAD (2009b): 5

GENERAL AGREEMENT ON TRADE IN SERVICES (GATS)

Trade in Services - Trade in services has become increasingly dynamic over the past two decades and several categories of services have been among the fastest growing economic activities in the world economy⁵². The term “*services*” covers a wide range of intangible products and activities including transport, telecommunication and computer services, construction, financial services, education, professional services, marketing and other business supports, government and tourism. Services currently represent more than two thirds of world GDP, and they have a significant impact on growth and efficiency across a broad array of industries and overall economic performance.



Source: World Bank, 2010⁵³

The WTO General Agreement on Trade in Services (GATS), the first set of multilaterally negotiated and legally enforceable rules that cover international trade in commercial services, emerged from the Uruguay Round. As emphasized in GATS, international trade in services can take place through four modes of supply (Table IV) for tourism services. GATS also take into account barriers affecting trade in services, which include market access, national treatment and domestic regulations.

Table IV - Relevance of GATS Modes of Supply to Tourism Services

Mode of Supply under GATS		Relevance for Tourism Services
Mode 1	Cross-border supply	Important with respect to Internet bookings or travel arrangements with agencies abroad
Mode 2	Consumption abroad	Relevant when a tourist moves outside his/her home territory and consumes services in another country (e.g. accommodation, catering, cultural and sportive events)
Mode 3	Commercial presence	Relevant to the extent that a service provider establishes a commercial presence (e.g. hotel, resort, travel agency, restaurant)
Mode 4	Presence of natural presence	Relevant to the extent that it includes travel/tour managers or guides from abroad

⁵² UNCTAD (2005).

⁵³ World Bank database

The strategy of Lesotho in trade has to focus on consolidating its competitiveness, strengthening participation in the Southern Africa region and enhancing its position as a hub of FDI destination, without compromising its consumer protection standards. The contribution of services to GDP over the last five years in Lesotho has remained at an average of 40%, spurred by government services, wholesale and retail services, as well as financial services.⁵⁴ Under the GATS, Lesotho scheduled sector-specific commitments across virtually all major service categories⁵⁵. Lesotho made extensive and liberal commitments covering the 85 sectors and sub-sectors out of a possible 155 listed in the schedule, with no limitations on cross-border supply or consumption abroad. However, measures affecting one or both of these modes of supply are unbound in 33 sectors or subsectors.

Lesotho has made some horizontal limitations in Mode 3 and Mode 4 that relates to all the services listed in the schedule. In respect of presence of natural persons, the schedule binds the automatic grant of entry and work permits for up to four expatriate senior executives and specialized skill personnel “*in accordance with relevant provisions in the laws of Lesotho*”, and states that enterprises must also provide training in higher skills for locals to enable them to assume specialized roles. Lesotho maintains no limitations on national treatment; however, as with market access, measures affecting the supply of certain services remain wholly or partly unbound. Lesotho has narrowed tourism commitments with bindings in consumption abroad and establishment for tourist guide services. Concerning commercial presence, foreign companies and joint ventures are required to satisfy capital and equity requirements while agency establishments must have authority to negotiate and conclude contracts on behalf of its foreign parent company.

Southern African Customs Union (SACU) - SACU is a custom union comprising membership of Botswana, Lesotho, Namibia, South Africa and Swaziland. Lesotho has duty-free access to the market while on the other hand, extending a Common External Tariff (CET) against imports from the rest of the world as granted by SACU Agreement 2002. As a member of SACU, Lesotho benefits from the free trade agreement concluded between South Africa and the EU⁵⁶. This is the fact that as part of the agreement, TDCA has to be implemented by other SACU member states. SACU Agreement, which came into force on 15 July 2004 also provides for member states to negotiate FTAs with third parties on a collective basis.⁵⁷

Southern African Development Community (SADC) - Lesotho is a member of SADC, as the rest of SACU member states. A SADC Trade Protocol came into force in 2000 with the intention to form a free trade area in 2008. As such, the remaining tariffs after 2008 are applicable for sensitive goods, which would eventually then be eliminated by 2012. SADC is progressing towards full regional trade integration according to the following target dates as per the roadmap: FTA by 2008, Custom Union by 2010, Common Market in 2015, Monetary Union in 2016, and a single currency in 2018.

⁵⁴ WTO. “SACU Trade Policy Review 2009”.

⁵⁵ WTO document S/DCS/W/LSO, 24 January 2003.

⁵⁶ The Trade, Development and Cooperation Agreement (TDCA).

⁵⁷ Article 31:1 and 3 of SACU Agreement 2002 read “Member states may maintain preferential trade and other related arrangements existing at the time of entry into force of this Agreement” and “No member shall negotiate and enter into new preferential trade arrangements with third parties or amend existing agreements without the consent of other Member states”.

KEY NATIONAL INSTITUTIONAL AND REGULATORY FRAMEWORK ON INVESTMENT & INFRASTRUCTURE DEVELOPMENT

Regulatory Framework on Financial Services - Banks are the primary vehicles for financial intermediation in an economy. The banking sector in Lesotho consists of three commercial banking entities, namely Lesotho Bank, Nedbank and Standard Bank. The Government of Lesotho established the Lesotho Post Bank in 2005 to focus on mobilizing savings in rural areas, where access to formal banking services was reduced substantially by the collapse of state-owned banks at the end of 1990s⁵⁸.

Together with other financial institutions, the banks are regulated by the Central Bank of Lesotho (CBL). CBL commenced its operation as the Lesotho Monetary Authority in 1980, under the Lesotho Monetary Authority Act of 1978. The 1978 Act was superseded by the Central Bank of Lesotho Act of 2000 that strengthens CBL as an autonomous agency to execute the following functions:⁵⁹

- a. Formulate and execute national monetary policy;
- b. Supervise financial institutions;
- c. Foreign reserves and exchange control;
- d. Financial services;
- e. Issue currency; and
- f. Advise government on financial and general macroeconomic matters.

Lesotho has undertaken continuous efforts to reform its financial services and investment sector, particularly in improving their structure and efficiency. For example, Lesotho has integrated the regulatory framework of banking and insurance into an overall supervision of the financial sector. The regulation and monitoring of the industry has also been strengthened as efforts are being made to enhance supervisory capability and quality manpower. The legal framework has been reviewed and modernized to address emerging supervisory challenges and fall in line with international standards of supervision. Apart from the Central Bank of Lesotho Act 2000, the following legal instruments also govern the financial services sector:

- a. Societies Act 1966 (as amended)
- b. Companies Act 1967
- c. Insurance Act 1976 (as amended)
- d. Exchange Control Act 1987 (as amended)
- e. Money Lenders Act 1989 (as amended)
- f. Financial Institution Act 1999 (FIA)
- g. Cooperatives Societies Act 2000

To foster a positive economic and financial integration in the region, Lesotho has entered into various regional and international cooperation initiatives. For instance, Lesotho is a signatory to the Finance and Investment Protocol (FIP) that serves as a slate for SADC member states to create common financial systems and an investment environment that is conducive to the flow of investments into the region. As part of the Common Monetary Area (CMA), Lesotho also signed a bilateral monetary agreement with South Africa to fix the loti at par to the ZAR, which is also legal tender in Lesotho. While the arrangement brings about financial stability

⁵⁸ AfDB (2006).

⁵⁹ Central Bank of Lesotho, <http://www.centralbank.org.ls>

and efficiency to Lesotho, Lesotho still faces challenges to synchronize its fiscal and monetary policies with South Africa and other countries under the CMA.

National Policy on FDI - Lesotho's investment regime is fairly liberalized and embraces FDI virtually in all sectors of the economy, through the provision of attractive incentives and fairly stable political environment. This is in line with the aim of the Government of Lesotho to spur growth, employment and exports through participation of foreign entities. Nonetheless, investment in SMMEs remains restricted, and Lesotho has not created a vibrant business environment that fosters entrepreneurship amongst Basotho community. At the same time, there is no legal distinction made between foreign and domestic companies. The Lesotho National Development Corporation (LNDC) is established as a focal point to facilitate foreign investment and assist with obtaining permits and logistical support. LNDC also is the executing agency for MTICM to implement some elements of industrial development policies.

Lesotho offers generous incentives to foreign investors such as sales tax exemptions on capital machinery and equipment used in the manufacturing sector, full rebates on duties on imported raw materials or components used solely in the processing or manufacturing of goods for export, as well as employee. There are no performance requirements such as production export floor, local purchase requirement, or restraining investment only to certain district of the country. Application and renewal of trading and/or industry licenses has been made easy with the establishment of the One-Stop Shop (OSS) that facilitates business administrative requirements.

Despite the nominally liberal investment framework, Lesotho can be a difficult place to do business because of its poor infrastructure, scarcity of skilled labor, low reliability of electricity, lack of transparency, and regulatory inconsistency. According to the U.S. Department of State Investment Climate Statement, "*the industrial and trading license system is archaic*".⁶⁰ Lesotho also has not established any special free trade zone in the country.

The corporate tax rate for profit earned by manufacturing companies was lowered to 10% from 15% in April 2010. There are no withholding taxes on dividends distributed by manufacturing companies to local or foreign shareholders. Corporate income generated from exports of manufactured goods outside of the SACU is not taxed. Corporate income in all other sectors is taxed at 29%. There is a 25% withholding tax on non-resident dividends. There is a property tax of 2.8% of assessed value, a 10% withholding tax on interest, a capital gains tax of 25% (reduced from 35% in April 2010) and a value added tax of 14%. The personal income tax ranges from 25% to 35%.

⁶⁰ US Dept. of State (2011).

8. Analyzing and Addressing Development Challenges

Lesotho has committed to mobilize national resources and ODA to combat poverty and stimulate its economic development. Infrastructure development is considered as a first step to reduce poverty and enhance connectivity of isolated and remote regions⁶¹ like the landlocked Lesotho. Four influential development frameworks, namely i) Lesotho National Vision 2020; ii) PRSP for Lesotho; iii) EIF and the related iv) DTIS for Lesotho, present an overall picture of the development challenges and priorities for the country. These documents, though have identified the infrastructure deficit challenges, have not provided a comprehensive action plan for Lesotho to enable its development framework for investment in infrastructure. This chapter aims to provide a conceptual backdrop of Lesotho's development policy framework prior to a more in-depth analysis of the investment framework of infrastructure and TRI.

NATIONAL VISION 2020

The Lesotho National Vision 2020, a document formulated in 2000 by Government of Lesotho with input from key sectors of the Basotho society. The blueprint identified 7 pillars for economic and social development of the country, namely democracy, national unity, peace, education and training, economic growth, management of the environment and advancement in technology. The underlying idea of the Vision 2020 is to set common understanding and vision of the future of Basotho people and society.

Box 8.1 – Lesotho National Vision 2020

The specific objectives of the Lesotho Vision 2020 are to:

- a) Establish a long-term vision for Lesotho by looking beyond the short-term plans and adjustment programs;
- b) Explore the options for economic, political and human development to the year 2020;
- c) Identify alternative development strategies suitable for Lesotho's situation;
- d) Promote a process of open dialogue and consultation with socio-economic groups country wide;
- e) Create an environment in which Basotho will actively participate in achieving the Vision; and
- f) Develop a focus along the horizon in the direction of which development plans can be rolled out.

The vision statement clearly describes the aspirations of the Basotho people together with the components to achieve sustainable development in the country, such that "by the year 2020 Lesotho shall be a stable democracy, a united and prosperous nation at peace with itself and its neighbours. It shall have a healthy and well-developed human resource base. Its economy will be strong, its environment well managed and its technology well established."

The National Vision 2020 addresses the challenges to development in Lesotho, among others, as follows:

- a) Strengthening development management capacity in the country;
- b) Addressing the issue of corruption and nepotism;
- c) Improving access to health services, education and training;
- d) Maintaining macroeconomic stability for economic development of the country;

⁶¹ World Bank (1994, 2009)

- e) Improving the financial sector by encouraging more competition in the banking, capital markets and insurance sectors;
- f) Sustaining high-levels of investment and improving the investment environment;
- g) Reducing the incidence, severity and depth of poverty in the country; and
- h) Improving coordination of donor-funded projects.

Considering the above challenges, the National Vision 2020 identifies seven pillars of development, which include democracy, national unity, peace, education and training, economic growth, management of the environment and advancement in technology. In addition, political commitment, foreign direct investment and public sector management are factors pivotal to national development.

The main elements of the National Vision 2020 are outlined below:

- a) Employment creation through:
 - of labor intensive methods
 - Sustainable employment schemes and programs
 - Promotion of rural development opportunities
 - Establishment of Small and Medium Enterprises
- b) Sustainable human capacity enhancement through:
 - Appropriate education and training that is accessible to all
 - Quality health services that are accessible to all
 - The control of HIV/AIDS using a national, multi-sectoral response
- c) Sustainable development, growth and prosperity to all through:
 - The development of an aggressive program of entrepreneurship at all levels of the economy
 - The intensification and diversification of agricultural production
 - Cost-effective utilization of local materials and resources for industrial development
 - Aggressive environmental management practices
 - Development and promotion of the tourism industry
- d) Reform, democratization and empowerment through:
 - The reform of chieftainship institutions to align them with the democratic dispensation and modern institution
 - Resuscitation and strengthening of law enforcement structures
 - The acceleration of the implementation of local government
 - Establishment of social, cultural, religious and political tolerance amongst all citizens
 - Enhancement of patriotism and its value at all levels of society

POVERTY REDUCTION STRATEGY PAPER (PRSP)

Lesotho's PRSP compilation started in 1999, with a consultation of different societal sectors and regions of the country.⁶² The document was published encompassing a strategy that initiated in 2004 to 2007. The Project offers a comprehensive review of the main findings of the PRSP and updates the PRSP indicators (see Chapter 18).

Whereas the Government of Lesotho is in the process of constructing a cross-sectoral NDP, a reference to the challenges and opportunities that are benchmarked and assessed by the PRSP is seen to be useful. Some of the key indicators in the PRSP are reviewed in this section to facilitate an assessment of the current situation in Lesotho and its implication to the development progress of infrastructure development and the investment policy on infrastructure.

⁶² Government of Lesotho (2004): 29

According to the PRSP, infrastructure development would play an important role to aid poverty reduction in Lesotho. Among the different development areas, transport through road access, water, sanitation and solid waste, telecommunications, and energy accesses are the core priorities identified in the PRSP. Housing and rural electrification, especially related to their affordability, are also considered as an essential development dimension for poverty reduction.⁶³ While significant improvement is noted in the development of identified infrastructure areas due to a considerable amount of aid resources from donor organizations and investors, the PRSP identified that the Government should further devise a threshold target of infrastructure development in the NDP, as well as an installation of infrastructure facilities to deal with the rural poverty issues. The progress would also impact the tourism sub-sector as the lack of infrastructure is regarded as one major barrier to tourism development in Lesotho.

The Government of Lesotho determined five broad objectives, under the PRSP, that would potentially diminish unemployment, namely: (1) attract domestic and foreign investments; (2) support local businesses; (3) increase support of small, medium, and micro enterprises (SMMEs); (4) optimize the use of natural resources, and (5) decentralize services, particularly concerning migration issues.⁶⁴ While investment in infrastructure can create job opportunities in Lesotho, its impact on tourism, a labor-intensive and cross-sectoral economic activity, can be a potential driver to lessen the unemployment rate in Lesotho in the NDP.

The main causes of agricultural and food security issues in Lesotho are traced to population growth, climate variability, land erosion and degradation and constraints imposed by the lack of arable land. Access to capital and credit for agricultural production is limited, constraining farmers and diminishing the returns of existing assets.⁶⁵

According to the fieldwork findings, serious leakages are noted in the tourism sector where ingredients and food products in Lesotho provided to visitors are excessively sourced from South Africa and other food exporting countries.

The PRSP suggested that strengthening democracy and balanced role of the state are crucial for Lesotho's development. Promotion of national unity, together with public feedback mechanisms, sound electoral procedures as well as more governmental transparency were key areas of capacity building for the country. The Government of Lesotho perceived decentralization as one of the cornerstones in achieving effective governance. At the time of the compilation of the PRSP, measures were being undertaken by the Ministry of Local Government to enhance decentralization efforts and consolidate local policy frameworks in order to facilitate quality implementation of local government practices, and clarify the roles and functions of different local government actors.⁶⁶

Security at the community level was also taken into account. Both the governance capacity and the security level of the country are essential elements to boost investors' confidence in doing business in Lesotho and visitors' consideration to travel in Lesotho, especially as crime and security are the top challenges encountered by South Africa.⁶⁷

⁶³ Lesotho (2004): 46 - 51

⁶⁴ Lesotho (2004): 25.

⁶⁵ Lesotho (2004): 38.

⁶⁶ Lesotho (2004): 58-59.

⁶⁷ South Africa Tourism Annual Report 2009/10.

Much like the provision of medical facilities, missionaries have largely spearheaded education development in Lesotho.⁶⁸ According to the PRSP, Lesotho used to have one of the highest literacy rates in Africa in the past. Since the 1990s, however, enrollment in primary school has suffered sharp declines. For example, the level of primary enrolment for children aged 6 to 12 years decreased from 71% in 1996 to 61% in 1999.⁶⁹ The Government of Lesotho has since put an effort in reversing the deterioration and it possesses the highest literacy rate for population ages 15 and above among many other countries in 2009.

Table V – Literacy Rate for Population Ages 15 and Above

Country	Literacy Rate (in 2009, except otherwise stated)
Lesotho	89.7
South Africa	88.7 (2007)
Swaziland	86.9
Botswana	84.1
Zambia	70.9

Source: World Bank, 2011⁷⁰

Having said that, human capital in Lesotho, particularly in relation to tourism services, still lacks competitiveness when compared to South Africa due to the different stages of tourism development. As tourism is highly labor-intensive, the skill and the productivity of tourism workers and service providers would impact the quality of services and the investment cost of soft infrastructure like training of tourism professionals.

The amelioration of service delivery is intrinsic to a positive government performance. The PRSP identified the main causes of poor service delivery, especially in rural areas, as being the lack of technological capabilities, poor managerial practices and a poor working environment. Government employees were understood to be demoralized, in part due to an inadequate remuneration system and an ill-equipped working environment.⁷¹ In addition, the PRSP identified weak links between budgetary realities and government set priorities were sometimes incongruent.⁷² The Government of Lesotho was perceived to be “*bottom heavy*” with a large contingent of support staff, while lacking reliable decision-making processes personnel in the higher echelons of government administration.

Public service delivery can have a serious impact on the ease of doing business for private investors. The performance of the public sector would also be a factor affecting donor organizations’ assessment of aid program.

ENHANCED INTEGRATED FRAMEWORK (EIF) AND DIAGNOSTIC TRADE INTEGRATION STUDY (DTIS)

The Enhanced Integrated Framework (EIF) is a multi-donor program spearheaded by the WTO. The program originally stemmed from the Integrated Framework (IF), which was

⁶⁸ Gill (1983).

⁶⁹ Kingdom of Lesotho (2003): 76.

⁷⁰ World Bank database

⁷¹ Gill (1983): 92.

⁷² Ibid.

setup in 1997. The objectives of the program are to assist LDCs through mainstreaming trade, giving technical assistance and training in issues constraining supply-side bottlenecks. The core agencies involved in assisting LDCs in enhancing capacity to address trade-related problems and facilitate integration into multilateral trading system include IMF, ITC, UNCTAD, UNDP, World Bank and WTO. Since 2002, Lesotho has become one of the beneficiary countries under the EIF.

As the framework document to guide the trade mainstreaming work, a Diagnostic Trade Integration Study (DTIS) is prepared under the EIF. The DTIS analyzes both the internal and external constraints facing the country in increasing its integration into global economy. An important output of the DTIS is the Action Matrix that spells out the policy measures, and investment and technical assistance needs that have been identified through the diagnostic work.

The Lesotho's DTIS commenced in November 2001 with consultations with the six IF core participating agencies, government and non-government organizations in Maseru. The study was launched in March 2002 at the National Integrated Framework Conference. Led by the World Bank, Lesotho undertakes the DTIS with an aim to identify sector level interventions that have a high potential for reducing poverty and enhancing economic development in the country. After validation of the DTIS report in 2003, Lesotho received further approval for funding under the two windows of IF for the diagnostic study and approved projects respectively.

The DTIS sums up that Lesotho's foreign trade and investment performance stands out among other countries with similar characteristics in terms of resource endowments, land-locked status and level of economic development.⁷³ This is measured by Lesotho's openness to trade⁷⁴ using the following indicators from the World Bank's World Development Indicators (2001)⁷⁵:

- *Foreign trade in goods as a percent of goods GDP⁷⁶, which was 198.2%;*
- *Export per capita and share of exports in GDP, where Lesotho tops similarly endowed countries at US\$81 in 1999; and*
- *Share of exports in GDP at 18% was significantly above average.*

Nonetheless, DTIS identifies the following five challenges to Lesotho towards integration to global economy:

- (i) Poverty remains pervasive in Lesotho with a high unemployment rate at 30% of population. Almost 50% of its population can be considered to live below the poor line and 80% of the poor is concentrated in rural areas.

⁷³ Comparable countries include Armenia, Bhutan, Burkina Faso, Burundi, Central African Republic, Chad, Kyrgyz Republic, Lao PDR, Malawi, Mali, Moldova, Mongolia, Niger, Rwanda, Tajikistan and Zambia. The average value of exports per capita in this group is \$41. Only Mongolia and Moldova had higher exports per capita.

⁷⁴ Trade openness is the average of exports and imports as a percentage of GDP.

⁷⁵ World Bank database WDI (2002)

⁷⁶ Trade in goods as a share of GDP is the sum of merchandise exports and imports divided by the value of GDP after subtracting value added services.

- (ii) The HIV/AIDS pandemic poses a major health threat to Lesotho, which affects mainly the economically active population. The population life expectancy has declined significantly within 10 years since 1989 from 53 years to 45 years. Among the consequences of the HIV/AIDS pandemic, is a potential decline of an educated contingent of the population, since most of the infections happen in urban areas, where people tend to attain higher instruction.
- (iii) Lack of positive spillover so far from investment by foreign firms, particularly in the garment industry. There is a lack of evidence of the domestic market taking advantage of the booming textiles industry to provide subcontract services and inputs. The growing foreign garment industry in Lesotho and rising garment exports to the United States does not translate in tax revenue increases. This is mainly due to public sector concessions granted in the form of investment incentives and preferential trade agreements.
- (iv) Mounting pressures on infrastructure caused by the rapid development of the clothing sector in terms of having adequate supply of reliable electricity, telecommunication, clean water supply, dedicated industrial land, factory shells and handling capacity of Maseru Railhead.
- (v) Risk that the preferential advantages that Lesotho currently gains under AGOA may evaporate and being dependent on preferential trade raises the question of sustainability to trade and investment growth of the country.

The DTIS observes that the current level of Lesotho's integration into South Africa has not generated pressures in enhancing its institutional and policy reforms. Lesotho has successfully liberalized and integrated into international markets and launched sound macroeconomic policies. Therefore, the DTIS recommends Lesotho to take advantage of its sovereign status to pursue two parallel strategies designed to lower the trading costs with South Africa, SACU members and rest of the world, and establish a competitive business environment relative to other countries in the region. Lesotho needs to consider removing remaining barriers to trade such as customs, technical regulations and standards, to name but a few, while reducing CETs. Additionally, administrative red tape that impedes the conduct of business activity has to be removed to ensure improved public service delivery, public order and good governance to encourage a flourishing business climate.

The DTIS further recommends that poverty reduction be adopted as an integrating theme of broader strategy. The links with poverty reduction are multifaceted, yet the pertinent measures through their impact on production, trade and investment could help addressing the problem of high unemployment. The common theme between poverty reduction and trade integration is to facilitate economic development by maintaining a business friendly environment, reduce the cost of bureaucratic barriers to doing business, strengthen linkages between larger export firms and small and medium manufacturers and enterprises through subcontracting and the like, and to work with the private sector to expand business and vocational training. At the same time, there is a need to re-orient key agencies to focus on supportive policy development.

The DTIS also has identified several measures to expedite the trade integration of Lesotho as listed in the Action Matrix. Some of the action plans can be implemented without external assistance such as:

- (i) Overhaul of visa regulations to ease movement of potential investors;
- (ii) Signing a consular protocol with South Africa (or other country) to issue visas in countries where Lesotho does not have a consular representation;
- (iii) Full implementation of the 2001 Environment Act to penalize polluters for any damage done to natural environment;
- (iv) Extension of land leases to 99 years;
- (v) Improving the Lesotho Electricity Corporation's billing practices
- (vi) Transforming the Maseru Railhead into a modern transportation facility

As examined, trade in Lesotho has not been significantly diversified. In terms of trade in manufactured goods, textiles and clothing production, under the privileged provision of AGOA, accounted for 65% of the total value added in Lesotho in 2008.⁷⁷ Diamond mining is another major export sector in the country. With the uncertainty created by the expiration of AGOA in 2015, the economy in Lesotho is in imminent need of diversification. The EIF can be an opportunity for the country to source necessary funding to start up development of diversified sectors, such as trade in services like tourism.

Based on the conducted DTIS the Government of Lesotho, Lesotho underwent the EIF Tier 1 application and received an approval in January 2010. Funding totaled USD 187,000 (50% of the 2010 allocation of USD 374,000) was made available to Lesotho within a few months, and a National Implementation Unit (NIU) was set up in late 2010 as the new secretariat sitting under the Ministry of Trade and Industries, Cooperation and Marketing (MTICM) to coordinate with the EIF. The NIU has close coordination with both the Government of Lesotho (as it is under the MTICM) as well as the EIF coordinator, UNDP (daily contact). The Principal Secretary of MTICM is the EIF focal point in the Government of Lesotho.

With the set up of the NIU, Lesotho has started the preparation for the Tier 2 funding application to prioritize its development strategies and mainstream trade in targeted sectors. The NIU will engage participation of the private sector and the trade-focused NGOs to devise development proposals and assess their viability to seek aid under the Tier 2 mechanism.

While the DTIS update aims to strengthen the mainstreaming of trade into national development policies and integrate into the international trading system that would aid alleviate poverty, the NIU coordinator in Lesotho suggested that Tier 2 projects will focus more on the capacity building related dimension and mainstream trade to enhance Lesotho's competitiveness. Investment in infrastructure and tourism-related facilities can be a viable area to explore. Under the Tier 2 program, an annual fund of USD 3 million will be available for Lesotho's trade development provided that there are viable projects that fall within the EIF guidelines. This would also include support to the institutional enhancement as well as policy and strategy capacity development.

Since validation of the DTIS, the development context in Lesotho has evolved. The Project reviews the DTIS framework and attempts to link investment in TRI to the Action Matrix of the DTIS. While the study has not specifically focused in TRI development, the findings of this Project allow decision makers in Lesotho to review the strategy for trade mainstreaming and consider applying the DTIS to trade in services, particularly in infrastructure and tourism development.

⁷⁷ Bureau of Statistics (2010): 27.

While Lesotho's DTIS document has not been updated since 2003, some major findings of the document are still valid for Lesotho at present. The study assesses Lesotho's trade and investment regime, and derived implications for policy reform and technical assistance. The study's two-track policy recommendations on Lesotho's internal policies and economic relationships with regional and global partners remain valid. The two-pronged strategic policy includes pursuing policy integration at the regional level to create a single integrated market within SACU, and taking unilateral moves to improve the domestic investment climate. The technical assistance provided under the IF would help to strengthen the government's capacity to pursue these policies effectively.

PART IV – INVESTMENT IN INFRASTRUCTURE IN LESOTHO

9. Investment Climate For Infrastructure Development

INVESTMENT ENVIRONMENT AT A GLANCE

Lesotho has a volatile business environment due to legal, economic and regulatory uncertainties. There are significant differences between the requirements that Basotho and foreigners experience in conducting private sector dealings. According to the *Investment Climate Report on Lesotho* by the US State Department (2009), foreign investors initiating capital-intensive projects tend to enter and exit the country with relative ease. Potentially as a result of this, the AGOA has allowed Lesotho to build a textile and clothing sector largely based on foreign investment, which represents significant benefits for the country.

In contrast with foreign run enterprises, local business in Lesotho operate in a relatively unregulated environment. Evidence shows that there are lacking property rights as well as poor instruments for contract enforcement. From a bureaucratic standpoint, red tape and credit conditions presents the greatest concern to Basotho private sector dealings. The Project finding indicates that **more than half of the private businesses surveyed felt that the government did not support their business,**⁷⁸ and **76% said that access to credit is poor in Lesotho.**⁷⁹ Intellectual property rights are perceived less effectively protected by the regulatory framework and actual execution.⁸⁰

Lesotho is relatively open to FDI when compared with other developing economies. On the other hand, small-scale and services sector have restricted ownership rights, and are only available to Basotho.⁸¹ 90% of FDI is manufacturing geared towards exports. Foreign investors are from East Asia and South Africa.⁸² Eight factories are South African, two are Taiwanese, two are Hongkongese, and one is Singaporean. Foreign investors are assisted by the Lesotho National Development Corporation (LNDC) to establish operations within the country.⁸³ The LNDC provides foreign investors with “*concessions, training grants, loans, sites for industrial buildings and project services*”,⁸⁴ amongst others, and will also take an equity stake in some foreign investments.⁸⁵ This generates revenue for the Government of Lesotho. FDI in the retail sector is effectively disallowed as the result of a ban on foreign investment in space with a small size (1000 m² or less).⁸⁶ – a policy intended to curb Chinese and West-African immigration.⁸⁷ CBL who supervises FDI flows in the country allows investors to remit profits back to their country of origin.⁸⁸

⁷⁸ Annex IV.

⁷⁹ Annex IV.

⁸⁰ Annex IV.

⁸¹ US State Department (2009).

⁸² US State Department (2009).

⁸³ US State Department (2009); Annex IV.

⁸⁴ Deloitte (2006): 2

⁸⁵ Annex IV.

⁸⁶ Deloitte (2006).

⁸⁷ US State Department (2009); UNCTAD (2003).

⁸⁸ UNCTAD (2003).

DISPUTE RESOLUTION AND PROPERTY RIGHT

The rights of foreign investors are generally well protected in Lesotho. The High Court of Lesotho hears disputes involving investors from abroad, and the courts are perceived as “*fair and impartial*”.⁸⁹ Lesotho is also a member of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group. Investors, including investors in infrastructure, who look for political risk insurance can leverage on the risk-mitigation facilities of MIGA to invest in Lesotho.⁹⁰ Regarding the implementation of robust measures for contract enforcement, Lesotho is close to the world average, although this still represents 785 days to settle for dispute settlements. Decreasing the number of days necessary to settle a dispute is an important tactic in creating a business climate that is conducive to private sector growth.

The relative ease with which foreign investors do business in Lesotho is contrasted with the experience of the local private sector. Domestic, private sector agents, specifically SMMEs, often encounter bottlenecks when conducting business in Lesotho.⁹¹ Much of the domestic economic activity is conducted in the informal sector. This can be traced, among other things, to lacking property rights. In the capital of Maseru, South African and East Asian companies dominate the formal retail sector, whereas Basotho businesses are primarily in smaller towns, the countryside, and outskirts of urban areas.

EASE OF INVESTMENT PROCEDURES IN LESOTHO

According to the latest *Doing Business in Lesotho 2011* (World Bank, 2011), Lesotho ranks 138th out of 183 countries for ease of doing business.⁹² Its competitiveness ranking based on the *Africa Competitiveness Report 2011* (World Economic Forum, 2011) is 128 out of 139 countries, and Lesotho falls behind other SACU countries.

Barriers to investment still exist, and this affects more to infrastructure projects. For example, the average time period an investor deals with construction permits is approximately 20 months.⁹³ Other examples include obtaining a land lease (6 months), connecting to electricity (9 months) and telecommunications equipment (6 months). Property registration takes over 3 months. This time period is four to five times the time taken in other countries in the region, such as Botswana, Namibia, and Swaziland.

The World Bank report shows that starting a business takes 40 days in Lesotho. This represents an improvement from 2008, when the average time to start a business was 73 days. This can be attributed to the creation of a One Stop Shop (OSS), an official registry that provides entrepreneurs with a centralized office charged with streamlining some of the bureaucratic requirements of starting a business.

ACCESS TO LOCAL FINANCE CAN BE A BOTTLENECK

⁸⁹ US State Department (2009).

⁹⁰ MIGA project database. For example, Imperial Group (Proprietary) Limited, a South African investor, received a guarantee from MIGA to cover USD 11 million in equity and USD 12.75 million in shareholder loan for its investment in Lesotho in 2000, shortly after the political unrest in 1998.

⁹¹ Annex IV.

⁹² World Bank (2011).

⁹³ World Bank (2011).

Lesotho's credit conditions also present significant challenges to the private sector. For instance, there is no unified system that monitors credit conditions in the country. Thus, credit scores or other instruments that might be used to evaluate if a person is able to fulfill one's financial obligations are inexistent. As a consequence, financial institutions are extremely cautious in their lending activities and domestic credit policies. According to the research finding of the World Economic Forum⁹⁴, access to financing heads the major problematic factors for doing business in Lesotho:

Top five most problematic factors for doing business in Lesotho

- Access to financing
- Inadequate supply of infrastructure
- Corruption
- Inefficient government bureaucracy
- Poor work ethic in national labour force

The government has put forth an initiative to develop a credit rating agency.⁹⁵ Besides, the MCC has been pushing for the adoption of individual identity cards in the country to facilitate an instrument provision for financial identification. Both initiatives, if successful, can ameliorate credit policy and conditions in Lesotho.

TAX PAYMENT AND COST OF BUSINESS

Lesotho ranks 64 out of 183 countries in relation to the ease of paying taxes.⁹⁶ Tax preparation requires on average 324 hours per year for local investors in Lesotho. The most substantial tax on business activity in Lesotho is the value-added tax, or VAT, at 14%.⁹⁷

Compared to the rest of the world, the cost of importing and exporting in Lesotho is high. However, compared to other countries in Southern Africa, the cost of trading across borders is low in Lesotho, with the majority of costs incurred in inland transportation and handling operations.⁹⁸ This highlights a greater need for infrastructure development in the country, which would decrease transportation costs. Table VI summarizes the findings of *Doing Business 2011 – Lesotho*.

⁹⁴ World Economic Forum (2011a): 154

⁹⁵ Tlelima, Tanka (2011).

⁹⁶ World Bank (2011). *These countries are Angola, Botswana, Namibia, and Swaziland*.

⁹⁷ World Bank (2011).

⁹⁸ World Bank (2011).

Table VI - Doing Business in Lesotho

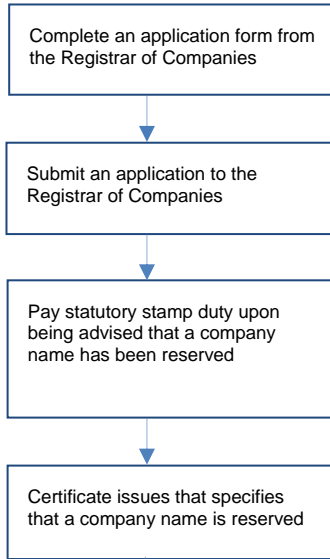
	2010 Rank	2011 Rank	Change in Rank
Starting a business	134	140	-6
Dealing with construction permits	161	163	-2
Registering property	141	146	-5
Getting credit	125	128	-3
Protecting investors	146	147	-1
Paying taxes	61	64	-3
Trading across borders	144	140	+4
Enforcing contracts	115	116	-1
Closing a business	73	69	+4

Source: World Bank (2011).

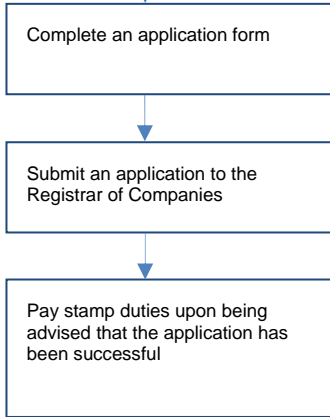
Overall, the development of a dynamic local private sector, built on a foundation of SMMEs, property rights, access to credit and an efficient civil service is an important component in the country's strategy for economic growth and poverty reduction. In fact, the Government of Lesotho has taken firm step in strengthening the private sector via the establishment of institutions such as the Lesotho Private Sector Foundation, an apex representational body of the private community, as well as the Business Council of Lesotho comprising business leaders, commercial representatives, ministries' officials and chairing by the Prime Minister. The set up seeks to create a more efficient forum to enable dialogue between the private sector and the Government in terms of policy formulation and empower the private sector in national development policy.

Box 9.1 - Establishing a Business in Lesotho

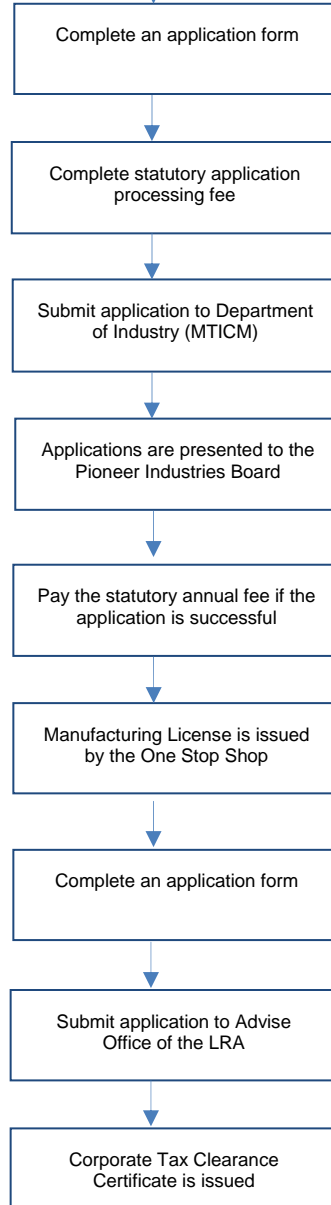
STEP 1
Reserve a company name



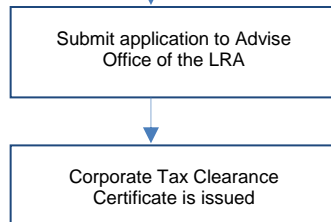
STEP 2
Registering a company



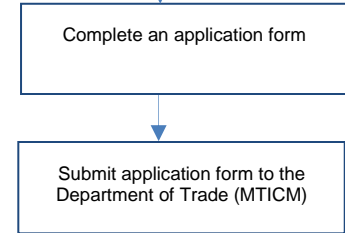
STEP 3
Getting a Manufacturing License
(If a manufacturing license is needed)



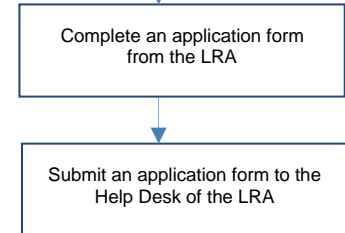
STEP 4
Taxation



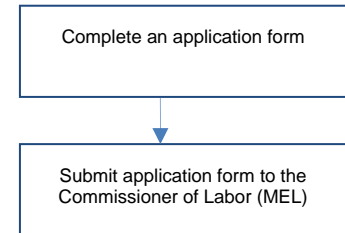
STEP 5
Registering as an Importer
(If applicant wishes to import and export into and from SACU)



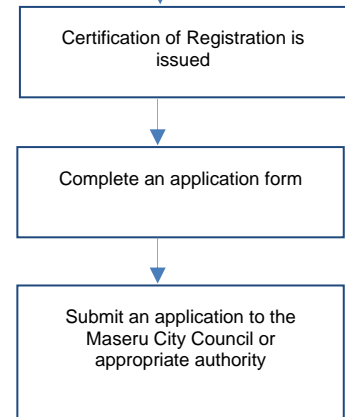
STEP 6
Registering a Bonded Warehouse
(if applicant wishes to import and export)



STEP 7
Registering a Factory



STEP 8
Registering for Municipal Rates



10. Tourism-Related Infrastructure in Lesotho

DEFINITION OF TOURISM-RELATED INFRASTRUCTURE

TRI refers to the “*physical element that is created or made to cater for visitors*”.⁹⁹ While tourism is a multi-sectoral domain involving provision of goods and services to visitors, TRI establishment for tourism is manifold. To ground this study in the economic reality of Lesotho, the link between infrastructure development and the tourism sector has been examined. As such, it is necessary to review the infrastructure sub-sectors that link directly to the development of tourism and tourism businesses. **Tourism-related infrastructure (TRI) is defined as any infrastructure that relates to the supply chain of the tourism industry.** Major TRI includes roads and transportation systems, electricity, water and sanitation, telecommunications, health-related and emergency services. On the other hand, soft infrastructure like human capital, institutional structure and governance capacity also play a central role in business and tourism development. The Project focuses the abovementioned infrastructure as core TRI for analysis.

Box 10.1 – OECD’s Definition of Infrastructure

The OECD defines infrastructure as “the system of public works in a country, state, or region, including roads, utility lines and public buildings”.¹⁰⁰ Infrastructure is further divided into “hard” and “soft” infrastructure as a means of categorizing asset bases and their potential consequences to development. Hard infrastructure includes transportation systems such as roads and airports, power and electricity, water and sanitation systems, and telecommunication networks. Soft infrastructure refers to the institutions that are necessary to keep an economy functioning well, such as access to business acumen, schools and universities, research and development systems, business advisory services, financial services, an impartial legal system, and crime prevention and law enforcement services.¹⁰¹ In general, infrastructure refers to assets that act as conduits in facilitating economic exchange.

INFRASTRUCTURE GAP IN AFRICA

The challenge of underdeveloped infrastructure is not unique to Lesotho. Africa is characterized by a substantial shortfall in infrastructure. The African Development Bank (AfDB) estimated in 2010 that approximately USD 93 billion per year is necessary to close the infrastructure gap in Africa by 2020.¹⁰² The Infrastructure Consortium for Africa (ICA), an international organization hosted by the AfDB, estimates that poor and a lack of infrastructure has hindered African productivity by as much as 40%. According to these estimations, African economies have experienced a yearly 2% GDP retraction.¹⁰³ Table VII summarizes a breakdown of investment needs by infrastructure sub-sector in Africa.¹⁰⁴

⁹⁹ Davidson R. (1993).

¹⁰⁰ OECD (2002).

¹⁰¹ World Bank (2011).

¹⁰² African Development Bank (2010).

¹⁰³ Infrastructure Consortium for Africa (2011).

¹⁰⁴ Infrastructure Consortium for Africa (2011).

Table VII - Infrastructure Investment in Africa

Infrastructure Sector	Capital Expenditure	Operation and Maintenance	Total
ICT	7.0	2.0	9.0
Irrigation	2.9	0.6	3.5
Power	26.7	14.1	40.8
Transport	8.8	9.4	18.2
WSS	14.9	7.0	21.9
Total	60.3	33.1	93.4

Source: Infrastructure Consortium for Africa, 2011

The ICA asserts that the greatest deficit is in the electricity and water sub-sectors¹⁰⁵, both of which are categorized as TRI in the Project. Both the AfDB and the ICA advocate an integrated approach for infrastructure finance, which includes funding from donors (in the form of project grants and official development assistance), governments, and the private sector. The Monterrey Consensus on Financing for Development recognizes that all of these sources of capital play an important role in development policy and strategy.¹⁰⁶

INFRASTRUCTURE AND DEVELOPMENT IN LESOTHO

Infrastructure facilitates economic exchange by decreasing transaction costs between businesses and markets, both domestic and foreign. A robust TRI system of electricity, water and sanitation, roads, and telecommunications provide an enabling environment in which businesses can thrive.

In Lesotho, the lack of infrastructure obstructs much of the country from realizing the benefits of FDI inflows, as well as business development in the capital city of Maseru. Populations outside Maseru face difficulties in business development due to insufficient infrastructure set up, and it can challenge people's basic survival needs at worst scenario. Diminished barriers to trade – combined with access to financial and human capital, property rights, and a sound legal system – may contribute to a country's economic development.¹⁰⁷ Infrastructure development is an important asset in allowing for economic growth. However, evidence shows that it must be linked with a favorable international trade schedule and good domestic development policies. Because of the role that infrastructure plays in facilitating economic exchange, a well-developed infrastructure system, in all the relevant areas (hard and soft) is necessary to create economic growth.

While investments in each of these infrastructure sub-sectors provides for direct economic gains, they also have additional spillover effects. The tourism sector stands to gain substantially from improvements in infrastructure, as has been addressed by both practitioners and academics in the field.¹⁰⁸ The lack of adequate TRI hinders tourism development and consequentially the development of its industry. Without a well functioning transportation network, telecommunications, and sanitation system, the potential for developing the tourism

¹⁰⁵ Infrastructure Consortium for Africa (2011).

¹⁰⁶ Monterrey Consensus on Financing for Development (2002).

¹⁰⁷ African Development Bank (2010).

¹⁰⁸ Geloso Grosso (2007).

sector is dampened.¹⁰⁹ This type of infrastructure requires construction, operation, and maintenance, which creates jobs in the economy and deepens technical and operational knowledge. Another benefit of infrastructure assets is that although they do require a capital-intensive investment at the outset, once built, the cost for maintenance is marginal compared to the original cost of construction. Additionally, the public has access to the service provided by the asset, either paid for by tax revenue if subsidized by the government or for user fees, depending upon the contractual structure used to procure it.

INFRASTRUCTURE DEVELOPMENT AND TOURISM

Tourism is closely correlated with infrastructure development. Without effective introduction of adequate infrastructure in the country, it would hardly be possible for LDCs like Lesotho to be capable of developing tourism, attracting tourists to visit, and leveraging on the spillover effects of tourism to boost poverty reduction and national economic growth. When the establishment of infrastructure and tourism-related facilities is very often lacking in LDCs, the capacity of LDCs to attract foreign investment (both from the public and the private sectors) to trigger the development of tourism activities is essential. Lesotho is of no exception. “*Significant amounts of capital and expertise are needed to unblock bottlenecks*”¹¹⁰. As tourism links to development across sectors, including transportation and infrastructure, agriculture, retail and distribution, manufacturing, recreational services, and others, the capability of the national government to mobilize and coordinate among different stakeholders often determines the level of success in tourism development.

TOURISM-RELATED INFRASTRUCTURE IS NOT WELL-EQUIPPED IN LESOTHO

Lesotho needs to urgently address various challenges due to a poorly developed infrastructure, including its transport network, which continues to impose significant cost on trade transactions.¹¹¹ Closely related to the weak competitiveness of the economy are low levels of infrastructure facilities, including inadequate road transport network and lack of reasonably priced and efficient utilities (electricity, water and telecommunication services) that continue to limit private sector development and economic growth. The quality of infrastructure in Lesotho is below that prevailing in most southern African countries. Bogetic (2006) provides a comprehensive benchmarking of Lesotho’s infrastructure performance compared to other SSA countries. More up-to-date figures need to be further examined.

Table VIII - Key Data of Lesotho Infrastructure Benchmarking as of 2006¹¹²

	Lesotho	Benchmark Low Income	SSA	World	Lesotho vs. Benchmark	Lesotho vs. SSA
Deviation of -10% or more from Benchmark						
Energy: Access to Electricity Network (% of pop)	6	31	15	60	Worse	Worse
Electricity Average End-User Prices (US cents/kWh) – (Residential/Non-energy:Residential)	8/3	6/6	6/5	9/6	Worse	Worse

¹⁰⁹ Geloso Grosso et al. (2007): 6.

¹¹⁰ Geloso Grosso (2007): 5

¹¹¹ African Development Bank (2004).

¹¹² Bogetic (2006).

ICT: Mainlines Teledensity (Mainlines subscribers/1000 people)	16	29	31	213	Worse	Worse
ICT: Cost of Local Phone Call (US cents/3 minutes)	22	8	10	9	Worse	Worse
ICT: Phone Faults (reported faults/100 mainlines)	75	64	57	37	Worse	Worse
Transport: Paved Roads (% of total roads)	18	30	25	50	Worse	Worse
Water: Access to improved sanitation (% of population)	37	41	37	64	Worse	Same
Deviation between -10% and +10% from Benchmark						
ICT: Teledensity (total phone subscribers/1000 people)	63	64	99	501	Same	Worse
Deviation of +10% or more from Benchmark						
ICT: Cellular Teledensity (cellular subscribers/1000 people)	47	37	73	296	Better	Worse
ICT: Cost of Phone Calls to the US (US cents/3 minutes)	231	504	497	335	Better	Better
ICT: Cost of Cellular Local Calls (US cents/3 off-peak minutes)	26	40	42	49	Better	Better
Water: Access to Improved Water Sources (% of population)	76	65	64	80	Better	Better
Transport: Road Density in Terms of Population (road-km/1000 people)	3.4	3.0	3.3	6.7	Better	Same
Transport: Road Density in Terms of Land (road-km/1000 sq km)	196	181	155.7	840.6	Better	Better
Transport: Travel Time to Work in Main Cities (minutes/one-way work trip)	15	33	34	31	Better	Better

Source: Bogetic (2006).

To provide a more comprehensive picture of the development deficiency and the investment challenge in TRI sub-sectors in Lesotho, the Project examines the current level of establishment of TRI including ICT, health-related, water and sanitation, transportation as well electricity. Except in financing health-related infrastructure, no genuine PPP structure has been established. The majority of assets are financed either through a corporate finance structure (as is the case with mobile telephony), or public spending (as with water and electricity).

INFORMATION AND COMMUNICATION TECHNOLOGY

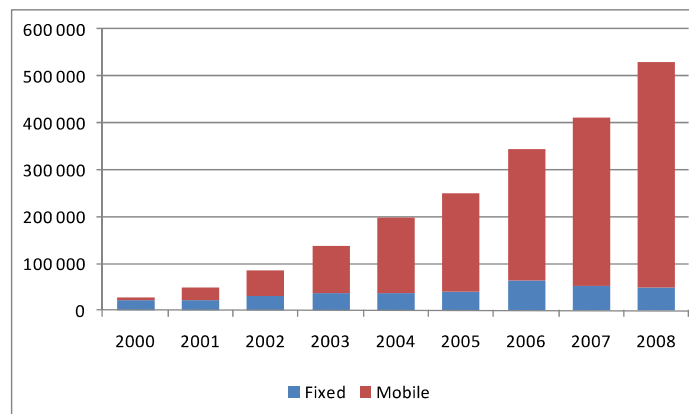
Realizing the potential of information and communication technology to be an important driver of economic growth and investment promotion, the Government of Lesotho has taken steps to reform the sector. The liberalization of the Lesotho communications sector started in 2000, marked by the creation of Lesotho Communications Authority (LCA) to fully regulate

the sector into a competitive market. The end of exclusivity of the incumbent operator follows this in 2007 resulting to emergence on new firms entering the Basotho market.¹¹³

The regulatory mandate of the Lesotho Communications Authority includes issuing licenses, approving tariffs, promoting fair competition and protecting consumers, amongst other functions.¹¹⁴ Four telecoms operators are licensed in Lesotho: Telecom Lesotho (a provider of fixed lines), Vodacom Lesotho (mobile), Telecom Mobile (mobile), also known as Econet Wireless, and Bethlehem Technologies (Internet provider). Telecom Lesotho is a public provider and the remaining providers are private service providers.¹¹⁵

The telephone system has been modernized and expanded in recent years. An earth station installed in 1984 at Ha Sofonia connects Lesotho to global telecommunication networks,¹¹⁶ while regional links are established through microwave networks via South Africa. As of 2008, 28% of the Basotho were mobile subscribers, while only 3% were fixed line subscribers. Mobile telephony accounts for 91% of telephone subscriptions.¹¹⁷ In general, there has been a significant increase in the number of telephone subscriptions, especially in mobile services as shown below. Internet use is 3.6% of Basotho. Only 140 people are connected to fixed broadband Internet services and an average of 3% population owns a personal computer.¹¹⁸ According to the ITU Information and Communication Technology Development Index of 2007, Lesotho is ranked 123 of 154 countries¹¹⁹ and 107 of 133 countries according to the World Economic Forum's Networked Readiness Index of 2009-2010.¹²⁰

Telephone Subscriptions in Lesotho (numbers)¹²¹



Source: Bureau of Statistics, Lesotho (2010)

There has been a huge increase in the number of tele-bureaus and payphones, which reflects the increased access to communication facilities in Lesotho. Access also improved with the

¹¹³ Lesotho Communications Authority (2010).

¹¹⁴ Lesotho Communication Authority (2011).

¹¹⁵ Lesotho National Development Company (2011).

¹¹⁶ UNECA Lesotho NICI Policy

¹¹⁷ Lesotho Statistical Yearbook (2010).

¹¹⁸ World Bank Database.

¹¹⁹ ITU Measuring the Information Society: The ICT Development Index (2009).

¹²⁰ World Economic Forum (2009a).

¹²¹ Lesotho Statistical Yearbook (2010).

growing number of businesses that provide Internet services, such as Internet cafés, LAN houses and similar commercial establishments. In 2008, the LCA recorded 28 establishments of sorts, almost half of them concentrated in Maseru. Table IX shows the distribution of Internet establishments according to administrative region in Lesotho.

Table IX - Distribution of Internet Establishments in Lesotho

Licenses Issued	Number
Maseru	11
Leribe	5
Mafeteng	3
Botha-Bothe	2
Berea	2
Mohale's Hoek	2
Qacha's Nek	2
Mokhotlong	1
Quthing	-
Thaba-Tseka	-
LESOTHO	28

Source: Lesotho Communications Authority (LCA).¹²²

HEALTH-RELATED INFRASTRUCTURE

Health is an important subject of Lesotho's poverty reduction strategy.¹²³ Lesotho has a high prevalence of HIV/AIDS and tuberculosis (TB), which has affected many areas of social and economic development. These pandemics have also negatively affected the economy of the country. The poor access to healthcare facilities and the status of its infrastructure have further aggravated the situation. The challenge has been recognized by the Government of Lesotho and the Ministry of Health and Social Welfare (MOHSW) in order to develop a national health infrastructure and equipment plan.

“Health facilities and equipment require to meet changing demands in demography, epidemiology, financing, clinical management, improvement in prevention of diseases and promotion of health. In addition there are issues of general inadequacy, maintenance and mismatch between available infrastructure and human resources in some areas”¹²⁴.

The Government of Lesotho provides 43% of health care services in the country. The Christian Health Association of Lesotho (CHAL) provides 39% and other NGOs and the private sector are responsible for the remaining. A network of hospitals, clinics and health centers provide basic facilities throughout most of the country. In addition, there is a mobile medical service that provides assistance to more remote areas, bringing medical supplies to rural and mountainous areas. Table X shows various health care providers and health facilities in the country.

¹²² *Ibid*: 35.

¹²³ Government of Lesotho (2004).

¹²⁴ Ministry of Health and Social Welfare (1999): 77.

Table X - Access to Health Care Services in Lesotho

Healthcare Providers	Services provided (in %)	Health Facilities		
		Hospitals	Health Centers / Surgeries	Total
Government	43	12	76	88
CHAL	39	8	72	80
NGOs	18	0	6	6
Private Sector		1	30	31
TOTAL	100 %	21	184	205

Source: List of Health Facilities (Draft MOHSW Report: 2007).¹²⁵

In 2006, the per capita health expenditure was USD 51 and the total expenditure on health was 6.8% of GDP. The government per capita expenditure on health was recorded as USD57, which represents 8.2% of total government expenditure¹²⁶. The U.S. Department of State Travel Advisory notes, “Medical facilities are limited... There is no reliable ambulance service in Lesotho... Many medicines are unavailable.” An effective increase in the public health allocation to meet the minimum requirements of the population remains a challenge to Lesotho.¹²⁷

WATER AND SANITATION INFRASTRUCTURE

Infrastructure development in the water and sanitation sub-sector mostly hinges on the largest water infrastructure project in Africa, the Lesotho Highlands Water Project (LHWP).

The LHWP is governed by the Lesotho Highlands Development Authority, a para-statal entity owned by the Government of Lesotho that oversees the financing and implementation of the LHWP, and regulates use of the project’s assets. The Lesotho Water and Sewerage Authority (WASA) manages water distribution systems that are used for domestic consumption. It serves more than 300,000 urban customers, as well as industrial centers within Maseru.¹²⁸ Additionally, 5,000 customers are connected to the sewage system, and 8,000 customers are served through a portable water services that meets their human waste removal needs. The Lowlands Water Supply Project Unit (LWSPU) is a government agency set up in 2002 to oversee the Lesotho Lowlands Supply Scheme (LLSS). The LLSS was tasked with bringing water to lowland areas, in which demand for water resources outstrips supply.¹²⁹

Notwithstanding the substantial investment in infrastructure in the sub-sector, water and sanitation infrastructure is still insufficient in most part of Lesotho. The World Bank cites cost inefficiencies as a key challenge in the water sector, with low user tariffs unable to fully cover the costs of operating WASA.¹³⁰

¹²⁵ World Health Organization (2009a): 10.

¹²⁶ World Health Organization (2009b): 110-111.

¹²⁷ World Health Organization (2009a): 11.

¹²⁸ Water and Sewerage Authority online (2011).

¹²⁹ Kingdom of Lesotho and European Commission (2007).

¹³⁰ World Bank (2004).

The impact of the LHWP on Lesotho's economy has been positive but limited. The benefits of the program have been in the form of revenue to the Government, the improved capacity of Basotho laborers and technicians involved in the Dam's operation, and the development of the Government's regulatory skill.¹³¹ Throughout the process of the project, the World Bank acted as an adviser, as well as a party in the Trust Security Structure.¹³²

Members of the donor community have been involved in improving water and sanitation infrastructure in Lesotho. For example, the European Commission is currently focusing on developing water and sanitation infrastructure through their "*Lesotho Water and Sanitation Sector Programme*", which includes maintenance and enhancement of operations in Maseru.¹³³ Irish Aid is engaged in projects aimed at improving water and sanitation infrastructure by engaging with officials within the Ministry of Natural Resources (MNR) on how to effectively execute and monitor water and sanitation initiatives.¹³⁴

MORE THAN INFRASTRUCTURE, LHWP DEMONSTRATES INTER-GOVERNMENTAL PARTNERSHIP

In addition to an investment in water and sanitation infrastructure, the LHWP also demonstrates a cooperation model between Lesotho and South Africa. The project is a USD 8 billion inter-governmental venture between the two nations and a stable source of revenue for the Government of Lesotho.

The LHWP consists of the construction of four dams – Katse, Mohale, Mashai, and Tsoelike – which collect water from the Lesotho's river system in the highlands. Over 95% of water collected from approximately 2,800 km² of catchment area is then distributed and exported to South Africa in exchange for royalties.¹³⁵ In exchange for this, the Government of Lesotho receives royalties for the water distribution services that make up around half of Lesotho's export trade in services (LSL 327 million in 2008, or 48.3%).¹³⁶ This represents 9% of the Fiscal Budget in 2008/09,¹³⁷ and about 10% in 2007/08.¹³⁸ The project is mostly debt-financed, with the Government of Lesotho guaranteeing all costs related to the dams' operation, and South Africa assuming all costs related to water transfer.¹³⁹ Part of the water collection and provision system in the LHWP that is situated outside the territory of Lesotho is owned by South Africa.

The LHWP has four objectives,¹⁴⁰ namely to provide revenue to Lesotho by transferring water from the catchment of the Senqu/Orange River in Lesotho to meet the growing demand for water in South Africa's major industrial and population centers; to generate hydro-electric power for Lesotho in conjunction with the water transfer; to promote the general development of the remote and underdeveloped mountain region of Lesotho, while comprehensively mitigating any deleterious environmental and social side-effects of the project; and to provide the opportunity to undertake ancillary developments such as the provision of water for irrigation and portable water supply.

¹³¹ World Bank (2004).

¹³² Lesotho Highlands Water Project online (2011).

¹³³ European Commission online (2011).

¹³⁴ Irish Aid online (2011).

¹³⁵ Lesotho Highlands Water Project (2009a).

¹³⁶ Lesotho Statistical Yearbook (2010): 44-45.

¹³⁷ Lesotho Fiscal Tables (2007-2008).

¹³⁸ Lesotho Fiscal Tables (2007-2008).

¹³⁹ Lesotho Highlands Water Project online (2011).

¹⁴⁰ Lesotho Highlands Water Project online (2011).

The LHWP has four phases: 1A and 1B, which saw the completion of the Katse Dam and Muela Hydroelectric power station in 1998, and the Mohale Dam in 2002, and forthcoming phases 2, 3, and 4, which will realize Mashai Dam, Tsoelike Dam, and Ntoahae Dam. Phases 1A and 1B cost USD 4 billion combined, and are considered successful. Together, Katse and Mohale dams generate substantial revenue for the Government of Lesotho and water resources for South Africa.

Box 10.2 – A Snapshot of Lesotho’s Institutional Framework of the LHWP

The flagship partnership between Lesotho and South Africa occurred through the Lesotho Highland Water Project, a joint scheme between the governments of two countries, in order to allocate water resources within the region. The initial dealings of the project were pointed out as early as 1950 by British authorities.¹⁴¹

In 1986, the governments of South Africa and Lesotho signed a treaty allowing for the beginnings of the Lesotho Highland Water Project. The treaty included a revenue sharing agreement between Lesotho and South Africa, entailing the former to export water resources for fixed royalties depending on volume of water exported to the Gauteng province in South Africa.¹⁴² Two teams negotiated the treaty, one from Lesotho and South Africa, each comprised of legal experts, specialist consultants, engineers, and senior political leadership.

Lesotho was responsible for financing the hydroelectric power component of the LHWP. South Africa shouldered the rest of the costs, including transferred water costs, implementation of operations, operation costs, and displacement compensations for communities affected by the project.¹⁴³

The institutional framework that was set by the treaty created the Lesotho Highlands Development Authority (LHDA), which manages the core project as well as some of the adjacent issues pertaining to its functioning. Both South African and Basotho Governments are a part of the Lesotho Highlands Water Commission, which jointly manages some aspects of the project. The LHDA reports to the Commission. Additionally, two other entities were setup. The Trans-Caledon Tunnel Authority (TCTA) and the Joint Permanent Technical Commission (JPTC). The TCTA is responsible for tunnel transporting and overall management of the water flows. The JPTC has a monitoring and advisory role and approves the functioning of the project.¹⁴⁴

Today, the LHWP manages the water resources found in Lesotho’s highlands. The first phase of the project was completed with the construction of Mohale and Katse dams and the tunnels that interconnect these two dams. While generating most of the power that is needed in Lesotho, the project also transfers water to the industrial districts of Gauteng in South Africa. The upcoming next phase of the project, to be commenced in 2013, involves the construction of the Polihali Dam in Mokhotlong, eventually generating a 1000 MW pump storage scheme.¹⁴⁵

¹⁴¹ Lesotho Highlands Development Authority online (2011)

¹⁴² Lesotho Highlands Development Authority online (2011)

¹⁴³ Ibid.

¹⁴⁴ Lesotho Highlands Water Project online (2011)

¹⁴⁵ Lesotho Highlands Development Authority

It is argued that some of the infrastructure projects have not performed as per expectation. For example, although the 'Muela Dam is a power generation asset, Lesotho still underperforms on connectivity.¹⁴⁶ Such claim would require additional study.

The project was initially scheduled to provide some water resources to rural populations.¹⁴⁷ While the percentage of households with access to improved water resource reached 97% in 2008¹⁴⁸, further enhancement of water and sanitation infrastructure can improve the poverty situation in the rural area. The LHWP has not been used as a template for subsequent infrastructure investments, public or private. It is unclear whether the LNDC or other agencies have benefitted from the expertise gained by LHDA. Demand for water resources within Lesotho continues to outpace supply.¹⁴⁹

TRANSPORTATION INFRASTRUCTURE

Road transport in Lesotho is more developed within Maseru and from Maseru to the major dams of the LHWP. Transport systems in other regions of the country are generally much less developed, and some of them are untarred. The Government of Lesotho reckoned a total of 2,371 kilometers of road as of 2007, 58% of which is paved. Yet, the figure does not differentiate between tar and gravel paving,¹⁵⁰ and it contrasts with Bogetić's calculation where only 18% of roads were paved in 2006. The World Bank (2004) reports 7,500 to 8,000 km of roads in Lesotho.¹⁵¹ While the total length of road system is taken into consideration as a parameter of assessment of the transportation infrastructure development, it is noted that around 75% of the population in Lesotho reside along the tarred main roads. The population distribution within the country should be looked into.

¹⁴⁶ Bogetić (2006).

¹⁴⁷ World Bank (2004).

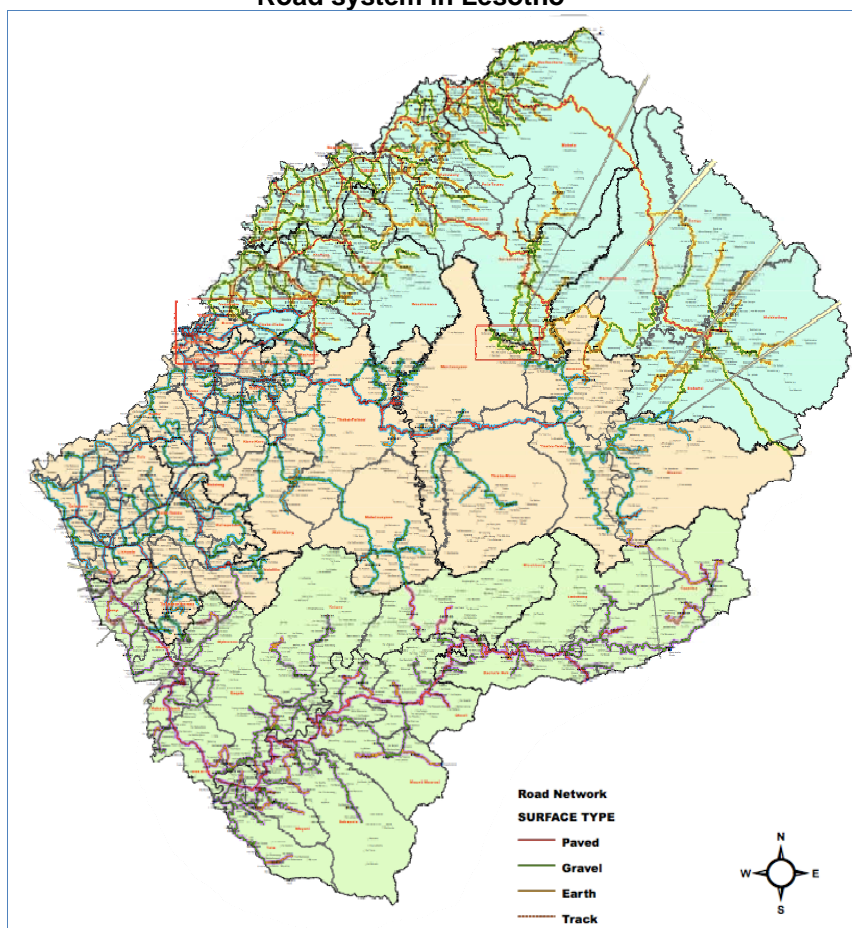
¹⁴⁸ World Health Organization and United Nations Children's Fund, Joint Measurement Programme (JMP).

¹⁴⁹ Kingdom of Lesotho and European Commission (2007).

¹⁵⁰ Lesotho Statistical Yearbook (2010).

¹⁵¹ World Bank (2004).

Road system in Lesotho



Source: MPWT (2010).

Road construction is mostly financed by the Government and international donors.¹⁵² The sector is regulated by the Roads Directorate within the MPWT, which oversees project management in consultation with the World Bank. In 1996, Lesotho established the inter-governmental Road Fund, which is governed by a board of directors from government ministries and the private sector. The Road Fund, financed entirely by taxes and user fees, is responsible for road rehabilitation and maintenance within Lesotho. In 2007, the World Bank approved a USD 34 million grant to the MPWT to strengthen regulatory oversight capacity, construct and rehabilitate more than 100 kilometers of road infrastructure and 2 bridges, and implement robust project monitoring and evaluation measures. As of March 2011, all aspects of the project are rated as “*satisfactory*” and are scheduled to be completed by June 2012.¹⁵³ The European Commission also funds road construction through grants provided to private contractors.¹⁵⁴

Lesotho has one international airport, Moshoeshoe I International Airport located in Maseru. Commercial flights were initiated in 2009, and operated by Airlink, a South African.¹⁵⁵

¹⁵² Annex IV.

¹⁵³ World Bank (2011).

¹⁵⁴ Annex IV.

¹⁵⁵ Lesotho Statistical Yearbook (2010).

According to World Bank (2004) report on infrastructure in Lesotho, the airport is subsidized by the Government, and is not attractive to private investors due to its low turnover.¹⁵⁶ In terms of traffic volume, the number of scheduled international flights per year increased steadily from 1,326 in 2001 to 2,377 in 2008.¹⁵⁷

Air traffic is regulated by the Department of Civil Aviation (DCA) within the MPWT. The DCA has three core responsibilities: (1) licensing and regulating operations that fall within Lesotho's air traffic, (2) operation and maintenance of the Moshoeshoe I International Airport, and (3) ensuring that regulations and operations are in compliance with international standards and treaties.¹⁵⁸ All flights connect through Johannesburg.

ELECTRICITY

Electricity generation in Lesotho is 90% supplied by the 'Muela hydroelectric station, part of the LHWP.¹⁵⁹ The remaining electricity supply is imported. The sector is publicly owned and financed by the MPWT, and regulated by the Lesotho Electricity Authority (LEA), which took over control from the Lesotho Electricity Company (LEC) in 2004. Nevertheless, the LEC still plays an important role in Lesotho's electricity system, acting as the body responsible for physical generation, distribution, and connectivity.

Lesotho's population is underserved in terms of its energy needs; the most recent figure (from 2007) shows 11% connected to the grid.¹⁶⁰ The same report indicates that only 3% of Lesotho's energy consumption is from electricity, with the remaining energy coming from Biomass (71.1%), petroleum (20.2%), and coal (5.2%). Petroleum and coal are imported, which leaves less financial resources available for other development initiatives.¹⁶¹ Biomass energy comes from traditional sources, such as firewood. Yet, it is noted that aggressive rural electrification is ongoing in different regions in Lesotho, and the Government together with the donor community is putting effort into more accessible electricity infrastructure in the country, in particular the rural areas.

A PPP in electricity generation – including renewable energy that could exploit Lesotho's substantial exposure to wind and sunlight – is possible in this sector. Factors crucial to such an initiative would be a simple, clear framework for issuing and evaluating tenders, donor support (especially in the case of renewable energy), widespread political support for such a venture, and a proper system of incentives to ensure returns for the private partner and value-for-money for the Government.

AN OVERVIEW OF INVESTMENT IN TRI IN LESOTHO

Since the global financial crisis, the Government of Lesotho has reviewed the development challenge of the country and looked for strategies to diversify its economic activities. The Budget Speech 2011/12 has highlighted plans to revisit tourism activity in Lesotho and explore the potential of job creation and any spillover generation of other economic activities.

¹⁵⁶ World Bank (2004).

¹⁵⁷ Lesotho Statistical Year Book (2010)

¹⁵⁸ World Bank (2004).

¹⁵⁹ Lesotho Statistical Yearbook (2010).

¹⁶⁰ Kingdom of Lesotho and European Commission (2007).

¹⁶¹ Kingdom of Lesotho and European Commission (2007).

Tourism-related investment represented a considerable portion of the total investment in the country. An estimated LSL 382.7 million (or approximately USD 57 million¹⁶²) would be invested into the sector in 2011, accounting for 8% of the total investment in Lesotho.¹⁶³ The investment sum falls behind most of the countries in Southern Africa including South Africa (USD 5.99 billion), Namibia (USD 190 million) and Botswana (USD 130 million).¹⁶⁴

South Africa is the largest foreign direct investor in Lesotho in 2010. South Africa is also a major investor in TRI in Lesotho. The two major high-end hotels in Lesotho, Lesotho Sun and Maseru Sun, are example of South Africa's key investment. South Africa also contributes a substantial sum of investment to the LHWP, which indirectly links to regional tourism activities like tour visits to the Mohale Dam and the Katse Dam; cultural tour in the nearby areas; and other potential water sports near the dam area. 75% of the total project cost of USD 1.1 billion incurred in Phase 1B of the LHWP was financed by South Africa.¹⁶⁵ Domestic investment in TRI in Lesotho involves mainly Government projects together with small-scale private sector investment, such as accommodation lodges and restaurants in the rural areas. Credit finance and investment procedures are two challenges faced by local investors.

Box 10.3 - The Role of Government of Lesotho in FDI in TRI The Lesotho Sun Hotel Project

As the most luxurious hotel in Lesotho, the Lesotho Sun hotel is owned and run by the Sun International that is an hotelier group in South Africa. It started operation in Lesotho in 1979 and became part of the Sun International in 1984. The hotel has a total of 262 rooms, and most of them have been refurbished in 2010. The project was one of the earliest public-private partnerships investing in TRI in Lesotho.

The major revenue of the hotel comes from its gaming business (around 40%)¹ while the rest are generated from conference organization (government and business conferences and meetings), rental of office space, catering and accommodation¹. It provided accommodation facilities not only for leisure visitors to Lesotho but also business visitors who come for regional conferences and short-term assignments like infrastructure engineering and project management related to the Highlands Water Project. The professionals and their affiliated friends and relatives are an alternative group of tourists to the country.

As a foreign investment, the Government of Lesotho has a share in the hotel and a representative of the Government sits in the Board of the Lesotho Sun. According to the group's 2010 annual report, the Government possesses 36.4% of Lesotho Sun's equity, and another 16.7% belongs to Lesotho National Development Corporation (LNDC).

According to Lesotho Sun, the hotel operation is closely coordinated with the Government of Lesotho, and a mutually respected arrangement is a key success factor of its stable investment operation.

In addition to the legislations relating to doing business in Lesotho for private enterprises, Table XI and XII summarize major legislative instruments that the Government of Lesotho has introduced to regulate investment in TRI as well as the tourism sector. Chapter 11 provides

¹⁶² Market conversion rate as of 25 April 2011.

¹⁶³ World Travel and Tourism Council (2011): 3

¹⁶⁴ World Travel and Tourism Council (2011): 9

¹⁶⁵ World Bank (2011e).

additional analysis of the existing legislative framework that affects investment operation in the country.

Table XI - Key Legislations Regulating TRI in Lesotho

Instrument	Year	Major Provision
Land Act ¹⁶⁶	2010	• Policy framework governing the land ownership and use of land in Lesotho
Roads Directorate Act	2010	• Creates the Roads Directorate, a semi-autonomous agency under the Ministry of Public Works and Transport. Roads Directorate will be responsible for the planning, development, and maintenance of major roads linking districts and towns and ensuring road quality throughout Lesotho.
Environment Act	2008	• Policy regulating the business operation that impact the environment in Lesotho
Lesotho Water and Sanitation Policy	2007	• Policy released by the Ministry of Natural Resources Mandates that every person shall receive 30 Litres of clean water daily, and that the distance required to collect clean water does not exceed 150 meters for any person
Lesotho Electricity Authority Act No. 12	2002	• Created Lesotho Electricity Authority as an Independent Regulatory Agency, regulating price and quality
Water Resources Act	1968	• Any Person using water for purposes other than domestic consumption must obtain a permit
Companies Act	1967	• Chief corporate law in Lesotho, setting out articles of association and related legislation

Table XII - Regulatory Framework for the Tourism Sector

Instrument	Year	Major Provision
Tourism Act	2002	• Provides for the promotion and development of tourism and for related matters
Accommodation, catering and Tourism Enterprises Act	1999	• An extension of the 1997 Act with detailed schedules regarding license applications
Liquor Licensing Regulation	1999	• Provides for the regulation of liquor licensing and applications
Accommodation, catering and Tourism Enterprises Act	1997	• Provides for the regulation of accommodation, catering and other tourism enterprises and for related matters

IMPLICATIONS OF DONORS' EFFORT ON INVESTMENT IN INFRASTRUCTURE IN LESOTHO

While over 20% of Lesotho's national revenue in 2010-2011 was generated from ODAs, donors' assistance has accounted for a significant contribution to public spending, including public investment in TRI in Lesotho.

¹⁶⁶ **Table XIV** of this report provides a detailed summary of key legislations related to land administration in Lesotho.

Donors adopt different approaches to implement and manage aid projects in Lesotho. Local and representative offices are established for major donors like the World Bank, UNDP, MCC, WFP and others. Depending on the scale of aid operation, some donors manage development projects via their regional offices in Southern Africa. The UNDP is the coordinator for many UN agencies and organizations in Lesotho under the one-UN initiative. While donors' development projects involve public management and national policy, the effectiveness of donors' effort to coordinate with government officials and agencies is crucial to the successful implementation and management of aid projects. There has not been a standardized approach to measure the performance and effectiveness of donors' efforts and aid in Lesotho.

Depending on the development strategy of donors, ODA offered can be tied or untied.¹⁶⁷ The majority of donors have a set series of priorities for their development agenda, and many of them are either sector-specific or function-oriented. There is no TRI-specific development project financed by the donors to install or upgrade TRI in Lesotho for its tourism development. On the other hand, capacity building for public management and governance is a major focus for many donors in Lesotho, and in relation to the National Vision 2020 and the drafting of the NDP, the donor community focuses its work towards strengthening the capacity of the Government of Lesotho to develop and execute the next five-year plan.

¹⁶⁷ OECD (2003). Tied aid credits are “official or officially supported loans, credits or associated financing packages where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include substantially all developing countries”.

Box 10.4 - A SWOT Analysis of Investment in TRI in Lesotho

S

- Liberalized economic environment
- Decade of political stability
- Support of IFIs and donor communities in technical assistance and ODA
- Political will to explore new source of investment finance (e.g. PPPs)

W

- Lack of economic diversification
- Over-reliance on public spending
- Dependency on donor community
- Landlocked & mountainous increase project cost
- HIV/AIDS epidemic weakens human capital

O

- Openness for foreign investment
- Government/political support for capital intensive projects
- Assurance of international community in projects
- Potential growth of partnerships with domestic and foreign private sectors

T

- Lack of incentives to invest in economic sectors that are not already in place
- Poverty trap
- Dependency on aid money
- Higher cost of infrastructure creates disincentives for investment
- Decreasing labor force
- Complicated investment procedures
- Non investment-friendly land policy

Box 10.5 - More About Threats and Opportunities Faced by Lesotho

THREATS

HIV/AIDS – With an infection rate of 23.2%¹, the prevalence of HIV and AIDS within the Lesotho population is staggering. It cripples productivity, stagnates economic growth, and causes psychological damage that disincentivizes long-term investment in one's self, family, and community.

Lack of coherent FDI and PPP investment framework – The lack of explicit investment and PPP laws are significant shortcomings in Lesotho's investment environment. Investors will be uncertain about whether to invest and how to proceed operationally, which causes Lesotho to lose out on investment opportunities. Investors that would typically bid for PPP contracts will not look to Lesotho due to the lack of transparent and consistent legislation concerning PPP investments, resulting in an undersupply of hard and soft infrastructure, including TRI.

Lack of capital – The infrastructure finance gap applies in Lesotho, just as in other African countries. Even before the collapse of SACU revenue, the Government of Lesotho did not have the finances to pave every kilometer of road, or to provide water and sanitation resources to every citizen in the country. Additional capital will be required, either from donors or from the private sector – probably both.

Lack of bankable projects – The lack of bankable projects explains why the private sector has not to date stepped in to fill the infrastructure finance gap in Lesotho. For much of the infrastructure that is needed, the assets will ultimately pay for themselves through user fees or government transfers. The people of Lesotho are far too poor to pay for many of these resources themselves, meaning that market demand is deflated, despite substantial need.

Lack of capacity – Developing road, electricity, telecommunications and water infrastructure requires highly specialized expertise that government officials in Lesotho may not have. Furthermore, time delays plague projects, adding additional costs. If Lesotho is to become an attractive place to domestic and foreign investors, these execution problems must be remedied.

OPPORTUNITIES

Educated population – Lesotho boasts one of the highest literacy rates in the world at 90% of the population.¹ This presents investors with a unique opportunity to bring more skilled jobs to Lesotho that capitalize on the high literacy rate of the population. If this can be achieved, Lesotho has the potential to focus on exporting more value added goods rather than simply primary commodities.

Track record of combating corruption – Although corruption remains an issue in Lesotho, there is one example of government authorities taking action to stop corruption and pursuing punitive action against a corrupt official. In early 1995, LHDA conducted a management audit to investigate the manner in which contracts were awarded by the then LHWP CEO Mr. Sole. Auditors Ernst and Young concluded that Mr. Sole had accepted bribes from a number of bidders, and was subsequently removed from the position and fined.¹ This sent a message to the international community that Lesotho is serious about conducting business in a fair and transparent manner, which enhances the perception of Lesotho as a good investment destination.

Pro-business culture – Lesotho boasts two major chambers of commerce and a large informal sector, and Basotho culture supports and enjoys private business. The pro-business mentality in Basotho culture is an asset and opportunity to be exploited in Lesotho's development.

Box 10.5 - continued

OPPORTUNITIES

Market opportunities – Despite the lack of infrastructure, Lesotho presents substantial opportunities in tourism, manufacturing, agriculture, renewable energy, and other sectors. The tourism sector is underdeveloped, despite the abundance of natural beauty and a unique and intriguing history and culture. In particular, the luxury tourism, eco-tourism and outdoor adventure/extreme sport tourism segments all show potential for development. Lesotho also has an abundance of undeveloped land that could be used for agricultural development. Already there are examples of successful cotton development in the country, and the opportunity exists to scale up this enterprise and develop other crops. Lesotho is a destination for numerous manufacturing companies, particularly in the textile and garment industry. Finally, as a country rich in sunlight, wind, and water resources, the country could become a regional leader in renewable energy production and export.

Success of Hospital PPP – Although not yet operational, there is reason to be optimistic about the potential for scaling up and institutionalizing the arrangement between the World Bank Group, domestic and international private investors, and the Government of Lesotho which procured the new Lesotho National Referral Hospital. It meets all of the requirements necessary for a successful PPP: all partners are fully committed and bringing crucial, unique capacities to the project, the incentives and interest of all parties are aligned with the success of the PPP, there is a substantial amount of local ownership in the consortium, and the hospital will provide a needed public service.

PUBLIC PROCUREMENT IN LESOTHO

The Public Procurement Regulations (PPR) of 2007 sought to establish institutional and procedural norms for procurement policy in Lesotho. The law repealed Chapter 21 of the **Financial Regulations of 1973**, which guided procurement policy in Lesotho. Chapter 21 had set the Central Tender Board (CTB), a body that was responsible for all procedures dealing with tenders, including calling, opening, advertising and tender exemptions. The procurement process in Lesotho abided by a direct purchase-by-purchase order.¹⁶⁸ The Government of Lesotho published in 2002 a report entitled “*Transformation and Restructuring of the National Public Procurement System*” and some of the shortcomings of the procurement system in the country were stipulated in the report.¹⁶⁹

One of the most pressing achievements of the PPR was the establishment of the Procurement Policy and Advice Division (PPAD) within the MOFDP. The PPR emphasizes transparency and value for money in the procurement process, albeit in emphasizing preferential schemes for local and domestic agents.¹⁷⁰ The PPAD is responsible for developing procurement legislation in Lesotho, advice the government in the procurement policy procedures, provide yearly reports that detail the performance of public procurement practices, establish criteria for eligibility of government suppliers, draft an inventory of public assets, among others.

Foreign enterprises are allowed to participate in tender calls and procurement processes.¹⁷¹ The PPR established an open tendering process that entails equal opportunities for all willing

¹⁶⁸ OECD/AfDB (2010): 13.

¹⁶⁹ OECD/AfDB (2010): 15.

¹⁷⁰ Government of Lesotho (2007): 3.

¹⁷¹ Lesotho (2007): 7.

participants. The process may adopt a two-stage format at the discretion of the government unit that is conducting the call for suppliers.¹⁷² The management of government procurement process sets up an evaluation team and a tender panel. These bodies are responsible for overseeing compliance and operations, planning and organizing budgetary needs and goods delivery and review contractual obligations between government and suppliers.¹⁷³

The PPR of 2007 has been governing procedures for tenders, including in the landmark LHWP and the ongoing implementation of its Phase II. Separately a lowland water project alongside the LHWP is developed to secure potable water for the surrounding neighborhoods and towns around Maseru. The bidding for the contract was made through an open procedure as specified by the law.¹⁷⁴

Box 10.6 - A Fast-Track Approach for Private Investors to Expedite TRI development in Lesotho?

The Ministry of Public Works and Transport (MPWT) carries out impact assessments of potential public infrastructure projects. Despite the involvement of donors and development partners, the MPWT conducts assessment of the proposed infrastructure projects with autonomy. Infrastructure projects are examined in two different realms: population access and employment generation.

The MPWT incorporates three important elements when conducting an infrastructure development project. First, the infrastructure projects need to be complementary to the Lesotho's transport policy as set by the Government. Second, the study follows the framework of economic-rate-of-return (ERR). Lastly, the MPWT assesses the impact on regional populations, traffic in transit systems and agriculture access as the main criteria of whether to approve the implementation of the infrastructure project. The MPWT also conducts environmental impact studies.

Once assessment of proposal is conducted and evaluated, they are submitted to the Ministry of Finance and Development Planning (MOFDP) to be incorporated into the Government's public sector investment program and the fiscal budget of the following year.

While the process of assessment can last for a long duration, the Government of Lesotho has also allowed coordinated private initiatives in expediting infrastructure development in both urban and rural areas. For example, the Maseru Sun, a hotel owned by Sun International, the South African hotelier group, incurred the costs of constructing one of the access roads to the hotel after the MPWT had conducted impact assessment study. Some private investment also facilitated the establishment of rural electrification facilities at their own cost and in coordination with the Government so as to enable immediate needs of business operation and development.

¹⁷² Lesotho (2007): 12

¹⁷³ Lesotho (2007): 30

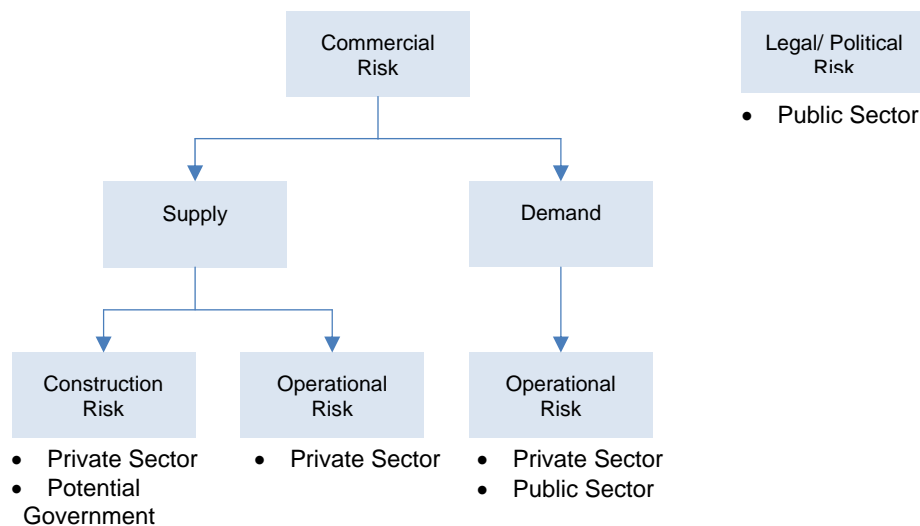
¹⁷⁴ Informative Lesotho (2010)

INFRASTRUCTURE FINANCE AND SECTOR PARTICIPANTS

Due to the capital-intensive and long-term nature of infrastructure investments, different forms of financing arrangements are sometimes developed and coordinated between the private and public sectors. Through cooperative arrangement, the private sector is able to secure financial returns in large-scale projects. The public sector is able to secure external financing. The following section reviews the financing options available for infrastructure development to corporations and government.

Box 10.7 – Modalities of Finance and Risk Mitigation

Modalities and Allocation of Infrastructure Risk



There are three main ways to finance and execute infrastructure development in general: corporate finance, direct public investment and public-private partnership (PPP) arrangement, which is a hybrid of the two.¹⁷⁵

Corporate finance typically involves financing a new capital investment or expenditure directly from company funds, usually from operating cash flows, loans or mergers, or other forms of capital expansion.

Direct public investment is typically categorized as government expenditure from the public investment budget. The public sector directly finances the construction of an infrastructure asset and related operations and retains ownership after project completion.

Public Private Partnerships (PPPs) is a contractual arrangement that is a hybrid between public and private spending. Under this scheme, the private sector provides services traditionally provided by governments. These include hospitals, schools, prisons, roads, bridges, tunnels, railways, and water and sanitation plants.¹⁷⁶ Under a PPP contract, public and private sectors share the risks inherent in the development of capital-intensive projects, such as infrastructure developments. Each partner brings special capacities to the agreement and assumes the risk it is most capable of mitigating.

Source: OECD (2008)

¹⁷⁵ Tan (2007).

¹⁷⁶ OECD (2007).

THE COST OF INFRASTRUCTURE FOR A TOURIST DESTINATION IN LESOTHO

The AfDB estimates that African nations would have to invest USD 93 billion annually until 2020 to close the infrastructure deficit in Africa.¹⁷⁷ This section looks at TRI from the microeconomic, rather than macroeconomic, perspective to attempt to understand the business case for investing in tourism in Lesotho. Nearly all of the private tourist operators interviewed pinpointed the insufficient infrastructure establishment in Lesotho for tourism development (NP4), and it would be a major impediment for the success of their business.

Thus the Project's approach to this case was to identify the **infrastructure investment threshold**. This was done through a metric created to identify the minimum amount of infrastructure (in USD) necessary to support a Greenfield investment in an accommodation establishment in Lesotho that has a break-even point of USD 1 million. It is estimated that on average, 100 km of newly paved road will have to be constructed, and that 1 street light with a service connection per 20 km will need to be established. In addition to the first street light, another 10 streetlights are computed (6 at the site and 4 at the establishment's location). The cost per unit of infrastructure investment in SSA is outlined in the below Table XIII.¹⁷⁸

Table XIII - Costs of Infrastructure investment in Sub-Saharan Africa

Infrastructure	Cost per unit (\$)	Total Cost (\$)
Roads		
Roads – paved <50km (\$/km/lane)	401,646	20,082,300
Roads – paved >50km (\$/km/lane)	290,639	14,531,950
Water and Sanitation		
Wells – electric and hand pump (per well)	13,959	13,959
Pipe – Mains (\$/m)	457	45,700,000
Service connection – standpipe (\$/connection)	282	1,692
Latrines – public (\$/connection)	19,659	19,659
Electricity		
Distribution (\$/line km)	8,278	827,800
Transmission (\$/line km)	27,632	2,763,200
Service connection with street lighting (\$/connection)	609	3,654
Street lighting (\$/connection)	1,767	7,068
TOTAL (\$)		83,951,282

Source: Africon (2008).

Assuming that once the infrastructure is in place the lodge can operate for a profit, **for every USD 1 invested in a lodge in Lesotho, USD 84 must already be in place to recuperate the full cost of that investment**. The benefit of infrastructure investment is that once it is in place, maintenance and repair costs are marginal. This ratio will also decrease for tourist investments closer to existing infrastructure.

¹⁷⁷ African Development Bank (2010).

¹⁷⁸ Africon (2008).

11. Policy Framework of Investment in Infrastructure in Lesotho

LEGISLATIONS GOVERNING KEY INVESTMENT-RELATED ISSUES IN LESOTHO

Lesotho does not have a specific investment law or policies targeted to infrastructure investment.¹⁷⁹ Rather, the investment policy framework of Lesotho is composed of a suite of laws that work together to regulate foreign and domestic companies in different economic sectors. Key legislations regulating investment in the country include:

Governing Private Investment: The **Companies Act of 1967** is still the central piece of legislation regulating commercial ventures in Lesotho. The law regulates the formation of partnerships and enterprises, stipulates requirements surrounding registration procedures, accounts and auditing practices.¹⁸⁰ It requires a minimum of LSL1 000 of share capital, a minimum of 2 shareholders, and at least 51% ownership of a Lesotho citizen to establish a retail business in Lesotho¹⁸¹. The law stipulates that it should not take longer than one month to register a new company, however this time excludes licensing procedures.¹⁸² External or foreign companies are required to register with the government, and to have at least one full time, residential “chief agent” who is in charge of handling the operations and legal affairs¹⁸³.

Governing Financial Institutions and Investment: The **Financial Institutions Bill of 2010** is designed to update the **Financial Institutions Act of 1999**. The Bill contains sections pertaining to the “*authorization, supervision, and regulation of banking [and] non-banking financial institutions*”.¹⁸⁴ Licensing is an important component of the Bill, which among other things stipulates that it is the purview of the CBL to license financial and non-financial institutions operating in the country. The Bill provides complementary measures to the **Central Bank of Lesotho (CBL) Act of 2000** regarding CBL’s role to regulate financial institutions.¹⁸⁵

Domestic financial institutions must also be licensed businesses according to the definition put forth by the **Companies Act of 1967**. The license requires proof of incorporation, documentation that states the address of the head office, as well as the nationality, qualifications, experience and address of its chairman, and every director and officer. Financial enterprises of foreign origin must present certification that the company’s board is fit and the company is duly supervised. Additionally, the Bill imposes limits on individual ownership of financial institutions. No individual may own more than 10% in a given financial institution. 25% of net profits must go into the reserve account, or 50% of share capital. The CBL can establish laws that affect minimum capital liquidity requirements. The law establishes a court that will eventually hear cases pertaining to business disputes.¹⁸⁶

Managing Tax and Duty related to Private Business Investment: Both foreign and domestic investments are subject to taxation. The **Income Tax Act of 1993** (with amendments in 1994, 1996 and 2000) and the **Value Added Tax Act of 2001** (with

¹⁷⁹ U.S. Department (2009)

¹⁸⁰ Government of Lesotho (1967).

¹⁸¹ Webber Newdigate (2011).

¹⁸² Webber Newdigate (2011).

¹⁸³ Webber Newdigate (2011).

¹⁸⁴ Government of Lesotho (2010c).

¹⁸⁵ Government of Lesotho, Central Bank Act (2000a).

¹⁸⁶ Government of Lesotho (2010c).

amendments in 2001 and 2003) are two core legislations related to the reckoning and the payment procedures of tax for businesses. Businesses involving in export and import of goods and services in their operation are subject to respective taxes and duties under the **Customs & Excise Act of 1982**. The **Lesotho Revenue Authority (LRA) Act of 2001** enacts the LRA as the main body in charge of collecting revenue, including private investment-related taxes, under the supervision of the MOFDP. The Act also enforces laws pertinent to such revenue collection.¹⁸⁷ LRA is governed by a Board composed of representatives from the MOFDP, the MITEC, the CBL, the Lesotho Institute of Accountants (LIA), the Private Sector Foundation of Lesotho, the Lesotho Association of Employers (LAE), and a member representing the private sector, appointed by the Minister of Finance and Development Planning, and the Commissioner-General of the Authority, who acts as LRA's Secretary¹⁸⁸.

Administering Land Ownership and Land Use: Investment in infrastructure in Lesotho has unavoidably linked to the regulatory framework of land ownership and land use in the country. The **Land Act of 2010** was designed to repeal and replace existing legislation pertaining to land-related issues in Lesotho.¹⁸⁹ All land in Lesotho is by law held by and leased from the King on behalf of the nation. The Register of Deeds is responsible for registering leases with respect to buildings and property. The Land Act establishes a Commissioner who is responsible for charges of land administration in Lesotho, the establishment and maintenance of a database detailing land-holding in Lesotho, issuing leases, to disseminate land information to the public, to levy and collect fees for services, and issue bills, and to deal in land-related issues on behalf of the State. The law addresses how titles are granted in rural and urban areas, the rights of leaseholders, and the procedures which government must follow in declaring land for public use or expropriation. Under the Land Act, deprivations of land that result from government expropriation must be compensated at the market value of the land. It establishes the Land Court, which is a division of the High Court, specifically for hearing and adjudicating land-related disputes¹⁹⁰.

Box 11.1 - Land Tenure and the Land Act of 2010

Land tenure and ownership in Lesotho has been subject of some scrutiny in light of its importance for the social and economic development of the country. National land policy is addressed in Chapter IX of the 1983 Constitution and seeks to define some of the procedures that guide the country's vision regarding property and land ownership. The Constitution stipulates that land pertains to the Basotho Nation¹⁹¹ and that the King can grant or revoke rights, including concessions.¹⁹² These legal provisions are designed to empower domestic constituencies. Perhaps inadvertently, these mechanisms shed away foreign and domestic investments. In essence, the King is the trustee of the land in the Kingdom of Lesotho on behalf of the Basotho Nation.

The most recent and thus far comprehensive legal provision that deals with the issue of land tenure and ownership was passed in Parliament in October 2010. The **Land Act 2010** aims to remedy some of the ongoing issues within the country and may have drastic consequences for Basotho society. The Land Act of 2010 repealed the Land Act of 1979, listing many reasons that amounted to an overall failure of compliance with the ongoing needs of the Basotho. Two major reasons have been in the forefront. First, the dysfunction (virtual absence) of a functional land

¹⁸⁷ Government of Lesotho (2001).

¹⁸⁸ Government of Lesotho (2001).

¹⁸⁹ Government of Lesotho (2010d).

¹⁹⁰ Government of Lesotho (2010d).

¹⁹¹ Lesotho (1993) Art. 107.

¹⁹² Lesotho (1983) Art. 108: 1.

market that allowed for tradable property between the citizens was deemed to be harmful to the Basotho. Second, under the current system, the government was unable to maximize revenues from property transactions (or lack thereof).¹⁹³ Thus, recent changes to the system are meant to favor both domestic economic activity and serve as an additional source of government income.

The Land Act of 1979 was also perceived to limit the holdings of foreign enterprises wishing to establish themselves in Lesotho. In 1986, an official prohibition on foreign ownership of land was instituted through the Land Amendment Act No 27 of 1986.¹⁹⁴

The Land Act 2010 aims to fill or modify the following legal and governmental objectives:

- Provide title grants,
- Allow for the transition of titles to land,
- Ensure titles to land,
- Provide for the administration of land,
- Provide for the legal basis for the expropriation of land for public services,
- Establish land courts and conflict resolution mechanism, and
- Provide for the regularization of land-use.¹⁹⁵

The Land Act allows for three major temporal leases: 90, 60, or 30 years. While the latter is only imposed in commercial activities involving oil activities, the 60-year lease is granted for other commercial and industrial activities. The 90-year lease is granted for agricultural and residential purposes. However, foreign enterprises that have domestic laws that might challenge the Basotho National System may have differing conditions on leases given that conditions may not apply.¹⁹⁶ In what pertains to foreign enterprises as partnerships involving foreigners and citizens, as well as corporate agents in which shareholders or directors are not citizens of Lesotho.¹⁹⁷

Potential tourism development is largely challenged by the difficulties of private sector developments as a whole. Judicial assurances for foreign investors, but also for citizens that want to invest and jump-start business that could be incorporated in the tourism supply chain are hindered due inadequate regulatory environment. The tourism industry also falls short of capacity in the sector. Land reform, together with assurance of social cohesion could aid these efforts.

Managing tourism-related investment in accommodation, catering and related services:

Whereas the Government of Lesotho identified tourism as a potential sector to develop under the National Vision 2020, it has established various legislations in governing the operation and investment in tourism-related business. For example, the **Accommodation, Catering, and Tourism Enterprises Act of 1997** establishes a Board which regulates these sectors by issuing operational licenses.¹⁹⁸ According to the Lesotho DTIS of 2003, the MTEC has the authority to issue licenses to hotels, restaurants, and liquor vendors, bed and breakfasts, guesthouses, social clubs and the like.¹⁹⁹ The **Tourism Act of 2002** also created the Lesotho Tourism Development Corporation (LTDC), a government entity responsible for promoting tourism activity, including investment in tourism-related projects, within Lesotho. A few of the key functions of LTDC are to formulate and to implement a National Plan for Tourism, encourage tourism in the country and the visit of sites that have particular cultural or historical interest, preserve and develop tourist and historic sites, as well as promote and assist businesses in the tourism industry. It also has the authority to provide financial and technical assistance to these ends, and engage other governments and foreign businesses to develop tourism in Lesotho. The LTDC is governed by a board chaired by the Director of

¹⁹³ Lesotho (2010).

¹⁹⁴ Lesotho Times.

¹⁹⁵ Lesotho (2010d).

¹⁹⁶ Lesotho (2010d).

¹⁹⁷ *Ibid.* 389.

¹⁹⁸ Government of Lesotho (1997).

¹⁹⁹ World Bank (2002).

Tourism of MTEC. Other board members are from the Lesotho Council for Tourism and the Hotels and Hospitality Association, plus four other members.²⁰⁰ The law also sets out protection of the environment and integration of local community members as part of LTDC's mandate.²⁰¹

Supervising environmental-related issues that relate to investment: At present, FDIs to Lesotho focus on industry sectors including textile and clothing, mining, infrastructure and tourism. In dealing with the environmental impact of private business operations in Lesotho, the Government of Lesotho established the National Environment Secretariat (NES) in 1994 as the fundamental institution to manage environmental-related issues in the country. The **Environment Act of 2008** was created to formalize a legal framework for environmental protection. The Act introduces the concepts pertinent to the Environmental Impact Assessment (EIA) framework that monitors projects for their compliance with environmental standards. As an executive arm of the National Environment Council (NEC), the Department of Environment (DOE) functions as a gatekeeper to review and approve EIA proposals, issue EIA license for private business projects, supervise business project implementation and compliance as well as coordinate environmental management programs with other ministries. Both domestic and foreign private business operations have to follow the guidelines and procedures set by the DOE to minimize negative environmental impact to Lesotho.

The **Environment Act of 2008** also provides a dispute resolution mechanism by creating an Environmental Tribunal.²⁰² This is an important institution to minimize the investment risk for foreign and domestic enterprises.

GOVERNMENT REFORM POLICY ON PRIVATE INVESTMENT-RELATED ISSUES IN LESOTHO

Working with international donors such as the World Bank and the Millennium Challenge Corporation (MCC), the Government of Lesotho has put into place a number of institutions and policies that enhance private sector development. These include the modernization of bank payment systems, the introduction of a national ID card, the creation of a credit rating agency to ensure that the borrowing history and creditworthiness of individuals is tracked, the installment of a credit facility for manufacturers, and the modernization of land tenure systems, amongst others.²⁰³

Box 11.2 - The OECD Policy Framework for Investment

A robust and coherent policy framework for investment is a key element to unleashing potential public and private investment.²⁰⁴ The OECD Policy Framework for Investment (PFI) highlights key policy areas related to national investment framework. PFI provides guidelines on international best practices to national governments that develop and manage investment promotion and development.

Developed in consultation with international donors, private sector, government officials and civil society organizations (CSOs), PFI has 10 distinct areas of policy framework:

²⁰⁰ Government of Lesotho, Tourism Act (2002).

²⁰¹ Government of Lesotho, Tourism Act (2002).

²⁰² Government of Lesotho (2008b) s.98.

²⁰³ US Department of State (2009).

- Investment policy
- Trade policy
- Tax policy
- Policies for promoting responsible business conduct
- Infrastructure & financial sector development
- Investment promotion & facilitation
- Competition policy
- Corporate governance
- Human resource development
- Public governance

The ten policy areas are assessed through a questionnaire that is answered by governments in the process of designing and implementing policy. The ten policy areas are also aimed at promoting an appropriate business environment for private sector promotion for enterprises of all sizes. Benchmarking the existing investment framework in Lesotho with the PFI can facilitate a better understanding of the strengths and weaknesses of the investment system in the country as well as the implications to investment in TRI, both foreign and domestic.

²⁰⁴ OECD (2006).

PART V – IMPROVING POLICY FRAMEWORK FOR INVESTMENT IN INFRASTRUCTURE

12. Case Study: Findings and Recommendations

KEY OBSERVATIONS AND PROJECT FINDINGS

TRI in Lesotho is Lacking

Lesotho shows a general lack of TRI within the country, with substantial development concentration in Maseru.²⁰⁵ The hard TRI set up, varying from the paved road network, electricity supply, water and sanitation systems, and telecommunication network coverage is more robust and established in Maseru. Notwithstanding the relatively more developed infrastructure, Maseru is marginalized by other surrounding South African cities such as Ladybrand, Bloemfontein, and Clarens in terms of tourism development partly due to a less competitive tourism infrastructure.

Lesotho Land Policy Has Not Facilitated Investment in TRI

In Lesotho, both foreign and domestic investors are subject to stringent requirements and legislations that relate to the right to hold and use land and property. The Constitution of Lesotho provides three brief sections specifically guiding land policy. In essence, the Constitution says that all land in Lesotho pertains to the Basotho Nation²⁰⁶ and that the King of Lesotho has the power to “to make grants of interests or rights in or over such land, to revoke or derogate from any allocation or grant that has been made or otherwise to terminate or restrict any interest or right that has been granted.”²⁰⁷ The last paragraph of the section specifically pertaining to land claims that the legislative body may grant concessions of land.²⁰⁸

Based on the strategic framework laid out in the Lesotho Vision 2020 which delineated key problems of land policy and potential remedies for bridging the development gaps, the Government of Lesotho passed the reform on land tenure and ownership in October 2010 to repeal the 1979 Act and galvanize its determination to boost foreign and domestic investment.

“Furthermore, Lesotho still has to do a lot more to create an environment to attract nationals and foreigners to invest in the country. Licensing procedures, tax regime and land acquisition and transfer need further review to facilitate more investment..

Land acquisition and transfer remain a complex and discouraging investment. As a result women remain legally restricted from becoming independent economic agents.”²⁰⁹

However, the legislation has not connected to any specific implementation policy, for the most part stating broad goals to be reached by 2020. Revision of the ongoing land tenure system is solely mentioned as one of the components in dealing with food security. It is important to understand the dynamics involved in land tenure and land transfer system, as they are core facets behind land misuse and ownership. Lesotho abides by a system of

²⁰⁵ Bogetic Ž (2006). “*International Benchmarking of Lesotho’s Infrastructure Performance*”. World Bank Policy Research Working Paper 3825, January 2006.

²⁰⁶ Lesotho (1993). Art 107

²⁰⁷ Lesotho (1993). Art 108:1

²⁰⁸ Lesotho (1993). Art 109

²⁰⁹ Lesotho (2000b): 17 – 18

inheritance that transfers lands from generation to generation. Patrilineal relations guide not only kinship dynamics, but also legal aspects of daily life. This patriarchal system favors the transfer of land, upon death of the head of the household, to his firstborn male child.

First coded in 1903, the Laws of Lerotholi are one of the most important sources of Basotho customary and kinship laws in Lesotho.²¹⁰ These laws are an oral expression of centuries of Basotho tradition. The ambivalence between the Laws of Lerotholi and the adoption of additional legal codes and norms is a core question of land tenure system through inheritance. Through customary laws, in many instances the Chiefs are taken to be the arbitrators of land upon death. Favoritism may play a significant role in the redistribution of land.²¹¹ Lesotho's land governance system poses a fundamental challenge to both local and foreign investors whose capacity and legitimacy to acquire land or premises for development are doubted. With the new legislation in place, the effect to tackle the dysfunction (virtual absence) of a functional land market and enable the Government to capture the potential revenues from property transactions is to be observed.²¹²

The Land Act allows for three major temporal leases: 90, 60, or 30 years. However, foreign enterprises may have differing conditions on leases given that normal conditions may not apply.²¹³ In what pertains to foreign enterprises as partnerships involving foreigners and citizens, as well as corporate agents in which shareholders or directors are not citizens of Lesotho.²¹⁴ The Land Act of 2010 clearly states that in case of conflicting terms with customary Basotho law, the Land Act will supersede.²¹⁵ This may render an additional judicial environment conducive to greater foreign and private sector investment practices. Furthermore, the Government of Lesotho managed to pass the Systematic Land Regularisation Regulations of 2010. These regulations build upon the Land Act of 2010 and ensure instruments for dealing with land procedures, defining purpose and use of land, improve the administration of the transaction of land titles and define the term under which foreign investment shall be handled.²¹⁶ In that light, the Systemic Land Regularisation Regulations of 2010 do provide for norms and procedures on how to handle land disputes as well as other instruments for land regularization, albeit not specifically prescribed to foreigners.²¹⁷

It is noted that some legal practitioners, entrepreneurs and members of the donor community have demonstrated significant qualms regarding the application of the Land Act. Even though immediate implementation is urgent for some of the reasons elucidated above, a significant portion of interviewees have asserted a wait-and-see approach to the effectiveness of the new Act upon implementation to improve the business investment environment and the land transaction operation.

²¹⁰ Poulter (1972):144

²¹¹ Poulter (1972):151-153

²¹² Lesotho (2010d)

²¹³ Land Act. 407

²¹⁴ *Ibid.* 389

²¹⁵ Lesotho (2010d): 392.

²¹⁶ Lesotho (2010d): 434.

²¹⁷ Lesotho (2010d)

Table XIV - Legislative Framework Governing Land Administration

Instrument	Year	Provision
Land Act	2010	<ul style="list-style-type: none"> • Introduce land reform measures in Lesotho
Local Government Act	1997	<ul style="list-style-type: none"> • Provides for the establishment of Local Authorities with the intent of bettering service delivery
Urban Government Act	1983	<ul style="list-style-type: none"> • Regulates urban local authorities
Town and Planning Act	1980	<ul style="list-style-type: none"> • Addresses orderly economic development and efficient land use
Land Act	1979	<ul style="list-style-type: none"> • Tries to consolidate the legal framework of land entitlements • Reiterates the communal nature of land proprietorship • Discriminates against land ownership for foreigners who are not citizens of Lesotho and Basotho
Land Act	1973	<ul style="list-style-type: none"> • Installs procedures for the allocation and right of use of land
Administration of Lands Act	1973	<ul style="list-style-type: none"> • Introduces the lease tenure system • Takes power away from the Chiefs and vests it onto the King
Roads Act	1969	<ul style="list-style-type: none"> • Provides for the construction and maintenance of roads
Land Husbandry Act	1969	<ul style="list-style-type: none"> • Tries to improve land, water, agricultural conservation and practice
The Land (Procedure) Act No. 24	1967	<ul style="list-style-type: none"> • Revokes some of the privileges and abuses of the Chiefs and Headman • Establishes new rules and procedures for granting and reallocating land titles
Deeds Registry Act	1967	<ul style="list-style-type: none"> • Allows for the register of mining activities • Disenfranchises women based on customary Basotho Law which favors communal and patrilineal societal structures
Historical Monuments, Relics, Fauna and Flora Act No 41	1967	<ul style="list-style-type: none"> • Sought to prevent depredation of natural environment
Mining Rights Act	1967	<ul style="list-style-type: none"> • Ensures mining prospects in Lesotho
Lesotho Constitution	1966	<ul style="list-style-type: none"> • Perpetuates some of the indigenous norms of land titles
Land (Advisory Boards Procedure) Regulations	1965	<ul style="list-style-type: none"> • King is the trustee of the land and can revoke or allocate as he pleases • Institutes "headman," together with 5 elected persons has jurisdiction over land • Chiefs are prohibited from arbitrarily allocating land titles. Decisions were made through public hearings • Institution of Certificate of Allocation Styled Form "C"
Statutory Land Tenure System in Lesotho	1959	<ul style="list-style-type: none"> • Makes the Paramount Chief the trustee of Basutoland. He has the power to allocate persons to occupy or make use of land

Complicated Regulatory Procedures Do Not Boost Private Investment of TRI

According to IFC's 2011 Guide of Doing Business, Lesotho ranked 138 out of 183 economies in terms of ease of doing business (slipped from the 130th in 2010). An average of 40 days are required to start a business. Among various business start-up procedures, dealing with construction permits and registering property, which are typical for investment in tourism facilities like accommodation and catering services, are two major hurdles for investors. The Guide reckoned a very long period of 601 days to deal with the construction permits. The estimated length of time to register property is 101 days.

The fieldwork findings from private investors echoed the challenges related to land and property use. While the legal and administrative process to start a business in Lesotho involves the territory of different ministries and authorities, investors have to deal with numerous ministries to complete the registration procedures. The OSS launched in 2007 under the MITCM improves the handling of investors' requests and needs. Nonetheless, the actual implementation of the OSS is yet to be fully coordinated among the ministries, according to on-site observation, particularly for cases that relate to land acquisition and changes of land use which are commonly applicable for TRI investment.

Access to Credit Finance for Private Investment is Limited

Credit facility for SMMEs is slowly developing in Lesotho. Small tourism businesses seeking financial aids from the four commercial banks can encounter stringent eligibility requirements. The lack of a national personal identity system in Lesotho has created additional risk for the foreign banks lending to SMMEs. Without properly formulating an effective national identification system, credit finance for SMMEs in Lesotho would remain a serious challenge to foster growth of the private sector.

Partnering with the IFAD, the Lesotho Post Bank has commissioned to lead the Rural Financial Intermediation Programme (RUFIP) and launched a new financial product in January 2011 targeting loans to SMMEs in Lesotho, with particular focus on the rural population in Lesotho. Under the new scheme, local communities are expected to have better access to financial credits via local bank outlets in Lesotho. This is considered to be an enhancement to boost small-scale private TRI development in the country, especially outside Maseru.

Public Spending on TRI Does Not Have a Comprehensive Approach

As the major investor in the country, the Government of Lesotho engages in large-scale TRI projects covering but not limited to sectors like transportation, telecommunication, water and sanitation, and electricity. These projects, many of them financed by donor organizations, do not directly target tourism development in Lesotho, but the introduction of fundamental infrastructure across the country in general raises the capacity of different regions in Lesotho to explore tourism development in the future.

Notwithstanding the resources and efforts from the public sector on infrastructure investment and development, coordination among government ministries, agencies, the donor community and private investors needs further enhancement. The Lesotho Vision 2020 and the NDP are both indication of the Government's intention to coordinate planning and prioritization. During the current process to devise an implementation strategy for the NDP, it is noted that the Government has taken initiative to engage dialogue with non-governmental stakeholders and the private sector, such as a policy dialogue workshop on PPP hosted by the MOFDP in January 2011 to collect suggestions and feedback from the private sector.

On-site findings also suggest that there is a general lack of coordination at the ministerial level to adopt a more comprehensive and holistic approach to public investment in infrastructure, which to a large extent relates to TRI.

Ineffective Investment Promotion for TRI

LTDC, according to the Tourism Act of 2002, is responsible to steer tourism promotion for Lesotho. As a soft TRI, nonetheless, the Government agency needs to gear up its capacity to drive the promotion strategy, such as the development of a comprehensive annual promotion program; a promotion performance measurement framework; as well as a reliable and sustainable tourism statistic database. TRI investment promotion and facilitation is essential to enable private investment decision of both foreign and local investors to participate in TRI development. Without accurate and accessible data, for example, investors would be more difficult to evaluate the investment risk and profitability of the TRI projects, as these projects usually incur high initial capital input and longer duration for return on investment.

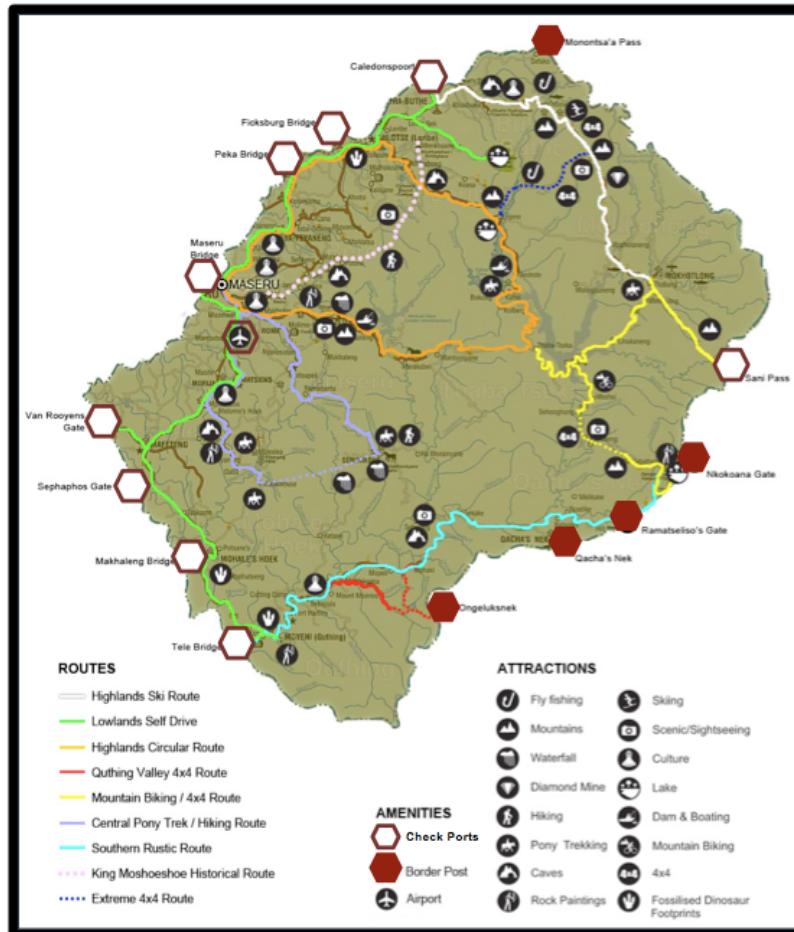
Official Tourism Data Are Not Accurate and Sufficient to Facilitate Private Investors' Decision

One fundamental piece of information that can influence the investment decision of private sectors is the official tourism data, which enables investors' assessment of business opportunities and risks related to investment in TRI. Under the current arrangement, LTDC releases the Visitors' Arrival Statistics Report on an annual basis to keep track of inbound tourism activities in Lesotho. The analysis focuses on the profile of visitors, the nature and characteristics of visits as well as the trends of visitor flow over years. According to the LTDC, the empirical data are collected, by the Department of Immigration of the Ministry of Home Affairs (MHA), via the use of entry and departure cards visitors submitted before entering or leaving the country at the nine border ports.²¹⁸ The Bureau of Statistics (BOS), together with LTDC, conducts the data analysis on a periodic basis. On the other hand, entry form data of citizens of Lesotho are not processed. According to the Lesotho Statistics Yearbook, a portion of tourism statistics before 2003 were not available, and the data set was not complete in 2004 and 2005. A complete set of official tourism data from the Government of Lesotho is only available from 2006 onwards.²¹⁹

²¹⁸ The ten check ports include Caledon'spoort, Moshoeshoe I International Airport, Van Rooyen's Gate, Maputsoe Bridge, Sani Pass Border Post, Peka Bridge, Tele Bridge, Sephaphos Gate, Makhalleng Bridge as well as Maseru Bridge. 80% of the visitors passed via Maseru Bridge, Maputsoe and Caledonspoort.

²¹⁹ Lesotho Statistical Yearbook (2010).

Location of border ports for visitors' data collection



Source: Government of Lesotho (2010). "Statistical Yearbook 2010". Published by the Ministry of Finance and Development Planning and Bureau of Statistics. P15. (Some of the data, according to the Statistical Yearbook 2010, are not available)

Collecting statistics from visitors is another challenge. On-site observation at the Maseru Bridge border noted that nationalities of less than one third of the visitor flow was properly recorded. The accuracy of the official statistical data is yet to be verified.

Other tourism information data are lacking for Lesotho. The Tourism Satellite Account (TSA) framework was developed by the Inter-secretariat Working Group commissioned by the United Nations Statistics Division since 2000 as an approach to measure the economic impact generated by the demand for goods and services brought by the tourism trips. The UNWTO took charge of the exercise of updating TSA since 2004 to facilitate member countries to manage statistical data of the tourism sector and identify data gaps regarding cross-sector tourism activities.²²⁰ South Africa has adopted the TSA methodology since 2004, while Lesotho does not have a TSA up to present.

²²⁰ UNWTO (2010).

Without any reliable and available data, foreign investors face more difficulty in investing in TRI in Lesotho.

Relatively Restrictive Commitment in GATS in Tourism

The multi-sectoral nature of tourism implies a significant role of the sector for economic development in countries. As declared under the Manila Declaration on World Tourism, “*tourism is considered an activity essential to the life of nations because of its direct effects on the social, cultural, educational and economic sectors of national societies and on their international relations*”. Recognizing the importance of tourism in international trade, WTO has categorized tourism in GATS under Category 9 of SSC W/120 as “*tourism and travel related services*”.

Lesotho has committed to GATS in Tourism in market access and national treatment (with certain indicated exceptions) for “*hotels and restaurants*”, “*travel agencies and tour operators’ services*” and “*tourist guide services*”. Yet, the horizontal limitations across the services sectors in Mode 3 and Mode 4 have placed Lesotho into a disadvantageous position for foreign TRI investors. According to the WEF, Lesotho ranked 111 out of the 120 countries in terms of restrictiveness of commitment in travel and tourism services during 2006 to 2009.²²¹ The relative restrictiveness of the travel and tourism sector in Lesotho hinders foreign investors’ participation in the sector, and accordingly its competitiveness.

PROJECT RECOMMENDATIONS TO FACILITATE INVESTMENT IN TRI

“Tourism Development” Can Create Backward Linkage to Investment in TRI

As examined, TRI development and tourism development are closely correlated. The investment policy of the Government of Lesotho to enable TRI development either via public spending or by attraction of FDI determines the capacity and readiness of tourism development.

While the regulatory and policy framework would impact the level of effective TRI development, the progress of tourism development would also affect the demand for TRI in Lesotho. As illustrated in the slow growth of annual visitors to Lesotho²²², tourism sector fails to boost any “*backward linkage*” to raise the demand for TRI like roadwork, energy, water and sanitation, ICT etc.

In addition to this threshold argument of linkages to TRI, the NDP on tourism is equally important as a holistic and coordinated approach to national policy can enhance the effectiveness of public and private investment in TRI. For instance, the Sani Pass, an off-track route for adventurous visitors, is an example of the importance of policy coherence how the Government has to play a role to coordinate TRI development and tourism development. If an off-road tourism product is what the Government is planned to develop, there should be a cohesive policy on paved road construction in the area to avoid destroying off-road tourism due to uncoordinated infrastructure development.

²²¹ World Economic Forum (2011b).

²²² Lesotho Tourism Development Corporation (2011).

Box 12.1 - Tourism Supply Chain

The supply chain of tourism involves a network of services supported by a minimum threshold of infrastructure development. Unlike the primary and the secondary industry sectors that are built on a chain of production processes (from extraction of raw material, fabrication of products, assembly and subassembly lines that craft final products)¹, the tourism sector consists of intense coordination between cross-industry service providers. This is due to the compounded nature of all the factors that go into the tourism sector. Accordingly, tourism needs to be taken as a production process with stages that add value to its final output.

In the case of Lesotho, tourism goods can be viewed as a conversion of the primary resources such as highland and waterfall through value-added processes with tourism-related inputs. To visitors, the conversion of highlands and waterfall in the country become tourism goods like national parks, hiking trails, water sports, mountain resorts, and transportation and adventure tours that they can consume when traveling to Lesotho. These different inputs and concept conversions can produce further outputs along the supply chain. National parks can generate other services such as tourism festivals, meals, and accommodations. The final output of the tourism product is, for the most part, recreation and leisure, but also many more intangible aspects such as memories and education.

The more demand-driven nature of tourism elucidates the reverse relationship of the tourism sector with information. While traditional supply chain management relies on a forward flow of goods (output) and a backward flow of information, the tourism supply chain has an inverse relationship. The forward information flow generates visitors' travel and results in consumption and income generation within the tourism boundary.¹ According to the WTO, tourism is unique when "*consumers come to the suppliers*".

Realize the Benefits of Forward Linkage and Foster Local Entrepreneurship on TRI Investment

Visitors are both the "*consumer*" and "*final producer*" in the tourism supply chain. The Project on-site observations notice that Lesotho has not benefited much from visitors' consumption. Apart from a few spots like the Tourism Information Centre in Maseru where visitors can buy locally manufactured products such as handicraft, there was a general lack of tourism facilities to induce consumption of local products by the visitors. Food and beverages consumed by visitors in Lesotho in major hotels and lodges were mostly imported from South Africa, simply due to a shortage of local food suppliers, while many of the limited number of local food manufacturers fail to assure stable and quality supply of ingredients to hotels and restaurants. There is a significant forward leakage in the tourism sector in Lesotho due to a lack of auxiliary industries linked to tourism activities.

For example, merchandise products, furniture, food, and drink provided by Lesotho Sun, a luxury hotel in Maseru, are mostly imported from South Africa both because local products cannot meet the quality required by the Hotel, and are not easy to source stably from the Basotho business community. The Hotel purchases a high portion of catering ingredients from Pick'n'Pay, a South African supermarket chain with a flagship outlet in Maseru center, whose products are mostly manufactured or sourced outside Lesotho.

Pro-entrepreneurship national investment policy and incentives can make a difference. It is essential for the Government of Lesotho to realize the possible linkage that can be achieved by building up private sector capacity and promoting local entrepreneurship to engage in

small-scale TRI investment such as local lodges, souvenir shops and service stations along key roads and tourist spots etc.

Box 12.2 - Implication of Sustainable Agriculture to Regional Tourism in Lesotho: A Choice of Seeds & Capacity Building

Agriculture represented nearly 8% of Lesotho's GDP in 2008.¹ The importance of subsistence agriculture in Lesotho means that volatile periods of soaring food prices have significant aspects in Basotho's food security. Subsistence agriculture makes up 10% (mountainous areas) to 35% of (e.g. in the Southern Lowlands) of crop production.²

Poorer regions in the rural areas have suffered more due to the soaring commodity and foodstuffs prices; notwithstanding the higher transportation cost incurred for these regions, and the cost of production in the mountainous areas is also higher.³

The Government of Lesotho, together with members of the donor community, have taken different measures to curb food insecurity. One of the prevailing problems is that maize is a traditional primary source of food and crop cultivation in Lesotho. While the food crisis pushed the price of seeds of maize to an all-time high level, local farmers in Lesotho encountered difficulties in affording the soaring seed price. Additional problems are caused by the use of hybrid seeds, which are initially cheaper for the producer but only last one crop cycle.

With the assistance of the EU and the FAO, local farmers managed to grow alternative crops such as potatoes that has a more favorable production yield in Lesotho. The application of open pollinated varieties (OPVs) also helped extend the crop cycles to up to 3 seasons.⁴

One of the observations of the Project is a missing linkage between the revenue retained by Lesotho in catering facilities and tourism in rural areas. Irrigation and road links between producers and retailers augment the problems surrounding small farmers who could potentially commercialize some of their production. While irrigation is not necessarily a component of tourism related infrastructure, a more comprehensive road and transport system could not only grant farmers access to market, but also enhance accessibility of local produces for visitors in Lesotho.

¹ African Development Outlook (2010)

² FAO (2011): 15-16.

³ FAO (2011): 3.

⁴ FAO. <http://www.fao.org/europeanunion/eu-in-action/euff-countries/lesotho/it/>

Enhance the Investment Policy to Facilitate TRI Development to Retain Visitors' Spending

Currently, there is a lack of investment policy towards the facilitation of TRI development, particularly in regions outside Maseru. With a considerable lack of up-to-standard TRI like accommodation lodges, emergency healthcare services, paved roads, Internet access, petrol stations, to name but a few, a considerable amount of foreign visitors choose to reside in the border areas in South Africa like Ladybrand, Ficksburg, Clarens etc. which offer more quality TRI. Lesotho fails to capture the majority of tourism-generated revenue. The recent financial crisis and the drastic reduction of SACU revenue limit the resources of the Government of Lesotho to invest in TRI development. A more comprehensive review of the existing institutional and regulatory framework as well as the efficiency to implement business-friendly procedures to foster more responsive and liberal execution of private sector investment in TRI is necessary.

Besides, tourist operators play an influential role in the leakage in the tourism supply chain in Lesotho. Providing more accessible services with generally higher service standards, South African tour operators handle a substantial volume of guided tours to major tourism spots such as the Katse Dam in Lesotho. The Government of Lesotho does not have any specific policy to protect guided service operations of local tour companies. Without effective national policy to develop and market quality Basotho guided tour service, foreign visitors get more accessible and guaranteed tour service from South African operators during their transit to the landlocked Lesotho via South Africa.

The public charging schedule for key tourism facilities can be reviewed. As of January 2011, LSL 10 was charged for a 45-minute guided tour in either of the two major dams, namely Katse Dam and Mohale Dam. The Project observed that a generally higher entrance fee is charged for comparable tourism facilities in South Africa.

Strengthen Bilateral Cooperation on TRI Development with South Africa

Private investment in TRI in Lesotho faces potential risks in terms of volatile cost of investment, policy risk and an uncertain return of investment. While there is not a comprehensive investment policy framework in Lesotho to enable private development of TRI, except a few major projects like the development of high-end Lesotho Sun and Maseru Sun hotels with an involvement of the Government of Lesotho to facilitate the development, there is a limited presence of foreign private investors in the infrastructure sector, apart from some small-scale TRI investment by companies from South Africa. Taking into account the investment circumstances in Lesotho, it is noted that the Government of Lesotho has not effectively leveraged its the proximity to South Africa and engaged into bilateral cooperation with the economic driver in Southern Africa to attract FDI into Lesotho.

It would be a targeted approach for Lesotho to strengthen the coordination with South Africa in enhancing its TRI and linking to the TRI establishment in South Africa. The Maloti-Drakensberg National Park, the trans-frontier conservation areas cover national park areas in South Africa and Lesotho, is an example of how a joint-effort between the two national governments can facilitate TRI development in the region. Indeed, South Africa dominated the inbound visitor share of Lesotho, and the visitor number rose from 85% in 2008 to 88% in 2009.²²³ Lesotho is widely regarded for South African as a short-trip destination. Strengthening the interconnectedness of TRI in Lesotho and South Africa via bilateral or regional agreement (like the Boundless Africa initiative) would enhance the attractiveness for both South African visitors and other foreign visitors to travel to Lesotho.

12.3 - World Cup 2010 – A Golden Opportunity for TRI in Lesotho?

The World Cup 2010 in South Africa was widely believed to be an opportunity to create spillover effects from an increase in investment in the region.

²²³ Lesotho Tourism Development Corporation (2010).

With an expected high influx of participants and visitors traveling to Southern Africa, Lesotho has not been well coordinated with the region to attract foreign investors to invest in the country. Whereas a large pool of infrastructure resources was drawn to the projects related to world cup related tourism infrastructure, Lesotho did not receive significant benefit during the process. A lack of effective coordination with the Government of South Africa in dealing with customs arrangement during the World Cup resulted in a long queue at the border during the World Cup in June 2010, and the spillover effect through the world cup to tourism-related activities in Lesotho was a disappointment. Both foreign and local private companies who invested in TRI like renovation of visitor lodges and upgrades of tourism facilities did not result in an anticipated return on investment.

Revisit “Protocol on Tourism” to Bolster Investment Cooperation with SADC Members

because the scale of investment in TRI in Lesotho is not necessarily attractive to foreign investors when compared to other investment opportunities in South Africa, Namibia and Mozambique, effective marketing efforts to promote potential infrastructure projects in Lesotho and their opportunities becomes important. The low participation of private investors from SADC member countries (apart from South African investors in TRI projects in Lesotho) indicates further room for the Government of Lesotho to strengthen investment promotion for infrastructure development. Under article 12 of the SADC protocol on tourism²²⁴, member states including Lesotho will coordinate their respective legislative frameworks to “*create the necessary enabling environment so as to enhance the competitiveness of the Region as an attractive investment location and develop appropriate tourism-specific incentives to encourage the growth of private sector initiatives in the tourism sector*”. Lesotho has signed the protocol and committed to develop tourism investment policies and strategies to promote growth and development of private sector initiatives. While the protocol agreement aims to create a “*favorable investment climate for tourism within the Region for both the public and private sectors*”, Lesotho has not captured much of the regional investment into its TRI development. On top of the SADC regional agreement, Lesotho needs to explore further bilateral agreement with regional partners to increase the attractiveness of its development projects and strengthen its tie with country partners to drive development resources to enable the infrastructure development and impact its long-term economic development.

Explore Infrastructure Investment-Related Agreement Under the SACU Setting

As an important regional cooperation initiative, Lesotho joins force with the three other SACU member states in sharing the custom revenue from trade between SACU region and other economies. With an exception of much advanced service industries, particularly in tourism, in South Africa, Lesotho has not enjoyed much benefit from trade in services under the SACU economic bloc. Some crucial factors including “*constraints in infrastructure, marketing and promotion, and finance, and lack of skilled labour*” are considered to have hindered the development of trade in tourism in SACU states including Lesotho²²⁵. The current setting raises a consideration on how Lesotho can re-strategize its regional cooperation focus to seal infrastructure investment-related agreements with countries in the Southern Africa and attract foreign investors from the region and via the region.

Keep Abreast of the Applicability of Regional Instrument on Infrastructure Development

Driven by the African Union, the New Partnership For Africa’s Development (NEPAD) becomes a facilitator in thematic areas of development in Africa, notably in regional

²²⁴ Refer to the text of SADC Protocol on Tourism

²²⁵ International Trade Centre (2009).

integration and infrastructure. Under the institutional framework, NEPAD set up an infrastructure project preparation facility (IPPF) for African states to develop regional infrastructure and promote regional cooperation. Other infrastructure-related instruments such as the Programme for Infrastructure Development in Africa (PIDA) have been introduced to assist member states to build up capacity in managing infrastructure development. Lesotho has yet leveraged on the infrastructure development initiative under the NEPAD framework in financing its imminent need of infrastructure development, particularly in rural provinces outside Maseru²²⁶. It would be useful for the Government of Lesotho to explore any instrument to boost its TRI under the NEPAD framework.

Strengthen the Coordination with Donors to Steer Public & Private Investment in TRI

The majority of input to infrastructure investment in Lesotho has been carried out by the public sector, either via direct government spending, or via assistance of donor organizations like the World Bank and the European Commission. On-site Project interviews with the donor community reveal that tourism is not a priority of the aid program of donor organizations, though TRI can be an element of development program given that the infrastructure facilities, such as roads and water supply, serve as fundamental enablers of other development priorities like rural development and poverty reduction. Lesotho has not developed a tourism development strategy and called for donors' cooperation to develop TRI and capacity building of infrastructure investment and governance. The Budget Speech 2011/12 is regarded as a new approach of the Government of Lesotho to explore donors' assistance to develop the cross-industry tourism sector. It pinpointed the Government's plan to explore the immense potential of job creation in tourism and foster partnerships with the private sector to fuel human and financial capital growth. Technical assistance for staff training and capacity building from development partners will have to be sought²²⁷.

According to the NIU in Lesotho, EIF is a more specific and efficient mechanism of aid as it provides clear guidelines on fund application, monitoring and evaluation. The release of EIF funds is also more efficient²²⁸. Under the provision of the EIF, the Government of Lesotho can also explore the support of the fund to develop its trade in services, namely TRI as well as tourism. NIU needs to coordinate with the national focal point to devise an updated DTIS action matrix and develop an implementation plan to mainstream trade in services in the country's Tier-2 application.

On the other hand, coordination among different ministries can be challenging, especially when a closer coordination on trade policy is more crucial for Tier-2 operation. For example, no EIF-related trade development prioritization was included under the NSDP as of January 2011. There is a strong need for the NIU to strengthen coordination with MOFDP and other ministries.

Improve Coordination Among the Ministries, Donors and Private Sector

²²⁶ NEPAD website (<http://www.nepad.org/regionalintegrationandinfrastructure>) and Statement by the Minister of Foreign Affairs and International Relations, the Honorable Mohlabi Kenneth Tsekoa at the Opening of a Stakeholders Engagement Workshop of the New Partnership for Africa's Development, 15-17 September 2008.

²²⁷ Thahane (2011)

²²⁸ According to the NIU of Lesotho, the execution of discharge of aid under Tier-1 operation involved around 2 months after approval. The same procedure in other development fund can take as long as 10 months.

Coordination efforts need to be improved among stakeholders involved in the investment in TRI. With the different objectives and operational functions of the various ministries and government agencies in Lesotho, public effort on investment and development in TRI has not been effective and efficient due to a lack of communication and coordination among the ministries. For example, indication and signage of tourism information along the main roads across different regions of Lesotho has not been fully installed due to an ineffective coordination between MTEC and the MPWT.

The majority of the donor organizations interviewed by the Project did not prioritize tourism development as a core focus in their aid program. However, there is a pragmatic need for the government ministries and agencies that are involved in TRI development to enhance coordination and communication with the donor organizations. The same case applies to coordination with private investors who participate in the investment in TRI. Poor government policy and ineffective investment framework can have a detrimental effect on the potential investment decisions, as well as the implementation of investors' infrastructure project in Lesotho.

13. Assessing the Role of Public-Private Partnerships (PPPs) in Lesotho

PPP AS A LONG-TERM STRATEGY FOR LDCS?

As illustrated, infrastructure-related projects for development in LDCs usually involve substantial public investment and possess a long duration. With the constraints of public finance and project management capacity in these countries, there is an increasing value for the government of LDCs to explore different means of financing and managing public infrastructure projects, including TRI projects. Public-private partnerships (PPPs) are one possible solution to enable LDCs to expedite closing the infrastructure gap and leveraging on private sector's participation in terms of finance, design, implementation and operations²²⁹. They are commonly used when governments require external sources of funding for specific projects or lack the necessary expertise to conduct a given venture²³⁰. As an innovative contractual arrangement between the public sector and the private sector, expertise and resources from the private sector can be harnessed by national governments, and project risk can partly be transferred to the private partner under the contractual arrangement of the PPP project. On the other hand, PPPs are considered as long-term investment opportunities for businesses in the form of a stable source of revenue from the government and plus a return on investment during the project period.

PPPs for infrastructure projects can involve complex contractual terms and conditions, as the scope of project is usually large-scale, technical and specific. It is essential for both the national government as well as the participating private sectors to understand the rights, the responsibilities and the liabilities in the project. Reaching a mutually understood, transparent, risk-mitigating, concise and executable PPP agreement is challenging, especially in the context of LDCs wherein national governments may not have the experience and the capacity to manage PPP projects. As Pessoa (2008) explains:

*“A much more intrusive and demanding form of regulation [of public-private partnerships] is more vital [in developing countries and LDCs], because they are usually characterized by non-competitive industry structures and/or lack of capital market discipline. ...[B]aseline information for decisions tends to be limited or unreliable and the regulators have difficulties in establishing their credibility and implementing sound governance arrangements.”*²³¹

Lesotho shares many of the opportunities and challenges faced by other LDCs in exploring PPPs. With the support of the Government, Lesotho has entered into a milestone PPP arrangement to upgrade its healthcare infrastructure by designing, constructing and operating a hospital with inpatient, surgery, and emergency response facilities since 2007. As the largest healthcare PPP project in Africa, this pilot project was jointly facilitated by the World Bank and the International Finance Corporation (IFC) who provide advisory support, a financial guarantee and capacity building to assist the Government of Lesotho in project implementation (see also Box 14.1).

²²⁹ United Nations Economic Commission for Europe (2010).

²³⁰ OECD (2007).

²³¹ Pessoa (2008): 322.

Box 13.1 - Public-Private Partnership as a Model to Direct Investment in Infrastructure in Lesotho

As demonstrated, investment in TRI is challenging in Lesotho. The availability of financial resources in investment projects is essential. The Government of Lesotho is running a tight budget with a reduced actual receipt of SACU revenue since the global financial crisis. The numerous national development priorities have given little room for the Government to spend resources on TRI. As long as donor organizations have no action plan to finance the Government of Lesotho to develop the facilities for tourism development, the public finance allocation to TRI is very limited.

Private investment, on the other hand, has difficulties in assessing and accessing business and investment opportunities. Prominent reasons driving this reality include a complicated investment, legislative, and institutional framework; an uncertain investment risk due to non-transparent and inaccurate investment information; a general lack of expertise and credit finance facilities; challenging land use policy; as well as the relatively unattractive return on investment. Lesotho has not introduced effective an investment promotion program to attract foreign direct investment to participate in the TRI development. The stagnant tourism sector, with insignificant growth, has not created a sound backward linkage to infrastructure development. Landlocked within a much more sophisticated economy with a more advanced TRI system and developed tourism sector, Lesotho's poor infrastructure and less favorable investment environment marginalizes its development and limits its attractiveness for foreign direct investment.

With a view to attract investment resources to aid development in Lesotho, the Government of Lesotho has highlighted in the latest Budget Speech the PPP model as a possible means to inject financial resources to boost investment in infrastructure projects. In January 2011, the Government of Lesotho organized a series of public workshops and feedback sessions with members of the donor community, private sector, and government departments to explore developing a PPP framework for Lesotho. The aim of the workshop was to develop a policy framework to "*develop innovative approaches to leverage the private sector to develop infrastructure and deliver efficient and high quality public services at low cost*". Its aim was to facilitate public-private dialogue and an enhanced policy framework for PPP in particular to investment in infrastructure to advance the National Development Plan.

Jointly managed by the IFC, the World Bank and the Government of Lesotho, the PPP project to build a 425-bed hospital in Maseru commenced in 2007. The project cost for design and construction of the hospital amounts to an estimated USD 120 million, the largest of its kind in Africa. Netcare, a South African company, has won the contract and engaged in a contract term of 18 years, including 2.5 years for construction and commissioning of both clinical and non-clinical service provision. The project was an innovative formula to introduce private participation and financial input in a public project supported by international financial institutions and donors.

Though the contract terms and conditions are not publicly available, the PPP project addresses the importance of participation of local community and through a constructive dialogue between the participating parties, the project aims to be a role model of PPP initiative that can be replicated in future development in Lesotho. The location of the hospital site was pre-determined and the land was granted in the form of lease in the contractual agreement. Netcare did not have an option to choose a site for the project. According to Netcare, the contract was written with considerable elements of local community engagement and development-oriented deliverables. The ownership structure of the PPP is shared by South African and Basotho companies. This structure ensures that both the South African partners and the local private sector see financial returns from the PPP investment. The details of the ownership structure are as follows:

- 40% of the equity share is owned by Basotho entities representing local women community, under Women Investment Company
- The equity ratio for Basotho under the Tsepong consortium will be increased from the initial 40% to 60% by Year 12 of the project, thus strengthening local empowerment
- Additionally, at least 50% of the management staff of the hospital company has to be Basotho. Around 80% of the staff employed by the PPP project are Basotho.

Four South African companies bid for the PPP contract in the procurement stage, but Netcare was awarded the contract for the hospital project. The implementation of the PPP project under the construction phase has been satisfactory according to Netcare, and a dispute resolution mechanism is in place under the contractual arrangement. Netcare has recognized the capacity of both the officials of the Government of Lesotho as well as participating international organizations to enforce a sound PPP model. However, it is noted that there is a lack of PPP law in Lesotho, and the private sector is concerned about the risk in the investment environment as well as the political continuity in Lesotho during the long contractual term. The risk guarantee provided by the IFC in the partnership is crucial in minimizing the risk undertaken by the private companies.

The construction of the hospital involves related infrastructure development including electricity supply, hot water provision, transportation as well as other soft-infrastructure like training to local employees etc. The hospital, upon completion, will be the most important tourism-related facility in Lesotho to handle emergency and healthcare-related services for visitors. Currently, no other facility is available in Lesotho and visitors who need medical services have to go to hospitals in South Africa. As such the successful completion of the hospital, and execution of the PPP contract for its entire duration, represent significant advances in both TRI development in Lesotho, and the case for PPPs in LDCs.

THE PPP HOSPITAL IN LESOTHO AS A KEY LESSON TO LEARN

Lack of up-to-standard healthcare-related infrastructure is a key challenge hindering poverty reduction and economic development in Lesotho. Foreign visitors who travel to Lesotho at present cannot get efficient access hospital or emergency services within the country. The PPP hospital project is considered to be an enabling infrastructure to improve healthcare-related and emergency service capacity.

The project is also designed as a model to leverage the foreign private sector's participation in pro-poor development and local capacity building, as the Government of Lesotho managed to incorporate project terms with local development context, such as the deployment of Basotho companies and empowerment of local women. The construction phase of the hospital will be completed before mid-2011, and the infrastructure facilities will be in operation from late 2011. The project design and execution has been viewed a success by the major project stakeholders, according to the research findings. The implementation of the PPP project in Lesotho is considered a powerful example that can inform exploration of other PPP arrangements for other infrastructure and TRI projects in the country. Five critical success factors are identified, namely:

- (i) National government commitment with a result-oriented approach;
- (ii) Expertise, experience and commitment of the private sector;
- (iii) Cost neutrality as an acceptable risk-mitigation measure to capitalize Government's annual unitary cost since the contract has fixed the operation cost incurred by the government at a same budget level prior to the project (adjusted with inflation rate);
- (iv) Involvement and empowerment of the local community (such as the requirement to use Basotho construction company's services, an equity share to a local women community organization, and the Lesotho Chamber of Commerce; and terms to employ Basotho doctors, nurses and service providers);
- (v) Effective role of international donors and robust coordination effort

The implementation of PPP hospital project in Lesotho is an important step for the Government of Lesotho to assess the applicability of PPPs to finance and manage other public infrastructure projects with the participation of the private sector. Nonetheless, the

distinct infrastructure subsectors have unique technical, financial, and managerial requirements, meaning that one PPP implementation model does not fit all. One key challenge for national government is “*how to form effective partnerships among different players in such a way that public utilities can be served efficiently, effectively, and equitably*”.²³² In view of the current situation in Lesotho, the Project has drafted the below “*Implementation Checklist*” for further evaluation by the Government of Lesotho as well as the participating stakeholders in future PPP projects in the country:

Implementation Checklist

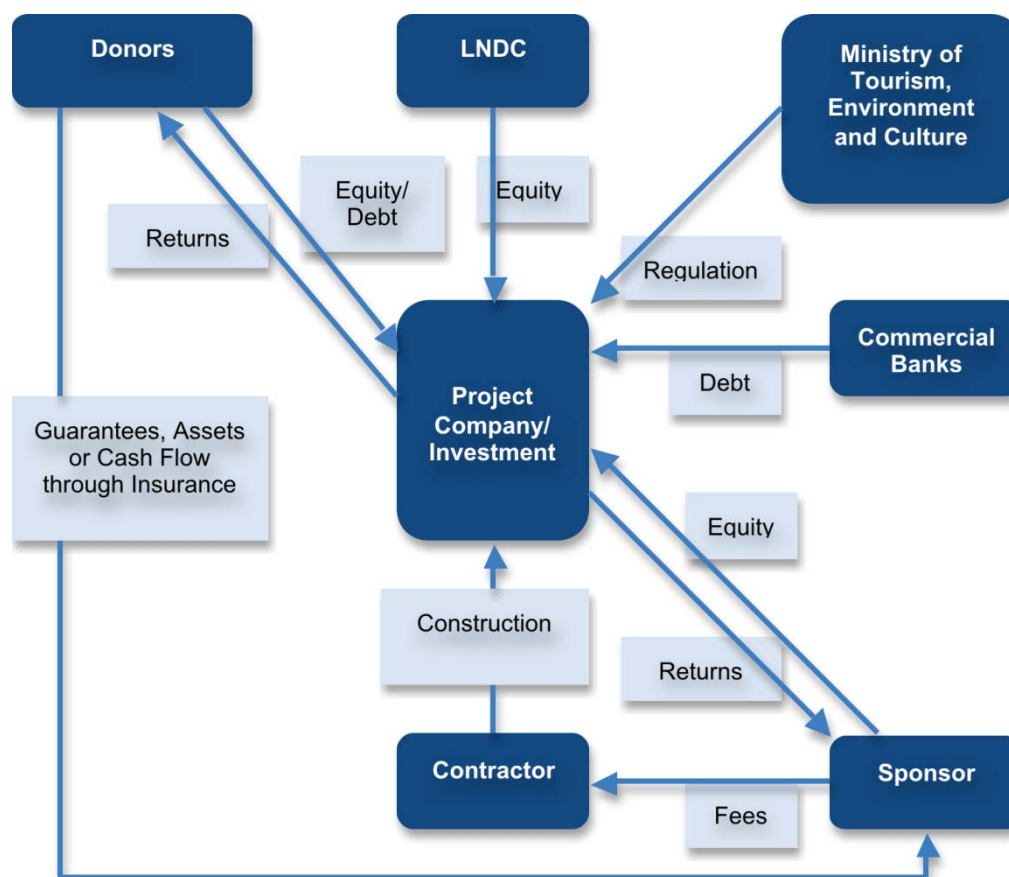
- (i) Effectively identify and market PPP infrastructure and TRI projects to potential investors not necessarily limited to those from neighboring countries like South Africa;
- (ii) Provide transparent and accurate information of the details of the project scope and tendering procedures, as this correlates directly to the investment risk incurred by potential investors;
- (iii) Devise effective PPP contract and project design; ensure a review of the PPP contract to incorporate mutual resource dependency, commitment symmetry, common goal setting, effective channels of communication, alignment of cooperation learning capability, and converging work cultures;²³³
- (iv) Determine the level of involvement of the Government of Lesotho in each specific PPP project in terms of investment, regulation, and operation;
- (v) Legally formalize the contractual relationship among the PPP stakeholders with clear rights and responsibilities outlined prior to entering into partnership;
- (vi) Include the significant value of social considerations, the MDGs and the NDP to assure that PPP projects function in a cohesive and enabling direction to the overall development of Lesotho;
- (vii) Do not underestimate the importance of a mutually agreed dispute resolution mechanism between the Government of Lesotho and the private sector;
- (viii) Enforce performance measurement of the project throughout the long project cycle, and make effective use of penalty clauses to deal with below standard service quality and project work delays;
- (ix) Acknowledge cultural difference of private sector and better coordinate with private sector partners to build trust and accomplish PPP project goals. In the longer run, it is recommended that the Government of Lesotho:
- (x) Create a transparent and non-complicated regulatory framework, such as a formulation of concise PPP concession law, and yet without constraining the flexibility needed for PPP projects;
- (xi) Take into consideration of PPP regulations and PPP project implementation under the backdrop of its commitment to develop national competition law. Private sector participation in public infrastructure and TRI development can pose controversial and contradicting scenarios;
- (xii) Foster a long-term strategic PPP policy instead of operating in an ad hoc basis to allow lessons to be transferred from various PPP infrastructure and TRI projects in different sectors;
- (xiii) Establish a PPP focal point, for example within the LNDC under the special supervision of the MOFD, to ease the launching and execution of PPP projects. The PPP focal point should also carry a knowledge-based function to manage valuable data and information relating to PPP implementation in Lesotho;

²³² Pessoa (2008): 324.

²³³ Jamali (2004): 419 – 421.

- (xiv) Consult international organizations like the UNCITRAL on capacity building and development of regulatory framework
- (xv) Maintain a cooperative relationship with IFIs to acquire their credible support, development loans, and investment guarantee mechanisms, to help induce foreign investors and experts to participate;
- (xvi) Conduct experience sharing and exchange in relevant international institutions, such as the Team of Specialists on PPP Bureau under the UNECE;
- (xvii) Train quality legal professionals and government officials to manage PPP projects.

Figure 1: Potential TRI PPP Contract Template for Lesotho



Overcoming A Lack of Trust Is Integral To The Success Of PPPs

Within Lesotho, there is a lack of trust between government, donors, and the private sector.²³⁴ In general, government officials are not certain if the donor community fully understand the reality in the field and the long-term development dynamics in Lesotho. Of the government ministers and officials interviewed, half of the responses cited “*policy disagreements*” as the key challenge when working with donors.²³⁵ Donors shared a lack of trust and expressed doubts about the commitment that government officials have to timely and quality implementation of policy.²³⁶ The private sector felt that government erected

²³⁴ Annex IV.

²³⁵ Annex IV.

²³⁶ Annex IV.

many bureaucratic barriers to private investment, such that it became very challenging to sustain a business, or that government simply ignored the private sector altogether.²³⁷ Investments from the international private sector take place in Lesotho barely under attractive policy incentives such as the AGOA or some kind of insurance from the international community, such as an investment guarantee by an IFI like IFC or MIGA. **The perceived country risk within Lesotho is high to foreign investors, and must be mitigated in some way.** The inter-stakeholder lack of trust creates an unfavorable environment for FDI, particularly in the infrastructure sector where a stable, predictable business and legal environment is of the utmost importance. Table XV summarizes this situation.

Table XV - Field Research Reveals A Lack of Trust between Stakeholders in Lesotho

Stakeholder	Government	Locally-owned business	Foreign-owned business	Donors
Government's attitude towards:	<ul style="list-style-type: none"> - 80% mentioned coordination as key obstacle - Territorialism or lack of ownership ("this is our ours" or "this is not ours") 	<ul style="list-style-type: none"> - Some initiatives to develop local business, but in general local private sector's involvement is not yet a top priority 	<ul style="list-style-type: none"> - Mostly positive if compliant with regulation - Close relations e.g. with Standard Lesotho Bank 	<ul style="list-style-type: none"> - Majority feel donors lack understanding of Lesotho context - 50% mentioned policy disagreements as key challenge
Locally-owned business' attitude towards:	<ul style="list-style-type: none"> - 70% feel that government does NOT support their business - Too much red tape (33%) - 50% said investment climate is poor 	<ul style="list-style-type: none"> - Poor property right protection results in business loss - But, local businesses do work together formally in associations 	<ul style="list-style-type: none"> - Majority of local business owners feel that foreign businesses extract rents with no local benefit 	<ul style="list-style-type: none"> - Majority of local businesses do not work directly with donors
Foreign-owned business' attitude towards:	<ul style="list-style-type: none"> - 100% said they feel their business is either fully or partially supported by government - Can be unresponsive (46%) 	<ul style="list-style-type: none"> - Majority import raw materials rather than procure locally. This deepens economic leakages 	<i>No data</i>	<ul style="list-style-type: none"> - Majority of foreign businesses do not work directly with donors - IFC is key enabler in securing private investment in the PPP hospital project
Donors attitude towards:	<ul style="list-style-type: none"> - Majority said government is unresponsive and lacks initiative - 75% said regulation is opaque but benign 	<ul style="list-style-type: none"> - Not antagonistic but focus is on government reform 	<ul style="list-style-type: none"> - Majority feel that foreign businesses seek rents without much economic benefit to local economy - Not a priority for donors 	<ul style="list-style-type: none"> - 75% of donors listed coordination as the key obstacle to collaboration

²³⁷ Annex IV. This is more the case for tourism providers than other industry sectors in Lesotho.

Attracting private investment in consortium of PPP projects in LDCs is a challenge. 15% of the top 225 global sponsors sustain losses on PPP contracts in developing countries, largely due to the difficulties ascertaining risk ex-ante.²³⁸ Although the lack of trust is pertinent to infrastructure development in Lesotho, there is nevertheless substantial potential for well-designed PPPs to succeed in Lesotho and **indeed all LDCs**²³⁹. The key is to structure the PPP contract in such a way that all parties achieve their respective goals in an acceptable way, thereby enabling all parties to develop trust and work together for their mutual benefit. Although the final outcome of the PPP hospital project in Lesotho would remain to be seen, its success to date is a boost to the PPP model and joint-effort of the public and the private sector in developing TRI that can be scaled up in Lesotho and other LDCs.

²³⁸ McCowan (2002).

²³⁹ A 2004 World Bank study entitled *Private Solutions for Infrastructure in Lesotho* makes this same argument, and identifies a list of potential PPPs that could be developed in Lesotho as well as an action plan for how to execute them. However, this document was neither referenced nor was there any evidence of follow up or implementation of the action plan in Lesotho.

PART VI – POLICY RECOMMENDATIONS AND CONCLUSION

14. Key Policy Recommendations and Implementation Strategies

Based on the analysis of the investment framework in TRI in Lesotho and the development challenges, the Project concludes with a list of policy recommendations as below: -

POLICY PLANNING & STRATEGY

- (i) Prioritize development for Lesotho and adopt a comprehensive and cohesive approach to both i) the public investment on infrastructure and ii) the investment policy to induce more effective infrastructure development
- (ii) Develop a robust and clear investment framework for foreign and domestic businesses. This will signal to potential foreign investors why Lesotho is stable and profitable destination for FDI, and allow Lesotho to fully harness the dynamism of domestic entrepreneurs.
- (iii) Enhance investment policy framework for both foreign and domestic investors and provide TRI development with supplementary facilitations, especially those related to land use, credit finance, governance and regulatory capacity etc.
- (iv) Strategize regional cooperation, particularly with South Africa on key issues including trade and development, fundraising, investment, and policy coherence related to cross-border infrastructure development and tourism development
- (v) Assess and devise a targeted development strategy to tap into the spillover effect of investment in infrastructure and economic development including tourism and trade
- (vi) Continue with existing private sector reforms. Reforms aimed at rationalizing private sector activity, including the creation of a credit rating agency and a national ID system, are crucial to Lesotho's development, because they help lenders overcome tight credit restrictions in Lesotho, amongst other reasons.

POLICY COHERENCE

- (i) Enhance coordination among different stakeholders in the process of investment in infrastructure and tourism development
- (ii) Continue to work with the international community to create a robust PPP investment framework, for both extractive industries and infrastructure. In January of 2011, the government of Lesotho, the IFC, and World Bank held a public series of workshops and feedback sessions including members of the donor community, private sector, and government departments about developing a PPP framework for Lesotho. The forthcoming PPP framework has the potential to institutionalize an existing approach to

- (iii) Strengthen overall government capacity on donor coordination and harmonization for effective aid management. In order to strengthen the institutional capacity of the Government of Lesotho for aid coordination, resource mobilization and harmonization of development assistance, there is a critical need for donor and development partners to engage in strategic dialogue with the public sector. Additionally, Government of Lesotho should take action from the outcome of the Lesotho National Dialogue on Aid Effectiveness and Accra Agenda for Action, held in November 2010, in particular to formulate an aid policy to ensure the quantity and quality of aid received and utilized by Government of Lesotho. These efforts aim to make sure that development aid in Lesotho is consistent with the Paris Declaration on Aid Effectiveness.

- (iv) Enhance inter-ministerial coordination to ensure policy coherence. Policy coherence is broadly defined by OECD as an “overall state of mutual consistency among different policies”.²⁴⁰ Inconsistent policies in infrastructure development, trade and investment entail a higher risk of duplication, inefficient spending, a lower quality of service, difficulty in meeting national development goals, and reduced state capacity to govern, and these are evident in Lesotho. Additionally, this lack of coherence would deter potential investors into future development projects. It is therefore recommended for the Government of Lesotho to build its capacity of central policy-making structures to coordinate and develop strategies for overall policies and interacts with each other without forgetting the capacity within line ministries to interlink with other ministries within the same or other levels of government. In other words, there should be an adequate amount of consultation among different ministries (apart from the regular Cabinet meeting) in policy formulation, review and coordination to ensure best outcomes of such policy coherence.

POLICY EXECUTION & CAPACITY BUILDING

- (i) Further explore the public-private partnership initiative and pool development funds for infrastructure development in Lesotho to enable poverty reduction and economic development

- (ii) Facilitate local private sector development by removing red tape and implementing performance-based government. Cutting down on the bureaucratic hurdles and delays which deter investment from the local private sector is crucial. Government officials and programs that are not responsive to social, environmental, and business needs should be removed.

²⁴⁰ OECD (1996): 8.

- (iii) Create a PPP Desk at LNDC under special supervision of the MOFDP. LNDC should apply the “One Stop Shop” concept to PPP, and establish a division exclusively devoted to designing, implementing, monitoring, and coordinating activities for PPPs within Lesotho. PPPs are inherently complex due to their highly transactional and multi-party structure, and having a simple institutional arrangement for all PPP-related matters would cut down on confusion and delays significantly for all involved.
- (iv) Strengthen the financial and human capital of the LTDC. Tourism is currently an underutilized resource in Lesotho. Lesotho’s abundant natural beauty and unique culture and history make it an ideal tour destination, both within Africa and globally. Although tourism is part of a well-diversified strategy for pro-poor growth that includes SME development, manufacturing, agriculture and potentially renewable energy, it is currently a sector that is underinvested by Lesotho. Bolstering the resources of the LTDC would enhance Lesotho’s competitive advantage in the global market for tourism and allow it to fully realize the positive linkages and spillovers this industry has to offer.
- (v) Promote domestic participation in private infrastructure to build local capacity. Government should introduce capacity-building programs for local entrepreneurs into all public work projects with a view to enable small businesses to grow into larger enterprises that can compete with companies from neighboring states. The Government of Lesotho can consider including training programs for local contractors as a necessary part of infrastructure development in the country. This would be in addition to requirements for joint ventures, subcontracts and workforce integration with domestic players.
- (vi) Building human and institutional capacities. Skills shortages and lack of knowledge transfers are key constraints to economic growth prospects in Lesotho. Despite the high literacy rate in Lesotho, rates of enrolment at secondary schools are still low and this is reflected in the shortage of skills to match industry needs, which translates to low labor productivity. Therefore, it is timely for the Government of Lesotho to consider additional vocational schools and introduce nationwide skills institutes to help build capacity amongst Basotho. A sector skills committee within Ministry of Labour and Employment (MLE) can be formed to identify needs for skills and their associated trainings, as well as opportunities for training and technical assistance provided for by international organization and bilateral partners.

15. A Final Note – Foster Sustainable Cooperation with South Africa

Cooperation between Lesotho and South Africa in what has been a successful partnership in business like the LHWP can be extended into other policy areas that might generate more harmonious policy environment for TRI investment.

South Africa has been in the forefront of leading its domestic tourism sector as a national driver of growth. This is evidenced by recent national strategies²⁴¹ that place tourism at the center stage. Currently, tourism contributes to 3% of the GDP in South Africa. Tourism is one of the six strategic pillars of growth for South Africa, together with agriculture, infrastructure development, mining value-chain, green economy and manufacturing sectors.²⁴²

There are many areas of potential and comprehensive partnership between Lesotho and South Africa specifically regarding the development of the tourism industry. For example, South Africa possesses a TSA that maps the contribution of tourism to the South African economy. TSA provides statistical capacity and information and allows a country to better understand the role that tourism is playing in the economy as whole. Lesotho does not possess a functioning TSA. South Africa and Lesotho could develop a partnership that allowed Lesotho to benefit from the statistical data collected by the South African TSA. This partnership could be done in the form of technical assistance at a minimal cost for South African.

Another potential area of collaboration would be a more proactive regional integration in respect to tourism. South Africa has, as one of its main tourism strategies, domestic and regional tourism for its population and for incoming foreigners. A closer collaboration between the governments of South Africa and Lesotho could encompass routes that might generate greater volumes of tourist inflows in Lesotho.

Lesotho and South Africa share old and contemporary histories. The legacy of the apartheid regime is still engraved in the memories of much of the population of South Africa. The societal and economic dynamics of the apartheid regime left a legacy in the hearts and minds of the South African community that still haunts many of its citizens. The incredible achievements of social integration that have been undergoing in South Africa are phenomenal. In that vein, it is important to understand to push for an understanding, in South Africa, that Lesotho needs to prosper with the country. It is not simply a driver for greater economic growth in Lesotho, but also a more cohesive partnership, recognizing that a more developed Lesotho represents spillover linkages to the economy of South Africa. Collaborative efforts in the tourism industry may bring those efforts to the forefront.

Both Lesotho and South Africa would benefit from technical assistance cooperation in light of the ongoing realities of both countries. While it is obvious that Lesotho would benefit from a closer cooperation between both countries, interface with the South African government would allow tangible and intangible gains. With a growing disparity in standards of living between both countries South Africa will not be able to cope with an impoverished enclave within its territory. The two nations share a history and should share more cohesive policy

²⁴¹ Republic of South Africa (2011)

²⁴² Ibid.

cooperation.

16. Conclusion

CONCLUSIVE REMARKS

This Project examined the relationship between infrastructure and policy framework for investment. An analysis of tourism related infrastructure in Lesotho was conducted through a methodology that encompassed the interactions between the donor community, the private and the public sectors in the country. The state of infrastructure in Lesotho is not optimal; however there have been cases of successful partnership between societal actors that generated results. In light of Lesotho's policy framework for investment in infrastructure, these results can be attributed, at least in part, to interregional cooperation.

The Project investigated ongoing PPP structures, legal and policy frameworks in Lesotho, as well as a country study that encompassed data on its investment framework. Some of the findings reflect deficiencies in Lesotho's investment dynamics. This is exemplified by the lack of private sector investment in Lesotho infrastructure, but also in the lack of public sector investment. One of the most prevalent issues surrounding Lesotho is the high incidence of public sector consumption. Perhaps this is one of the reasons as to why there seems to be a lack of private sector infrastructure investment. Land use and property rights have not been enforced.

In light of the situation explored, the Project conceived some recommendations encompass the need for mechanisms to be developed in order to harness the full potential of TRI. That is, Lesotho must address not only the lack of TRI, but also implement instruments that will maximize the investments that have been already made. One of the most promising aspects is a closer cooperation with South Africa, especially in the integration of TRIs.

A continuing relationship with the donor community is important, especially on the area of capacity building. Facilitating the interface between public sector, donor community and the inclusion of the private sector might render benefits that are crucial for business development.

SUGGESTION FOR FURTHER RESEARCH

This Project examined the relationship between infrastructure and policy framework for investment. We have analyzed tourism related infrastructure in Lesotho.

The particular nature of Lesotho is important. The country has a history that is surrounded by and intertwined with South Africa. Both generalities and particularities of that relationship need to further explored. That is especially the case if Lesotho aims at receiving technical cooperation and a greater integration into capital-intensive services, such as investment in transportation, sanitation and water treatment. This could not only help Lesotho in times of fiscal contraction, but also ameliorate potential tensions between both countries.

A more serious study involving a meticulous compilation of a tourism value-chain-analysis is needed to identify the major obstacles within the sector. The literature review has addressed this issue and further study regarding Lesotho's particularities, as an LLDC, should be performed. It is worth mentioning that Lesotho is endowed with resources that maybe leveraged for tourism development.

PART VII – REVIEWING DTIS and PRSP

17. Reviewing Policy on Investment in TRI Via DTIS Action Matrix

One key recommendation of the capstone project is to review the current situation of Lesotho in regards to the investment policy framework as well as the governance and implementation capacity of both the public and the private sectors in TRI. The below table illustrates the relevance of DTIS Action Matrix as an assessment of the challenges and opportunities of investment in TRI in the country and an initial thought of policy recommendation to the authority for consideration.

**DTIS ACTION MATRIX (LESOTHO)
WITH POTENTIAL IMPLICATIONS FOR INVESTMENT IN TRI**

INSTITUTIONAL CAPACITY: NATIONAL POLICY MAKING AND TRADE ENHANCEMENT				
BARRIER OR OPPORTUNITY	POLICY ACTION	TECHNICAL ASSISTANCE	IMPLICATIONS FOR INVESTMENT IN TOURISM-RELATED INFRASTRUCTURE*	RECOMMENDATION (IN ADDITION TO ENDORSED POLICY ACTION)*
1. Insufficient trade data for policy analysis by government and non-government actors	<ul style="list-style-type: none"> • Computerize customs as a first step to establish a reliable statistical accounting system • Integrate data reporting with SACU 	<ul style="list-style-type: none"> • IT equipment and software purchases • Train staff in data collection and statistical analysis 	<ul style="list-style-type: none"> • Ineffective policy making in engaging donors' aid to finance tourism-related infrastructure (TRI); & investing public money in TRI • Hinder decision making of private investment to TRI due to lack of trade data 	<ul style="list-style-type: none"> • Strengthen the enforcement of data collection at customs • Enhance the public-private dialogue to induce private investors' interest in TRI projects
2. Weak analytical capacity in support of trade and investment agreements negotiators	<ul style="list-style-type: none"> • Create trade policy analysis unit in MITM. • Expand and train analytical staff. • Create coordinating 	<ul style="list-style-type: none"> • Train and equip staff of MITM and other related units in the Ministry of Foreign Affairs, Ministry of 	<ul style="list-style-type: none"> • Lack of support through bilateral investment policy with other countries 	<ul style="list-style-type: none"> • Include investment in infrastructure as a key element in negotiating with potential country partners in trade and investment agreements

3. Fragmented trade policy process	<ul style="list-style-type: none"> • Create coordinating body (a Cabinet Sub-Committee) 	<ul style="list-style-type: none"> • Advice on administrative reorganization and help with setting up IT support. 	<ul style="list-style-type: none"> • Lack of effective linkages between formulating national trade policy; planning TRI development; & allocating financial resources to substantial the development 	<ul style="list-style-type: none"> • Leverage on the newly established EIF NIU to devise TRI development & strengthen investment framework to ease private sector development • Factor in trade in services, particularly infrastructure-related services & tourism, as potential area to diversify economic development and create job opportunities in Lesotho
4. Opportunities to affect Lesotho's external economic environment / weal industrial base	<ul style="list-style-type: none"> • As above. • Organize lobbying effort in the EU and US (see above "the small size domestic market" barrier). 	<ul style="list-style-type: none"> • As above • As above in "the small size domestic market" barrier. 	<ul style="list-style-type: none"> • A call to address the supply-side constraints in both hard and soft infrastructure 	<ul style="list-style-type: none"> • Explore collaboration with the EU and the US and include TRI as an element for technical assistance; financial aid; & preferential treatments for other related spill-over trade in services

REGIONAL INTEGRATION (HOW TO INCREASE DOMESTIC MARKET)

BARRIER OR OPPORTUNITY	POLICY ACTION	TECHNICAL ASSISTANCE	IMPLICATIONS FOR INVESTMENT IN TOURISM-RELATED INFRASTRUCTURE*	RECOMMENDATION (IN ADDITION TO ENDORSED POLICY ACTION)*
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<p>5. Excessive economic borders and inconsistent regulatory frameworks within SACU</p>	<ul style="list-style-type: none"> • Harmonize tax systems, licensing and customs procedures 	<ul style="list-style-type: none"> • Train and equip staff for economic analysis: • Legal analysis to rewrite laws; • Train staff on SACU-wide procedures 	<ul style="list-style-type: none"> • Inconsistent regulations and requirements impact the competitiveness of Lesotho as a destination of investment in TRI • Widening gap between Lesotho and South Africa where the latter possesses a more advanced framework and enabling environment for investors in TRI 	<ul style="list-style-type: none"> • Expedite reform in the regulatory framework in Lesotho related to investment and TRI development (<i>refer to detailed analysis in the report</i>) • Strengthen the cooperation with South Africa to upgrade the national regulatory framework related to investment and FDI and be on par with the SACU members • Adopt a holistic analytic approach in the ongoing SACU agreement revision exercise to factor in implications to the national development plan of Lesotho
<p>6. Tariff peaks in SACU tariff and excessive anti-dumping actions create anti-export bias</p>	<ul style="list-style-type: none"> • Assert Lesotho's position in SACU Tariff Board • Lobby SACU to reduce tariff peaks in CET • Seek to restrain South Africa's antidumping actions through SACU 	<ul style="list-style-type: none"> • Technical and financial support for data collection systems (including computerization) • Training to develop analytical expertise to assess the welfare cost of trade restraining actions 		
<p>7. Onerous rules of origin in SADC Trade Protocol prevent development of regional supply chains</p>	<ul style="list-style-type: none"> • Conduct analysis of harmful impact of restrictive rules of origin • Lobby other SACU members for relaxed rules of origin 	<ul style="list-style-type: none"> • Train and equip staff to conduct economic analysis 		
<p>8. Compliance with TRIPS attracts FDI</p>	<ul style="list-style-type: none"> • Integrate with South Africa's intellectual property rights regime 	<ul style="list-style-type: none"> • Training • Legal expertise • Support for administrative reorganization 	<ul style="list-style-type: none"> • The application of TRIPS in soft TRI like development of local tour itinerary; Basotho culture tourism etc. needs to be further enhanced and protected 	<ul style="list-style-type: none"> • Consider set up a sub-unit under the Ministry of Tourism, Environment & Culture to handle IPS related to tourism product development

9. Compliance with TBT allows to integrate into external production networks	<ul style="list-style-type: none"> Use South Africa's conformity assessment, certification, but review carefully its mandatory domestic technical regulations 	<ul style="list-style-type: none"> Legal support to adopt South Africa's standards Train personnel in TBT-related issues 	<ul style="list-style-type: none"> Any TBT related to investment in TRI should be closely reviewed if the priority of Lesotho is to boost capacity against supply side constraints 	<ul style="list-style-type: none"> Continue national effort in engaging in regional and bilateral cooperation to remove TBT in TRI-related goods and services (like building materials, hospitality services etc.) and strategically liberalize commitment in the GATS in tourism
10. Compliance with SPS	<ul style="list-style-type: none"> Use South Africa's testing, quarantine, etc. 	<ul style="list-style-type: none"> Legal support to harmonize with South Africa and develop local expertise 	<ul style="list-style-type: none"> Implication to investment in catering services and accommodation facilities 	<ul style="list-style-type: none"> Keep up the effort to upgrade the TRI and conform the SPS requirement (e.g. <i>the new hospital project in Maseru is an example of Lesotho's effort in improving the SPS standard in TRI</i>)
11. Reducing transaction costs through improved customs procedures	<ul style="list-style-type: none"> Computerize customs 	<ul style="list-style-type: none"> Training, software and hardware needs 	<ul style="list-style-type: none"> Significant element in reducing cost for investment in Lesotho 	<ul style="list-style-type: none"> Enhance the efficiency of trade in goods and services in Lesotho Provide capacity building to local suppliers and traders to bring their awareness of advantages with lowered transaction cost and assure their business competitiveness

MULTILATERAL ISSUES

BARRIER OR OPPORTUNITY	POLICY ACTION	TECHNICAL ASSISTANCE	IMPLICATIONS FOR INVESTMENT IN TOURISM-RELATED INFRASTRUCTURE*	RECOMMENDATION (IN ADDITION TO ENDORSED POLICY ACTION)*
12. Cutting costs through regional regulatory cooperation	<ul style="list-style-type: none"> See above 	<ul style="list-style-type: none"> See above 	<ul style="list-style-type: none"> See Point 11 	<ul style="list-style-type: none"> See Point 11

<p>13. GATS Negotiations – improving business climate and competition</p>	<ul style="list-style-type: none"> • Liberalize at least as much as South Africa • Liberalize more than South Africa in key areas (e.g., tourism) 		<ul style="list-style-type: none"> • A lack of full liberalization of GATS in tourism as stipulated in the DTIS Action Matrix 	<ul style="list-style-type: none"> • Landlocked within South Africa, Lesotho needs to develop priorities in developing its tourism sector, and closely related to it, the development plan to tackle supply side constraints of TRI • Review the commitment in GATS in tourism and consider further liberalization • See Point 9 as well
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<p>14. WTO Government Procurement Agreement</p>	<ul style="list-style-type: none"> • Study costs and benefits of implementing agreement • Lobby other SACU members to sign and implement agreement as a group 	<ul style="list-style-type: none"> • Training to develop analytical expertise • Support for administrative reforms 	<ul style="list-style-type: none"> • The procurement procedure related to public infrastructure projects can directly affect investors' interest in participating in TRI projects. The current procurement situation in Lesotho is dominantly participated by only bidders and contractors from South Africa, apart from local companies. Lesotho can be benefited from the attraction of other non-South African companies in participating in the TRI projects, probably via the WTO Government Procurement Agreement. 	<ul style="list-style-type: none"> • Examine the procurement procedures for public infrastructure projects and foster plan • Devise procurement design to engage participation of more foreign companies and include contract terms to facilitate spill-over effect to benefit local community and capacity building of Basotho companies
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BIILATERAL ISSUES

BARRIER OR OPPORTUNITY	POLICY ACTION	TECHNICAL ASSISTANCE	IMPLICATIONS FOR INVESTMENT IN TOURISM-RELATED INFRASTRUCTURE*	RECOMMENDATION (IN ADDITION TO ENDORSED POLICY ACTION)*
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15. FTA with United States	<ul style="list-style-type: none"> • Study options, including whether to sign alone or with other SACU members • Lobby SACU members 	<ul style="list-style-type: none"> • Train and equip staff for economic analysis
16. Cotonou Agreement	<ul style="list-style-type: none"> • Study options, lobby SACU members 	<ul style="list-style-type: none"> • Train and equip staff for economic analysis
17. Double Transformation requirement in EU and the prospect of the waiver termination in US	<ul style="list-style-type: none"> • Launch lobbying effort to obtain a waiver on a double transformation requirement in EU and the extension after 2004 in the US 	<ul style="list-style-type: none"> • Technical advice on designing the lobbying strategy

BUSINESS ENVIRONMENT

BARRIER OR OPPORTUNITY	POLICY ACTION	TECHNICAL ASSISTANCE	IMPLICATIONS FOR INVESTMENT IN TOURISM-RELATED INFRASTRUCTURE*	RECOMMENDATION (IN ADDITION TO ENDORSED POLICY ACTION)*
18. Dispersed and unreliable information about business regulations in Lesotho 19. Difficulties experienced by (potential) foreign investors in conducting due diligence about opportunities in Lesotho	<ul style="list-style-type: none"> • Set up a unit that would gather (and provide) relevant information. • Set up a web site and keep it updated • Either separate the LNDC into an autonomous investment promotion agency or strengthen the existing capacity. Establish a One-Stop-Shop 	<ul style="list-style-type: none"> • Equipment and training 	<ul style="list-style-type: none"> • Inaccurate and lack of assessment information for private investors, especially foreign investors, to make business decision on TRI investment • Lack of information for adequate public policy and development for governmental investment 	<ul style="list-style-type: none"> • Strengthen the quality and availability of information about business regulations to public domain • Enhance the role of government agencies like the Government Printer, the Bureau of Statistics and the Ministry of Public Works to better disseminate business regulations (also refer to the PPP hospital project in the report) • Empower the LNDC to provide more customised service to potential investors in TRI

20. Complex business licensing procedures	<ul style="list-style-type: none"> • Shifting to a registration system with areas identified as outside of private business activity • Develop an Investment Code 	<ul style="list-style-type: none"> • Computerization of revised procedures • Technical support in designing and supporting such a code 	<ul style="list-style-type: none"> • Increased cost and effort for private investors to engage in TRI projects, which are usually larger in scale and more complicated in nature • No investment code is available in Lesotho • Arbitration and dispute resolution can be a challenge for foreign investors from countries without engaging bilateral investment treaty with Lesotho, despite Lesotho's participation in the International Centre for Settlement of Investment Disputes (ICSID) 	<ul style="list-style-type: none"> • Leverage on the establishment of One Stop Shop (OSS) and further streamline the business registration process where potential investors need to engage in other ministries • Develop investment code for Lesotho • Strengthen bilateral investment cooperation with development partners except South Africa
21. Absence of an Investment Code				
22. Land leases for too short time	<ul style="list-style-type: none"> • Shifting to leases granting the right of use of 99 years 	<ul style="list-style-type: none"> • Assessment of impact on land prices 	<ul style="list-style-type: none"> • Insecure and less attractive deal for investors • Higher incentives required for investors to achieve faster rate of return in TRI 	<ul style="list-style-type: none"> • Further reform land policy in Lesotho in addition to the Land Act 2010 • Strengthen the implementation of Land Act 2010 to enable a more favorable environment for TRI investment involving use of land in Lesotho
23. Environmental degradation	<ul style="list-style-type: none"> • Cost impact analysis and implementation of provisions of the 2001 Environment Act based on a principle that a polluter should pay for the damage done to natural environment 	<ul style="list-style-type: none"> • Technical assistance needed 	<ul style="list-style-type: none"> • Public policy on environmental degradation and infrastructure development are largely affecting the conditions and costs of investors engaging in TRI 	<ul style="list-style-type: none"> • Provide clear and transparent policy on legislative requirements related to environmental conservation • Provide guidelines and accessible information related to impact of TRI to local environment. It is crucial information for investors to conduct feasibility study and impact assessment of potential TRI projects

24. Unpredictable Lesotho Electricity Corporation's billing practices	<ul style="list-style-type: none"> • Improve Lesotho Electricity Corporation's billing procedures 	<ul style="list-style-type: none"> • No technical assistance needed 	<ul style="list-style-type: none"> • Electricity charging scheme directly affect the operation of TRI development 	<ul style="list-style-type: none"> • Ensure a transparent and clear electricity charging scheme • Provide facilitation to electricity supply with accountable billing practice for investors who participate in TRI projects, particularly in remote rural areas where electricity grid may not be present
25. Telecommunications : insufficient roaming arrangements in Lesotho	<ul style="list-style-type: none"> • Make mobile phone services fully compatible with South Africa's 	<ul style="list-style-type: none"> • No technical assistance needed 	<ul style="list-style-type: none"> • Telecommunication provision can be vital for investors' operation • Roaming provision is essential for visitors in remote areas where TRI locates (e.g. like national parks, mountain trails, community villages etc.) 	<ul style="list-style-type: none"> • Strengthen the provision of telecommunication services across the country to improve the basic infrastructure for more investment activities
26. Tax laws discriminate against services	<ul style="list-style-type: none"> • Equalize tax rates across all sectors except for public 'bads' 	<ul style="list-style-type: none"> • No technical assistance needed 	<ul style="list-style-type: none"> • Unequal tax rates, especially for taxes related to services, can hinder investors' interest in doing business in Lesotho 	<ul style="list-style-type: none"> • Ensure equalized tax rates across sectors and origins of investors, except otherwise considered unfavorable for development of Lesotho's local businesses
27. Foreign investors have difficulties obtaining visas because of lack of Lesotho's consular services	<ul style="list-style-type: none"> • Accept visas granted by RSA as valid for Lesotho for short-term business trips • Sign a consular agreement with South Africa (or other country) to provide consular services across the world • Revise visa regulations, making it easier for potential investors to obtain multiple entry 	<ul style="list-style-type: none"> • No technical assistance needed 	<ul style="list-style-type: none"> • Provision required to facilitate foreign investors to do business in Lesotho 	<ul style="list-style-type: none"> • Continue provision of visa granted to business visitors to Lesotho and improve the ease of doing business in Lesotho

<p>28. Complex procedures to obtain land leases, site development, and land survey</p>	<ul style="list-style-type: none"> • Overhauling administrative procedures and establishing a land registry • Create interagency coordinating process • Simplify procedures • Computerize and reduce the number of fees required 	<ul style="list-style-type: none"> • Training of surveyors and strengthening of cadastre 	<ul style="list-style-type: none"> • An obstacle for TRI development in Lesotho • Also refer to point 20 and 22 	<ul style="list-style-type: none"> • Review legislative and administrative framework for land leases application related to TRI, site development and land survey • Consider providing exemptions and business permit to facilitate the application complex procedures for approved investors who participate in TRI projects • Also refer to point 20 & 22
<p>29. Weak entrepreneurial skills / no Basotho managers</p>	<ul style="list-style-type: none"> • Work with industry groups to promote Basotho to higher-level positions and establish business training programs • Cooperate with the Chamber of Commerce and banks to establish workshops to train in writing business plans • Review technical courses offered in schools to include business training 	<ul style="list-style-type: none"> • Support for the development and implementation of a comprehensive, multi-faceted program. 	<ul style="list-style-type: none"> • Can be an asset / advantage for investors engaging in TRI projects if they can hire quality Basotho people to bridge project management in the field 	<ul style="list-style-type: none"> • Keep on the support for capacity building for Basotho in participating in TRI project • Negotiate with private investors, both local and foreign, to hire labors and managers from the local community and empower local participation in TRI development
<p>30. No Linkages between SMMEs and large-scale industry / no backward linkages</p>	<ul style="list-style-type: none"> • Work with industry groups to improve small business training • Work with banks to improve SMME access to credit 	<ul style="list-style-type: none"> • As above. 	<ul style="list-style-type: none"> • Lack of an available and resourceful pool of contractors and subcontractors required to carry out the project work of the TRI development 	<ul style="list-style-type: none"> • Enhance capacity building for SMMEs and local contractors to support TRI development • Leverage on the private sector competitiveness initiative of the World Bank and the MCC to build up pool of quality SMMEs and spill-over TRI development to other industry sectors and

local development				
31. Insufficient customs facilities	<ul style="list-style-type: none"> • Provide full-service customs services at more border posts 	<ul style="list-style-type: none"> • Support for training of new staff 	<ul style="list-style-type: none"> • Potential for investment in TRI at custom spots at the border area, such as tourism-related signage, visitors information counter, facilities to collect visitors' information etc. • The set up at customs may affect the effectiveness of collecting visitors' data 	<ul style="list-style-type: none"> • Review the custom facilities across the major checkpoints at the border of Lesotho • Re-engineer the data collection process of visitors' information to assure more accurate and timely visitor data
32. Low tax compliance among foreign owned firms	<ul style="list-style-type: none"> • Introduce basic accounting procedures compatible with international and South Africa's standards and improve Tax Authorities • Simplify tax code (equalize tax rates across various sectors, see above on discrimination against services) 	<ul style="list-style-type: none"> • Support for training for both accountants and Lesotho Revenue Authority in consultations with South African experts 	<ul style="list-style-type: none"> • Implication to governance of FDIs and TRI built and operated by foreign private investors • Impact of competitiveness of local investors 	<ul style="list-style-type: none"> • Explore tax code simplification related to TRI development for both domestic and foreign investors
33. Worker discontent and tensions with foreign investors	<ul style="list-style-type: none"> • Provide incentives to expatriates in foreign owned companies to have a command of English. • Institutionalization of a dialogue involving foreign investors, government and non-government organization on industrial relations and conditions needed to promote Basotho to managerial positions 	<ul style="list-style-type: none"> • Providing information on experience of other developing countries 	<ul style="list-style-type: none"> • Hinder FDIs and participation of foreign private investors to TRI projects in Lesotho • Create tension between foreign investors and local community 	<ul style="list-style-type: none"> • Formalize regular and effective communication between foreign investors and local community • Promote business ethnics to foreign investors operating in Lesotho

<p>34. Small size of domestic market – single SACU market as an opportunity</p>	<ul style="list-style-type: none"> • See actions under multilateral and regional headings • Launch lobbying effort to obtain a waiver on a double transformation requirement in EU and the extension after 2004 in the US 	<ul style="list-style-type: none"> • See assistance needed under respective multilateral and regional headings • Technical advise on designing the lobbying strategy 	<ul style="list-style-type: none"> • TRI projects in Lesotho may be small-scaled and less attractive to foreign investors • The rate of investment return to TRI may not be attractive in Lesotho 	<ul style="list-style-type: none"> • Develop investment promotion campaign and package shortlisted TRI projects to market investment opportunities to foreign investors (not restricting only to South African investors) • Consider setting up a dedicated investment promotion agency for Lesotho with a sub-division within the agency to deal with TRI projects
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PHYSICAL INFRASTRUCTURE

BARRIER OR OPPORTUNITY	POLICY ACTION	TECHNICAL ASSISTANCE	IMPLICATIONS FOR INVESTMENT IN TOURISM-RELATED INFRASTRUCTURE*	RECOMMENDATION (IN ADDITION TO ENDORSED POLICY ACTION)*
<p>35. Deficient rail facilities</p>	<ul style="list-style-type: none"> • Work with Maseru railhead stakeholders to facilitate improvements 	<ul style="list-style-type: none"> • No assistance needed 	<ul style="list-style-type: none"> • An opportunity and a threat to local transportation development, new infrastructure projects can potentially be developed • The deficient rail facilities can make the cost of other TRI development more costly 	<ul style="list-style-type: none"> • Empower the Ministry of Public Works and Transport to conduct cost-benefit analysis on whether the deficient rail should be upgraded • Explore investment promotion opportunities to open the rail development project to private investors
<p>36. Insufficient supplies of water to industrial estates</p>	<ul style="list-style-type: none"> • Find ways to reduce consumption and link the development of factory shells to the availability of water • Explore possibilities of recycling water for industrial use 	<ul style="list-style-type: none"> • Survey of water availability as a constraint to industrial and agricultural development • 	<ul style="list-style-type: none"> • Reduced capacity and efficiency of tourism-related business operations (such as catering goods) in the industrial estates • Potential of water distribution infrastructure to be developed and extended to different provinces in Lesotho 	<ul style="list-style-type: none"> • Re-assess the demand for and supply of water resources in industrial zones • Plan water distribution network and leverage the exercise to facilitate more capable infrastructure for agricultural activities in the country, which is regarded as a key sector for poverty reduction and supply side development to assist

37. Lack of industrial sites	<ul style="list-style-type: none"> Survey possible sites taking into account environmental constraints including availability of water 	<ul style="list-style-type: none"> Financial and technical assistance needed to assess possible environmental impacts of various locational variants of industrial development 	<ul style="list-style-type: none"> Infrastructure would be required to link new industrial sites to economic activities and logistical flow of goods and services (such infrastructure demand can be equally applicable to tourism-related development) 	<ul style="list-style-type: none"> Review the industry priority in the country and include infrastructure development as part of the holistic development plan
38. Insufficient all-weather roads, especially in rural areas	<ul style="list-style-type: none"> Prioritize with a special emphasis of the impact on agricultural sector Expand private contracting for road construction and maintenance in multi-year contracts 	<ul style="list-style-type: none"> Financial and technical assistance needed. It should be linked to commitment to future maintenance as well as take into account Lesotho's potential to attract tourism. 	<ul style="list-style-type: none"> Potential for private investment in road construction and maintenance Limitation for TRI development in rural areas without available all-weather road connection 	<ul style="list-style-type: none"> Devise road construction and maintenance plan to cope with the regional development plan Market and procure road work and induce private sector participation (in the format of BOO or PPP consortium)
39. Lack of access to utilities throughout rural areas and potential industrial sites		<ul style="list-style-type: none"> Financial and technical assistance needed. 	<ul style="list-style-type: none"> Potential for public / private investment in utilities in rural areas Limitation for TRI development in rural areas without proper utility support (e.g. electricity) 	<ul style="list-style-type: none"> Devise a regional development plan for Lesotho and highlight priority of utility development in each province Engage private participation in utility development

OTHER CROSS CUTTING ISSUES

BARRIER OR OPPORTUNITY	POLICY ACTION	TECHNICAL ASSISTANCE	IMPLICATIONS FOR INVESTMENT IN TOURISM-RELATED INFRASTRUCTURE*	RECOMMENDATION (IN ADDITION TO ENDORSED POLICY ACTION)*
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40. FDI data are internally inconsistent	<ul style="list-style-type: none"> • Create better systems for gathering information • Computerization 	<ul style="list-style-type: none"> • Technical advice on designing tax reporting systems • Support equipment purchases • Train staff in data collection and statistical analysis 	<ul style="list-style-type: none"> • Affect government assessment on private investment activities & related policy 	<ul style="list-style-type: none"> • Strengthen data collection on FDI activities in Lesotho
41. Trade liberalization reduced government revenue	<ul style="list-style-type: none"> • Introduce broad-based tax system to reduce reliance on border taxes • Assess impact of tax reform 	<ul style="list-style-type: none"> • Train and equip staff • Expertise for legal and organizational reforms 	<ul style="list-style-type: none"> • Trading off government revenue via border taxes with more liberalized environment for foreign investment in services like TRI, provided that an enabling business environment is given 	<ul style="list-style-type: none"> • Enhance the private sector engagement in TRI, especially from foreign investors, in the process of trade liberalization in infrastructure, government procurement etc.

* Adaptation of the DTIS by the authors to analyze the application of DTIS to the policy framework for investment in TRI infrastructure

18. Updates on PRSP Indicators

SECTOR	SOURCE OF DEFICIT	POLICY PROVISIONS IN THE PRSP	KEY IMPLEMENTING SECTORS	INDICATORS USED	BASELINE	TARGET ²⁴³	LATEST AVAILABLE* ²⁴⁴
Food Security and Agriculture	<ul style="list-style-type: none"> • Population growth • Climate variability • Land erosion • Land degradation • Limited arable land 	<ul style="list-style-type: none"> • Appropriate farming • Irrigation systems • Agro-forestry practices • Remodel extension services • Ensure land tenure • Encourage appropriate animal husbandry • Marketing 	<ul style="list-style-type: none"> • Ministry of Agriculture and Food Security • Food Management Unit • Food and Nutrition Coordinating Office • Disaster Management Authority • Private Sector Organizations • Ministry of Local Government 	Crop Production (in Tons)			
				Maize	130 934 (1998-2002)	140 000 (2006)	55 751 (2009)
				Wheat	26 065 (1998-2002)	30 000 (2006)	6 099 (2009)
				Sorghum	28 047 (1998-2002)	30 000 (2006)	9 285 (2009)
				Crop Yields (per Hectare)			
				Maize	0.781 (1998-2002)	0.9 (2006)	394 (2009)
				Wheat	1.174 (1998-2002)	1.3 (2006)	229 (2009)
				Sorghum	0.883 (1998-2002)	1 (2006)	486 (2009)
				Area under irrigation (Hectares)	80 (2003)	150 (2006)	--
				% of Households with Food Insecurity	36% (2002)	32% (2006)	--
				Livestock (Formal Exports)			
				Wool (in Tons)	1 327 (2001)	1 650 (2006)	2 573 (2008)
				Mohair (in Tons)	262 (2001)	325 (2006)	391 (2008)

²⁴³ Government of Lesotho (2003). All data except otherwise specified.

²⁴⁴ Lesotho Statistical Yearbook (2010). All updated figures added by the authors except otherwise specified.

SECTOR	SOURCE OF DEFICIT	POLICY PROVISIONS IN THE PRSP	KEY IMPLEMENTING SECTORS	INDICATORS USED	BASELINE	TARGET	LATEST AVAILABLE
Employment	<ul style="list-style-type: none"> •Licensing and star-up cost •Land Policy •Water Supply •Poor Rail and transportation structure •HIV/AIDS pandemic •Red tape, especially in immigration •Credit Access 	<ul style="list-style-type: none"> •Betterment of investment climate •Immigration •Basic infrastructure •Decentralization of Government services •Improvement of labor productivity and stability •Establish social security system •Increase support of SMMEs and local businesses •Better use of natural resources 	<ul style="list-style-type: none"> • Trade, Industry, Cooperatives and Marketing • Employment and Labor • Agriculture and Food Security • Natural Resources • Tourism, Environment and Culture • Private Sector 	Unemployment Rate	31% (1999)	27% (2006)	22.7% (2009)
SECTOR	SOURCE OF DEFICIT	POLICY PROVISIONS IN THE PRSP	KEY IMPLEMENTING SECTORS	INDICATORS USED	BASELINE	TARGET	LATEST AVAILABLE
Infrastructure	•Infrastructure deficit	<ul style="list-style-type: none"> •Road access •Policy and institutional framework •Develop water resources •Sewage system •Rural water supply •Accommodate planned urban growth •Rural electrification •policy and institutional framework for the development of the sector 	<ul style="list-style-type: none"> • Public Works and Transport • Natural Resources • Trade, Industry, Cooperatives and Marketing • Tourism, Environment and Culture • Health and Social Welfare • Local Government • Private Sector • Civil Society Organizations 	Kilometers of gravel roads constructed and maintained	6 800 (2002)	TBD	2 371 (2007)
				% of households with access to improved water resources	78.9% (2002)	TBD	97%²⁴⁵ (2008)
				% of households with improved sanitation	47.4% (2002)	TBD	29% (2008)²⁴⁶
				People with access to telephone services	233 715	250 000 (2006)	530 037 (2008)

²⁴⁵ World Health Organization and United Nations Children's Fund, Joint Measurement Programme (JMP).

²⁴⁶ Ibid.

SECTOR	SOURCE OF DEFICIT	POLICY PROVISIONS IN THE PRSP	KEY IMPLEMENTING SECTORS	INDICATORS USED	BASELINE	TARGET	LATEST AVAILABLE
Governance and Security	<ul style="list-style-type: none"> • Protection of vulnerable groups • Overcrowded prisons • Inefficient judiciary • Corruption • Flaws with the Westminster system 	<ul style="list-style-type: none"> • National unity promotion • Civic education • Feedback mechanisms • Independent electoral commission • Parliamentary efficiency • More transparent judiciary • Curbing corruption • Strengthening structure of public participation • Speeding up justice system • Creating specialized units for riot control and response • Enhancing defense force 	<ul style="list-style-type: none"> • Justice, Human Rights and Rehabilitation • Ministry of Home Affairs • Law and Constitutional Affairs • Independent Electoral Commission • Defense and National Security • Private Sector • Civil Society Organizations • Communities • Ministry of Local Government 	Crime Rate (per 10 000 inhabitants)	72.7 cases (2003)	36.4 cases (2006)	81 cases (2006)
SECTOR	SOURCE OF DEFICIT	POLICY PROVISIONS IN THE PRSP	KEY IMPLEMENTING SECTORS	INDICATORS USED	BASELINE	TARGET	LATEST AVAILABLE
Healthcare	<ul style="list-style-type: none"> • HIV/AIDS pandemic • Orphans due to HIV/AIDS • Increasing malnutrition among children • Absence of family planning 	<ul style="list-style-type: none"> • Improving procurement and storage • Upgrade health management information system • Improve access to social welfare services. • Training of villages workers • Vaccination • Reproductive health 	<ul style="list-style-type: none"> • Ministry of Health and Social Welfare • Civil Society Organizations • Private Sector • Christian Health Association of Lesotho 	% of births attended by skilled health personnel	59.9% (2002)	70% (2006)	62%²⁴⁷ (2009)
				Proportion of >1 year old children immunized against measles	77.2% (2000)	80% (2000)	16.6%²⁴⁸ (2005)
				Infant mortality rate	81/1000 (2001)	70 / 1000 (2006)	61 /1000²⁴⁹ (2009)

²⁴⁷ UNICEF, State of the World's Children.

²⁴⁸ WHO and UNICEF.

				Under Five Mortality rate	113 /1000 live births	103 /1000 live births (2006)	84/1000²⁵⁰ (2009)
				Maternal mortality ratio	419/100 000 live births (2001)	391/100 000 live births	530/100,000²⁵¹ (2008)
				% of births attended by skilled health personnel	59.9% (2002)	70% (2006)	62%²⁵² (2009)
SECTOR	SOURCE OF DEFICIT	POLICY PROVISIONS IN THE PRSP	KEY IMPLEMENTING SECTORS	INDICATORS USED	BASELINE	TARGET	LATEST AVAILABLE
Education	<ul style="list-style-type: none"> • Shortage of teachers • High dropout rate between primary and secondary education 	<ul style="list-style-type: none"> • Expansion of Universal Education • Increase number of School • Non Formal education expansion • Culture and Cultural awareness 	<ul style="list-style-type: none"> • Ministry of Education and Training • Private Sector • Civil Society Organizations • National Manpower Development Secretariat 	Net Enrolment Rate (Primary)	85% (2002)	90% (2006)	72.9%²⁵³ (2007)
				Net Enrolment Rate (Secondary)	26% (2002)	30% (2006)	40%²⁵⁴ (2007)
				PTR (Primary)	47:1 (2002)	40:1 (2006)	37:1²⁵⁵ (2007)
				PTR (Secondary)	24:1 (2002)	30:1 (2006)	17:1²⁵⁶ (2008)
				Male	21.7% (2002)	20% (2007)	24%²⁵⁷ (2007)
				Female	17.3% (2002)	15% (2007)	18%²⁵⁸ (2007)
				Literacy Rate (15-24 years old)	88.6% (2002)	93% (2007)	98% (2008)

²⁴⁹ UN Inter-agency Group for Child Mortality Estimation (UNICEF, WHO, World Bank, UN DESA, UNPD)

²⁵⁰ Estimates developed by WHO, UNICEF, UNFPA and the World Bank.

²⁵¹ Estimates developed by WHO, UNICEF, UNFPA and the World Bank.

²⁵² UNICEF

²⁵³ United Nations Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics.

²⁵⁴ Ibid.

²⁵⁵ Ibid.

²⁵⁶ Ibid.

²⁵⁷ Ibid.

²⁵⁸ Ibid.

SECTOR	SOURCE OF DEFICIT	POLICY PROVISIONS IN THE PRSP	KEY IMPLEMENTING SECTORS	INDICATORS USED	BASELINE	TARGET	LATEST AVAILABLE
Environmental Conservation	<ul style="list-style-type: none"> Loss of bio-diversity Land erosion Fuel use for heating and cooking 	<ul style="list-style-type: none"> Strengthen Management of solid and water waste Promotion of renewable energy Media programs 	<ul style="list-style-type: none"> Ministry of Tourism, Environment and Culture Ministry of Forestry and Land Reclamation Civil Society Organizations Private Sector Ministry of Natural Resources 	Land Area protected to maintain biological diversity	14 209 (2003)	19 809 (2005)	--
				Arable Land	9% (2003)	9% (2006)	--
				Proportion of land covered by vegetation	64.8% (2003)	TBD	--

SECTOR	SOURCE OF DEFICIT	POLICY PROVISIONS IN THE PRSP	KEY IMPLEMENTING SECTORS	INDICATORS USED	BASELINE	TARGET	LATEST AVAILABLE
Service Delivery	<ul style="list-style-type: none"> Weak links between budget systems and planning Weak forecasting capabilities Bottom heavy public service 	<ul style="list-style-type: none"> Improve Management of Public Finances Decentralization Improve planning and budget Implement Medium Term Expenditure Framework (MTEF) Implementation of Local Government Act of 1996 Service Delivery 	<ul style="list-style-type: none"> All Ministries Civil Society Organizations Private Sector 	Time taken to process terminal benefits of public officers	2 years (2001)	6 months	
				Quality of care (average waiting time for Out patients)	5-6 hours	2 hours	
				Delays in disbursement of bursaries	6 months	1 month	
				Introduce complaints register at strategic places of service delivery	-	by 2006	

PART VIII – BIBLIOGRAPHY

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ANNEX I: PROJECT QUESTIONNAIRE FOR DONORS

PART I

1. **We have studied your website and would like to hear from you: what do you see as your organization's mission, and what do you see as the role your organization can play in Lesotho's development?**
2. How much money and how many projects have you initiated in Lesotho?
 - a. Number of Projects _____
 - b. Budget _____
3. **What is your organization's strategy for economic development/poverty alleviation in Lesotho?**
4. How frequently/to what extent have you worked with other donors/international organizations to coordinate or harmonize your efforts?
 - a. Every day
 - b. Very often
 - c. Sometimes
 - d. Rarely
 - e. Never
5. Did you experience any difficulties during these collaborations?
 - a. Yes
 - b. No
6. What are key obstacles to collaborating with international organizations?
 - a. Coordination
 - b. Mandate overlap
 - c. Competition for funding
 - d. Others
7. Who are your key partners in Lesotho? How do they help you achieve your mission?
 - a. Governmental agencies related to investment
 - b. Governmental ministries related to planning
 - c. Financial institutions
 - d. Development agencies
 - e. Private sector companies
 - f. Non-profit NGOs
8. Are there any international agreements that are particularly important for your organization?
 - a. Regional DFI initiatives
 - b. EIF
 - c. WTO commitments
 - d. Regional Trade Agreements
 - e. PRSP

f. Other?

9. What is your organization's overall strategy to achieve its goals in Lesotho?

10. We have studied the Paris Declaration and are wondering: what is your opinion about the requirement to harmonize donor efforts?

- a. We are in favor of harmonization in all cases.
- b. We are in favor of harmonization in some cases but not all
 - a. Cases in which agree with harmonization _____
- c. We are against harmonization
- d. No opinion

11. If you are in favor of donor harmonization, how much opportunity have you had to work on this issue?

- a. If in favor,
 - a. All the time
 - b. Very much
 - c. Sometimes
 - d. Rarely
 - e. Never

12. We know that the Paris Declaration encourages the channeling of donor funds through the government budget and we would be interested to know: to what extent do you think this is possible?

- a. Possible but unlikely (reason)
- b. Possible and likely (reason)
- c. Impossible (reason)

13. Do you have projects in which you work alongside the private sector?

- a. Yes
- b. No

14. If so, could you tell us more about these projects? How much opportunity have you had to work with the private sector?

- a. All the time
- b. Very much
- c. Sometimes
- d. Rarely
- e. Never

15. What is your organization's position on working with the government?

- a. We are in favor of working with the government all the time
- b. We are in favor of working with the government sometimes, but not all the time
- c. We work with the government only when absolutely necessary
- d. We prefer not to work with the government whatsoever
- e. No position

16. If you do have a position on this, how much opportunity have you had to work with the government?

- a. All the time

- b. Very much
- c. Sometimes
- d. Rarely
- e. Never

17. What have you learned about launching joint initiatives with the government in Lesotho?
- a. It is easy to work with the government in Lesotho
 - b. It is sometimes difficult to work with the government in Lesotho, but not all the time.
 - c. It is always difficult to work with the government in Lesotho
 - d. Other

18. When working with government, what can make or break a successful partnership? What are key enablers of success?

19. When working with private sector, what can make or break a successful partnership? What are key enablers of success?

20. Have you worked in other countries in a similar capacity?
- a. Yes
 - b. No

21. If so, what similarities does Lesotho have with your previous work? Differences?
- a. Similar geography/climate
 - b. Similar culture
 - c. Similar regulatory environment/way of doing business
 - d. Lesotho is completely unique
 - e. Other

22. In general, what do you think are the key opportunities and challenges to working in Lesotho? Is there anything that you think we should know?
- a. Opportunities
 - b. Challenges

PART II

DONORS' OPERATIONS

1. How many people does your organization hold accountable for the project?
 - c. (Number of staff engaged in the project)
 - d. (Number of staff in the organization)
2. Are there mechanisms in place to measure the progress of the projects? If yes, do you feel like they are accurate depiction of reality?
 - a. There are regular updates through formal means (newsletters, on the record meetings, etc)
 - b. Updates are given upon request through email/letter/written memo
 - c. Updates are given upon request, but informally
 - d. I receive no updates

3. Do you believe that the disbursement of resources could be better spent?
 - a. All the time
 - b. Very often
 - c. Sometimes
 - d. Rarely
 - e. Never

REGULATION

4. Do you feel like there is policy continuity in the transition of governments in Lesotho?
 - a. Excellent, priorities were kept and the transition was good
 - b. Average, some key aspects were changed but many government programs continued
 - c. Below average, most of the government programs were extinguished
 - d. There is no governmental transition, complete revamp

5. Does the government perform well when qualitatively informing you about the status of projects? [if so, please refer to section i.8.]
 - a. Excellent
 - b. Good
 - c. Average
 - d. Poor
 - e. There is none
 - i.8. Can you name qualitative indicators that are periodically released by the government?
 1. _____
 2. _____
 3. _____

6. What are the indicators that allow for a comparison between Lesotho and other aid recipients in tourism-related infrastructure development?
 1. _____
 2. _____
 3. _____

7. How accurate do you believe that the indicators in place reflect the reality on the ground?
 - a. Very accurate
 - b. Accurate
 - c. Moderately Accurate
 - d. Not Accurate

DIRECT INVESTMENTS (PROJECT GRANTS) IN LESOTHO

- 8. What kind of process do you have to go through to initiate and complete a grant-based tourism-related infrastructure project in Lesotho?**

Is the process lengthy?

- a. Yes
- b. No

Is it difficult?

- a. Yes
- b. No

9. What, if any, licenses do you have to obtain?

10. How would you describe the monitoring and evaluation requirements put in place by the government?
- a. Easy to understand, fair, generally benign
 - b. Mostly benign but some opaque aspects
 - c. Mostly opaque and difficult to navigate
 - d. Other
11. Is it easy to collaborate with the government on tourism-related infrastructure projects in Lesotho?
- a. Yes, it is easy
 - a. Explain _____
 - b. It is easy in some respects but not others
 - a. Such as _____
 - c. It is difficult
 - a. Explain _____

12. Are the laws transparent and easy to understand for executing tourism-related infrastructure projects in Lesotho?

13. On a scale of 1 to 10, how would you rate government responsiveness to issues that arise during the project?
- a. Rating
 - b. Explanation:
14. In your opinion, what sectors of the project management, if bettered, would cause more effect on the project's performance?
- a. Financial
 - b. Human Resources
 - c. Management
 - d. Operations

ODA (OFFICIAL DEVELOPMENT ASSISTANCE)

15. How would you describe the process of the Lesotho government in allocating and spending ODA funds for tourism-related infrastructure investment?

16. How much of your ODA is untied?
- a. Percentage: _____%
17. What percentage of this goes into tourism-related infrastructure investment? How do you know?
- a. Percentage _____%
18. How much of your ODA is specifically for tourism-related infrastructure?
- a. Percentage _____%

19. What percentage of this do you estimate actually goes into tourism-related infrastructure projects? How do you know?
- Percentage _____%
 - Explanation:

20. Is there a regulatory framework in place for investment?

21. If so, is it effective at monitoring project performance?
- Yes
 - No
22. On a scale of 1 to 10, how effective is the government at executing tourism-related infrastructure projects?
- Rating:
 - Reasoning:
23. How effective is the government at handling tourism-related infrastructure investment aid, from project conception to construction, operation and maintenance?
- Very effective
 - Somewhat effective
 - Not Effective
 - N/A
 - Explanation:
24. Do they effectively design, “own”, execute and monitor the project?
- Yes
 - No
 - Somewhat

- b. EIF
 - c. WTO commitments
 - d. Regional Trade Agreements
 - e. PRSP
 - f. Other
10. How frequently/to what extent have you worked with other donors/international organizations to coordinate or harmonize your efforts?
- a. Every day
 - b. Very often
 - c. Sometimes
 - d. Rarely
 - e. Never
- 11. When working with international organizations, what can make or break a successful partnership? What are key enablers of success?**
12. What are key obstacles you face when working with international organizations?
- a. Too many donors
 - b. Lack of coordination amongst donors – conflict of mandates
 - c. Differences in culture
 - d. Policy disagreements
 - e. Other
13. We have studied the Paris Declaration and are wondering: what is your opinion about the requirement to harmonize donor efforts?
- a. We are in favor of harmonization in all cases.
 - b. We are in favor of harmonization in some cases but not all
 - i. Cases in which agree with harmonization _____
 - c. We are against harmonization
 - d. No opinion
14. We know that the Paris Declaration encourages the channeling of donor funds through the government budget and we would be interested to know: to what extent do you think this is possible?
- a. Possible but unlikely (reason)
 - b. Possible and likely (reason)
 - c. Impossible (reason)
15. How frequently do you work with other agencies?
- a. Every day
 - b. Very often
 - c. Sometimes
 - d. Rarely
 - e. Never
 - f. Have you learned anything about what makes a partnership with other agencies successful?
16. What are key obstacles you face when working with other agencies?
- a. Coordination

- b. Mandate overlap
- c. Competition for resources
- d. Other

17. What is your agency's position on working with the private sector? If you have one, how frequently do you work with the private sector?
- a. Every day
 - b. Very often
 - c. Sometimes
 - d. Rarely
 - e. Never

18. When working with private sector, what can make or break a successful partnership? What are key enablers of success or failure?

19. In general, what do you think are the key opportunities and challenges to working in Lesotho? Is there anything that you think we should know?

PART II

OPERATIONS

1. How would you rate the effectiveness concerning coordination of operations with government counterparts?
 - b. Very effective
 - c. Could be better
 - d. Not effective
2. What is the time period between project reviews and updates [if you can use the ongoing Lesotho Highlands Water Project as an example]?
 - b. Once every _____ week / month / year
3. How often do you interact with international organizations?
 - a. Every day
 - b. Very often
 - c. Sometimes
 - d. Rarely
 - e. Never
4. How often do you interact with the private sector?
 - a. Every day
 - b. Very often
 - c. Sometimes
 - d. Rarely
 - e. Never
5. Do you believe that international organizations have accurate expectations about ongoing projects (in other words, do you feel that foreigners understand the challenges of Lesotho?)

- a. Excellent understanding
- b. Good
- c. Fair understanding
 - i. Due to a lack of academic preparation
 - ii. Due to operational understanding
 - iii. Due to a lack of in the field realities
 - iv. Other
 - 1. _____
 - 2. _____
 - 3. _____
- d. Poor
 - i. Due to a lack of academic preparation
 - ii. Due to operational understanding
 - iii. Due to a lack of in the field realities
 - iv. Other
 - 1. _____
 - 2. _____
 - 3. _____
- e. They know nothing
 - i. Due to a lack of academic preparation
 - ii. Due to operational understanding
 - iii. Due to a lack of in the field realities
 - iv. Other
 - 1. _____
 - 2. _____
 - 3. _____

REGULATION

- 6. How would you describe the process of investment in Lesotho, for international organizations and the private sector?
 - a. Easier than usual
 - b. Easy with some challenges
 - c. Average
- 7. How would you describe your corporate tax regime? How does it interact with your overall strategy to attract investment in Lesotho?**
- 8. What is your overall strategy to attract investment in Lesotho?**
- 9. Lesotho has a liberalized tariff schedule. How does this fit with your overall strategy to attract investment in Lesotho?**
- 10. What kind of services can you offer private firms to repatriate profits?**
- 11. What laws do you have in place to protect investors? What kind of protections can you offer them in terms of insurance against currency and political risk?**

12. What have you done to ensure a fair and transparent tendering process? How do you ensure that potential investors know about deals in Lesotho, the benefits of investing here, and the criteria upon which their proposals are evaluated?

13. How do you ensure that it is easy to exit investments from Lesotho?

ANNEX III: PROJECT QUESTIONNAIRE FOR PRIVATE SECTOR

PART I

1. **What do you see as your company's mission, and how do you achieve it?**
2. How large is your company?
 - a. Size of company _____
3. Why have you chosen to invest in Lesotho?
 - a. Location
 - b. Low taxes/subsidies
 - c. Labor affordability
 - d. Good regulatory environment
 - e. Excellent business prospects (more profitable than other, similar locations)
 - f. Unique climate/geography within Africa
4. **How is business in Lesotho?**
 - a. Excellent, business is booming
 - b. Average
 - c. A little tight in terms of profitability
 - d. Very difficult but worth it
 - e. Making losses but we remain optimistic
 - f. Practically impossible
5. According to the World Bank report Doing Business in Lesotho 2008, the relative ease of starting a business in Lesotho has improved, but significant challenges remain, for example the length of time it takes to get licenses for business activities can be as much as 600 days. **Given these difficult conditions, how do you adjust your expectations in Lesotho, compared to other places? What is "success" in Lesotho? Are there any particular factors that help you mitigate the business challenges here?**
6. Who are your key partners in Lesotho?
 - a. Government Ministries and Agencies
 - i. Name(s)
 - b. Other private sector companies
 - i. Name(s)
 - c. International Organizations
 - i. Name(s)
 - d. Non-profit NGOs
 - i. Name(s)
7. **What is your company's overall strategy to succeed in Lesotho?**
8. What key obstacles do you face to success in Lesotho?
 - a. Unexpectedly low revenue
 - i. Reason
 - b. Unexpectedly high cost
 - i. Reason

- c. Regulatory environment
 - i. Explain?
 - d. Undersupply of basic tourism-related infrastructure and utilities
 - i. Such as
 - e. Lack of human resources
9. Are there any international agreements that are particularly important for your organization?
- a. Assistance or finance from Regional, National, or Multilateral Development Finance Institutions (IFC, DEG, FMO, JBIC)
 - b. EIF
 - c. WTO commitments
 - d. Regional Trade Agreements
 - e. PRSP
 - f. Other?
10. If yes, how do these agreements play a part in your organization's operations in Lesotho?
11. What is your agency's position on working with other private sector companies? If you have one, how frequently do you work with the private sector?
- a. Every day
 - b. Very often (Quantity: _____)
 - c. Sometimes (Quantity: _____)
 - d. Rarely (Quantity: _____)
 - e. Never
12. What is your organization's position on working with the government/regulators? If you do have a position on this, how much opportunity have you had to work with the government?
- a. If so,
 - i. All the time
 - ii. Very much (Quantity: _____)
 - iii. Sometimes (Quantity: _____)
 - iv. Rarely (Quantity: _____)
 - v. Never
13. What are key obstacles when working with the government?
- a. Corruption
 - b. Overly complex laws and regulations
 - c. Ad-hoc, punitive regulation
 - d. Lethargic or unresponsive regulators
 - e. Other
- 14. When working with the government, what can make or break a successful partnership? What are key enablers of success?**
15. What is your agency's position on working with international organizations? If you have one, how often have you been able to work with international organizations?
- a. Every day
 - b. Very often
 - c. Sometimes

- d. Rarely
- e. Never

16. When working with international organizations, what can make or break a successful partnership? What are key enablers of success?

17. If you have worked with international organizations, which ones?

- a. IFC
- b. MIGA
- c. World Bank
- d. Other DFIs (DEG, JBIC, OPIC, etc)
- e. Others

18. Does your company have experience in other Sub-Saharan African countries?

- a. Yes
- b. No

19. If so, which ones?

- a. _____

20. Are there any similarities to working in Lesotho? Differences?

- a. Similar geography/climate
- b. Similar culture
- c. Similar regulatory environment/way of doing business
- d. Lesotho is completely unique
- e. Other

21. In general, what do you think are the key opportunities and challenges to working in Lesotho? Is there anything that you think we should know?

PART II

OPERATIONAL

1. How closely do you work with Government Ministries and Agencies and donors? (How often do you receive feedback about the projects that you contributed?)

- b. Every day
- c. Very often
- d. Sometimes
- e. Rarely
- f. Never
- g. Only after demanding it

2. Do you believe that there are elements that could be improved concerning the allocation of contracts and regulation? (In other words, was it easy to do business?) (*this is meant to gauge perceived level of corruption in the government*)

- c. Very easy
- d. Easy, but it was somewhat of a hassle
- e. Some obstacles
- f. If I did not believe in the cause I would have given up

3. **Does the government ask/demand information about ongoing projects?**
 - a. Yes
 - b. No

4. If so, how often are these enquiries carried out?
 - a. Very often
 - b. Sometimes
 - c. Rarely
 - d. Once every _____ week/month/year

5. **Do you often have to inquire with the government for any information or licensing that allows or helps you to do business?**

6. If so, what do such inquiries often concern?
 - a. Request for information
 - b. Licensing
 - c. Clearance
 - d. Reports to government
 - e. Other

7. How receptive are governmental personnel to your inquiries?
 - a. Very receptive
 - b. Fairly receptive
 - c. Somewhat receptive
 - d. Not receptive at all
 - e. No response from government

8. How do you cope with the level of bureaucracy?
 - a. There is too much bureaucracy
 - b. There is a good amount of bureaucracy but manageable
 - c. Bureaucracy is really simple to get through
 - d. No problems whatsoever

9. How dependent on South Africa is your business?
 - a. Very dependent
 - b. Fairly dependent
 - c. Somewhat dependent
 - d. I wouldn't do business here if it wasn't for South Africa

10. What is the most important factor consider when expanding business in Lesotho?
 - a. Financial Capital
 - b. Working with the government
 - c. Location
 - d. Business guarantees
 - i. From International Orgs
 - ii. From the Government
 - e. Other _____

1. How well and/or transparently would you say the government conducts operations in Lesotho?
 - a. Exceptionally well (high transparency and ease of operation)
 - b. Very good (Above average level of transparency, low entry barriers, good incentives to invest)
 - c. Average
 - d. Poor
 - e. N/A
2. If applicable, would you say that it is easy to bid for contracts to invest in Lesotho?
 - a. Yes it is easy
 - b. It is somewhat easy but difficulties remain
 - c. It is very difficult
 - d. N/A
3. Are the government's criteria clear?
 - a. Yes
 - b. No
4. Are contracts awarded in a fair manner?
 - a. Yes
 - b. No
5. **How often and to what extent are your operations in Lesotho monitored by the government?**
 - a. All the time/thoroughly
 - b. Sometimes/occasionally
 - c. Never
6. What do they usually ask for?
 - a. Sporadic information
 - b. Regular reports
 - c. Demonstration of compliance
 - d. Site visits by government officials
 - e. Other
7. **Has the government offered you any programs to help bring you to Lesotho?**
 - a. Yes
 - b. No
8. **Has the government mitigated political, currency, or other essential risks for you in any way?**
9. **How long do you plan on staying in Lesotho?**
10. If you have an exit strategy, what is it? Has the government helped mitigate key exit risks in anyway?
 - a. Yes
 - b. No
11. What was your strategy for entering the market in Lesotho?

- a. FDI
- b. JV
- c. Other

12. Why did you choose the strategy of investment that you did rather than simply exporting or acquiring a domestic firm?

13. Are there requirements around capital structure for projects?

14. What kind of financing did you obtain and from whom?

- a. Debt
 - a. Source
- b. Equity
 - a. Source
- c. Political Risk Insurance
 - a. Source
- d. Other

15. What kind of local procurement laws must you be in compliance with? Is it easy or difficult to comply with such laws?

- a. Yes it is easy
- b. It is somewhat easy but difficulties remain
- c. It is very difficult
- d. N/A

16. What are the mechanisms that ensure a legal provision for appealing government imposed obligation?

- a. _____
- b. _____
- c. _____

17. Do you use specific [formal] channels of communication for voicing grievances?

- a. _____
- b. _____
- c. _____

18. Do you feel that your rights as an investor/entrepreneur are legally ensured in Lesotho?

- a. Yes
- b. No

19. Are you subject to special credit conditions for tourism-related infrastructure projects (such as low interest, long term lending)?

- a. Yes
- b. No

20. Are you entailed to property/landownership in equal footing as domestic (foreign) investors?

- a. Yes
- b. No

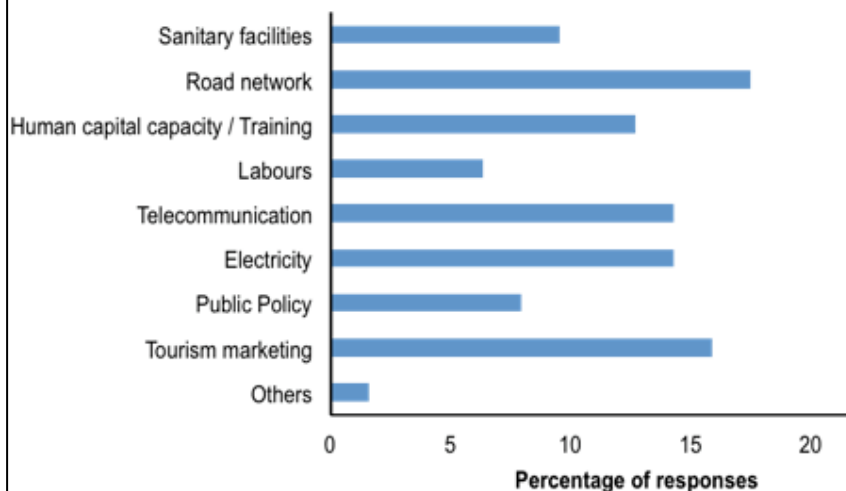
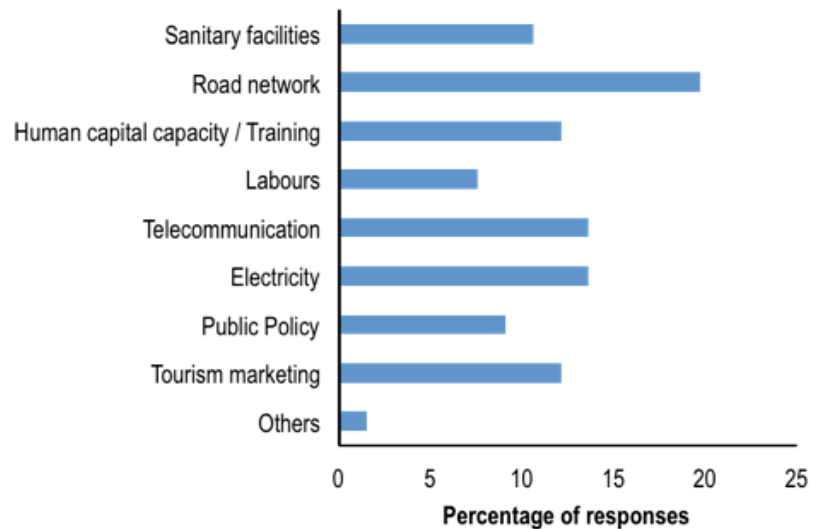
ANNEX IV: HIGHLIGHT OF SOME KEY PROJECT FINDINGS

DEVELOPMENT OF TOURISM-RELATED INFRASTRUCTURE

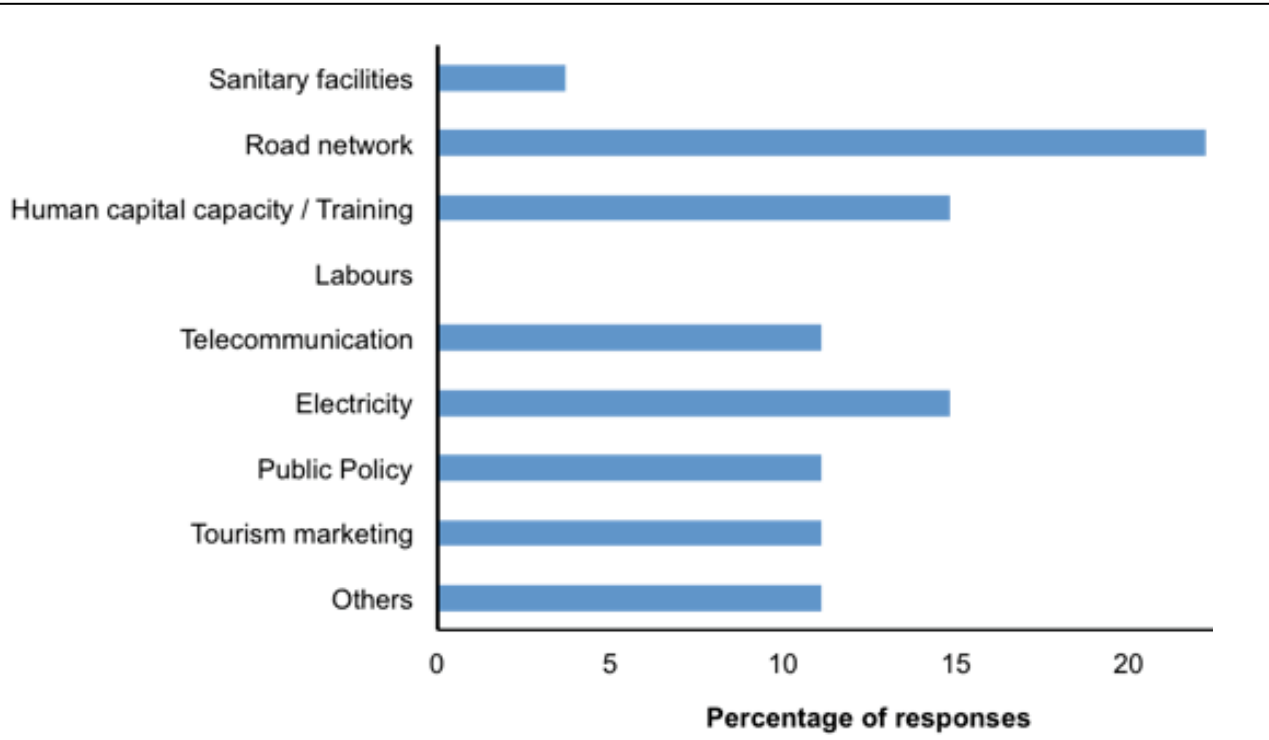
The definition of TRI can be different from the perspectives of various stakeholders including members of donor community, government ministries and agencies as well as private investors and entrepreneurs in Lesotho. By asking their opinions on the definition of TRI, the Project collects an indicative concept of their awareness of TRI as well as the relative importance of different TRI according to the interviewees.

What do you think is tourism-related infrastructure?

THE Public Sector of Lesotho has a different view. Preliminary findings based on information recorded in 13 interviews, interviewees were allowed to provide multiple answers.

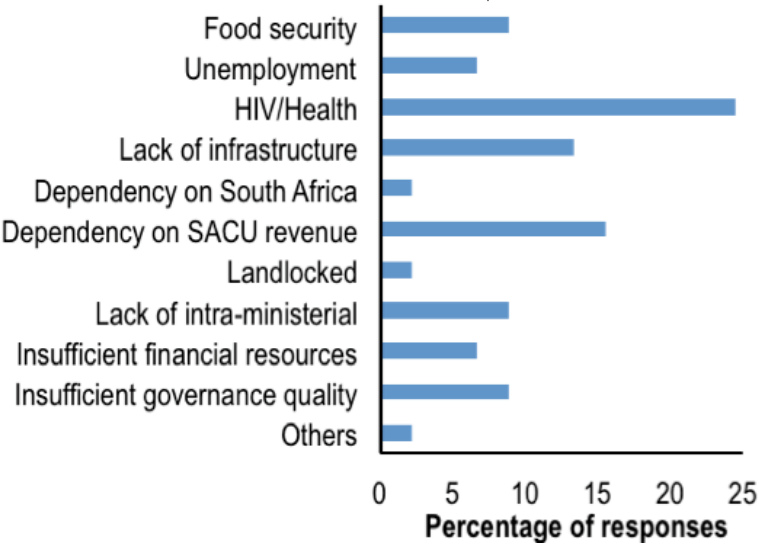


Agreed with the donor community and the public sector, private businesses and investors see road network in Lesotho as the key TRI. Preliminary findings based on information recorded in 12 interviews. Interviewees were allowed to provide multiple answers.



Preliminary findings based on information recorded in 7 interviews with members of donor community, interviewees were allowed to provide multiple answers.

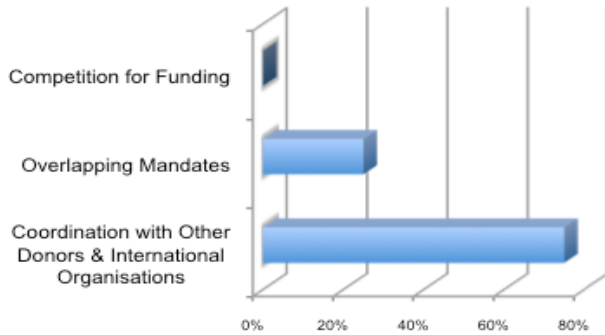
What is/are the major area(s) of challenges for Lesotho to enhance economic development, particularly TRI?



Preliminary findings based on information recorded in 12 interviews with members of donor community, interviewees were allowed to provide multiple answers.

Donor Community involvement in Lesotho's Development Efforts

Donors' Perspective of the Major Collaboration Challenges with Other Donors

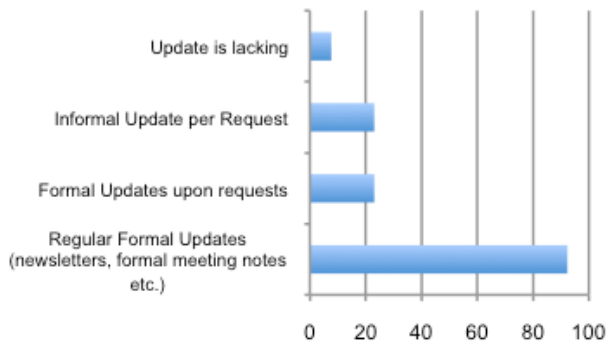


Preliminary findings based on information recorded in 15 interviews.

Perspective Donor Community

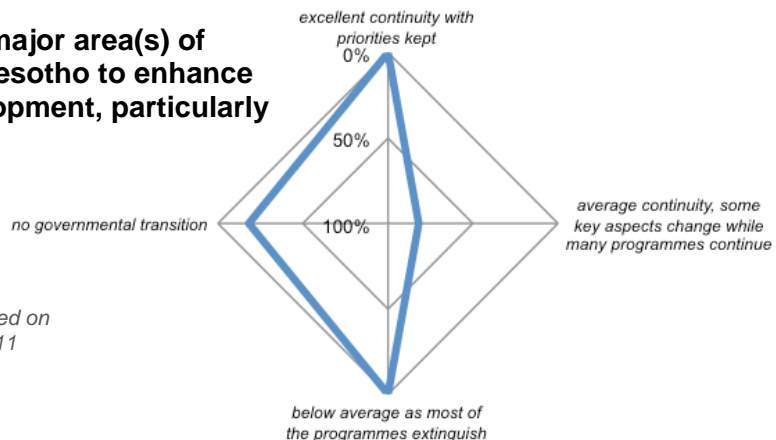
The donor community in Lesotho plays a vital role in financing development projects and facilitating the Government of Lesotho in building capacity in prioritizing key development strategy. Under the Paris Declaration, the Project interviewed key members of the donor community who engaged in development projects in Lesotho. The semi-structured interviews came up with preliminary findings on the trend of donors' perspective on inter-agency coordination, capacity of the public sector in Lesotho, their priority on development in the region as well as the view of TRI.

Donor's perspective on progress of projects conducted by the Government (%)

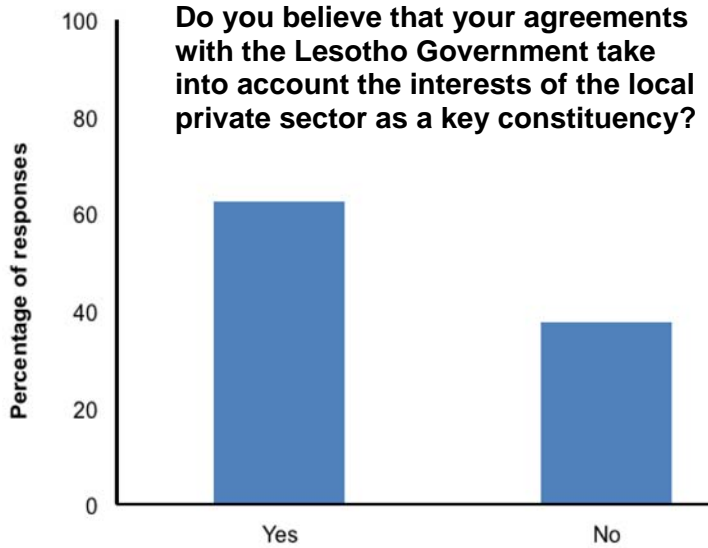


Preliminary findings based on information recorded in 19 interviews.

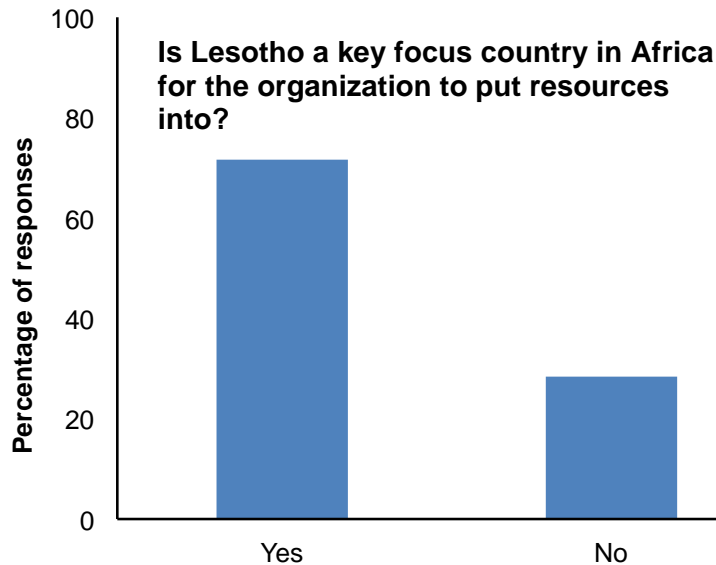
What is/are the major area(s) of challenges for Lesotho to enhance economic development, particularly TRI?



Preliminary findings based on information recorded in 11 interviews.



Preliminary findings based on information recorded in interviews with representative office of UNDP, FAO, World Bank, GTZ, DFID in Lesotho, together with MCA Lesotho, US Embassy to Lesotho as well as EU Delegation to Lesotho.

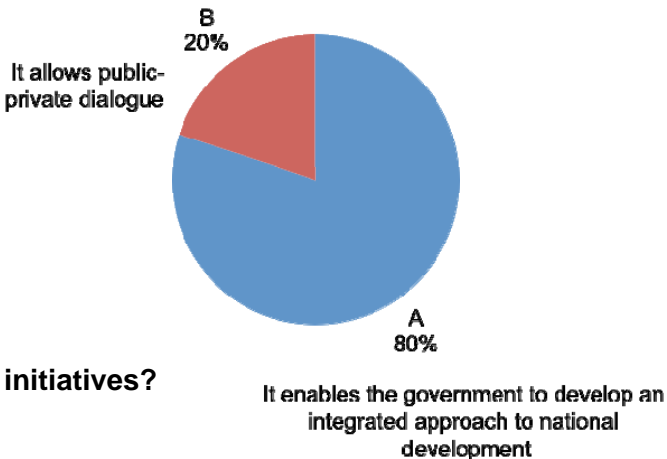


Preliminary findings based on information recorded in interviews with representative office of UNDP, FAO, World Bank, GTZ, Irish Aid in Lesotho, African Development Bank in South Africa, together with MCA Lesotho, US Embassy to Lesotho as well as EU Delegation to Lesotho.

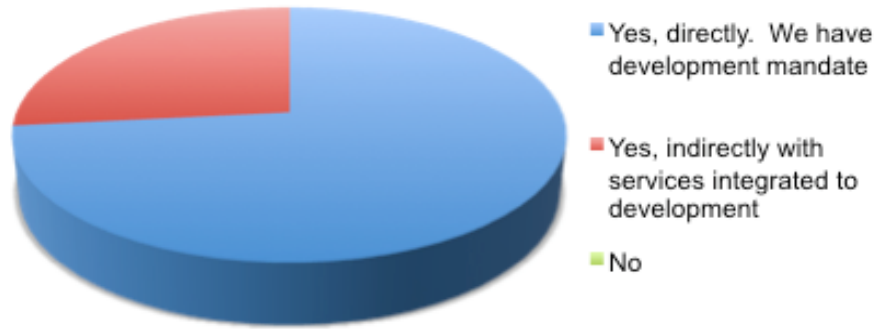
Do you support the government's initiatives to formulate the National Development Plan?

100% of respondents answered Yes.

Why do you support these initiatives?



Is this agency involved in the development of Lesotho?

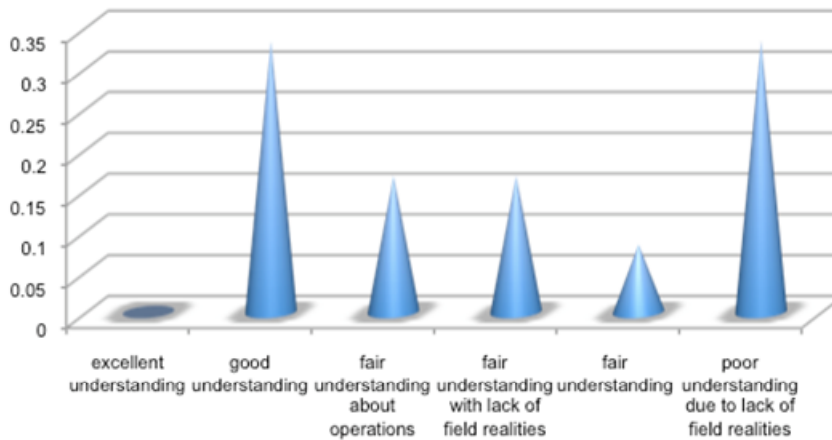


Preliminary findings based on information recorded in 16 interviews.

Lesotho's Public Sector

Preliminary findings based on information recorded in 12 interviews.

Do donors understand the challenges of Lesotho according to the Government of Lesotho?

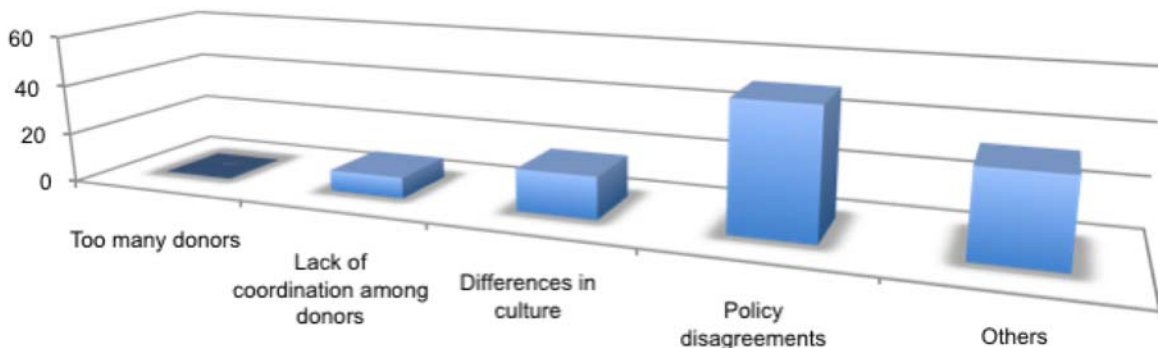


Coordinating with Donors: Perspective of Government Representatives

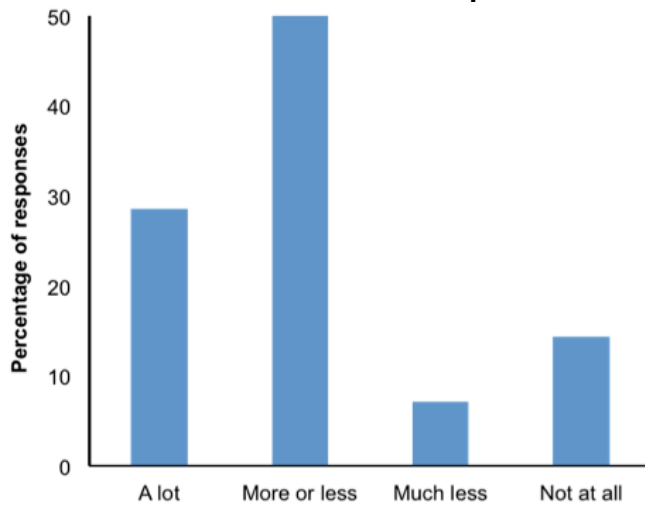
While over 20% of the national revenue is generated from ODA, many ministries and government agencies involve regular coordination with the donor community. The Project aimed to deduce indicative comments from interviewing with public sector representatives regarding their experience working with donors and their perception about donors' understanding and policy towards a facilitation of the national development of Lesotho.

Preliminary findings based on information recorded in 14 interviews.

What are the key obstacles you face when working with international organizations?



How much of your time do you spend talking to international donors and investors vs. local private sector?

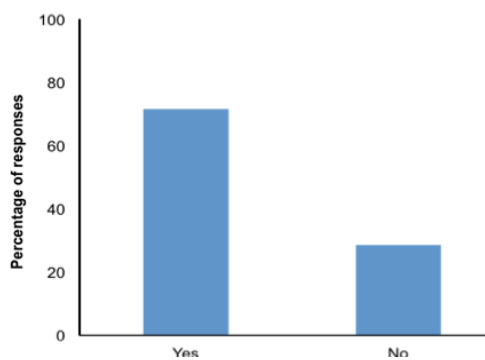


Preliminary findings based on information recorded in 14 interviews.

Public Sector and Private Sector in Lesotho

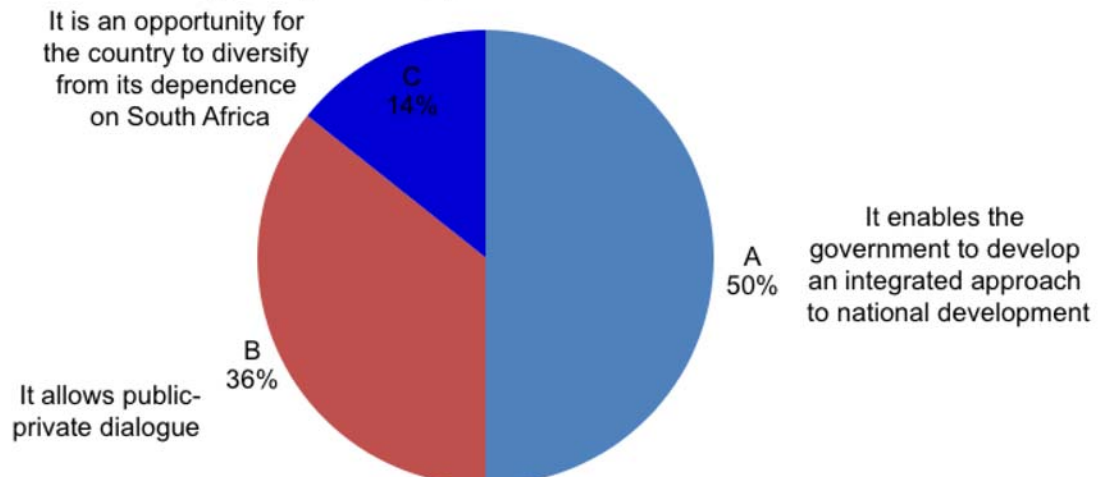
The Project interviewed representatives of both the public and private sector in Lesotho to assemble a better understanding about the coordination effort between the two sectors and examine any implication to private investment in TRI together with public-private cooperation initiative.

Is coordination with other ministry authorities difficult?



Preliminary findings based on information recorded in 14 interviews.

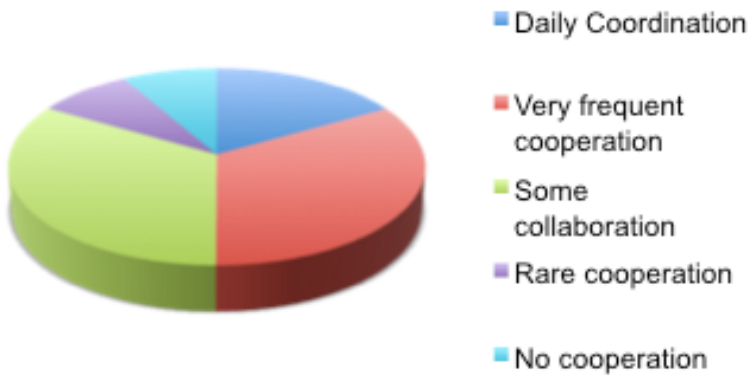
Why do you support these initiatives?



Preliminary findings based on information recorded in 14 interviews.

Lesotho's Private Investors and Business

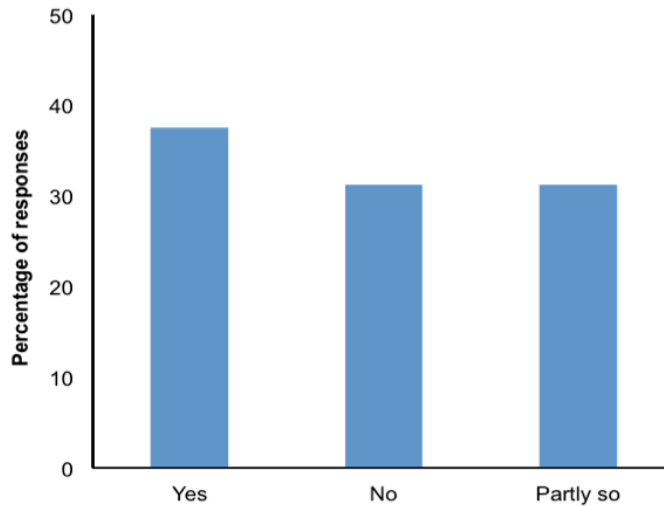
Frequency to Work with Donor Community



Preliminary findings based on information recorded in 8 interviews with private sector players, including Mehahlaula Tours, Tourism MSIA, Lesotho Sun Hotel, Cotton Corp Ltd, Lesotho Post Bank, Lesotho Chamber of Commerce and Industry, Maloti Chamber of Business as well as MATRADE.

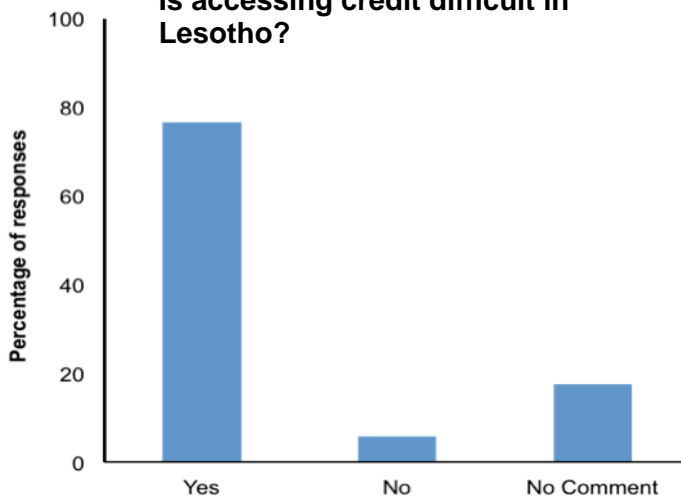
Do you feel that your business is supported by the Government of Lesotho?

55% of respondents claimed that the government does not support, or only partly supports business



Preliminary findings based on information recorded in 18 interviews.

Is accessing credit difficult in Lesotho?



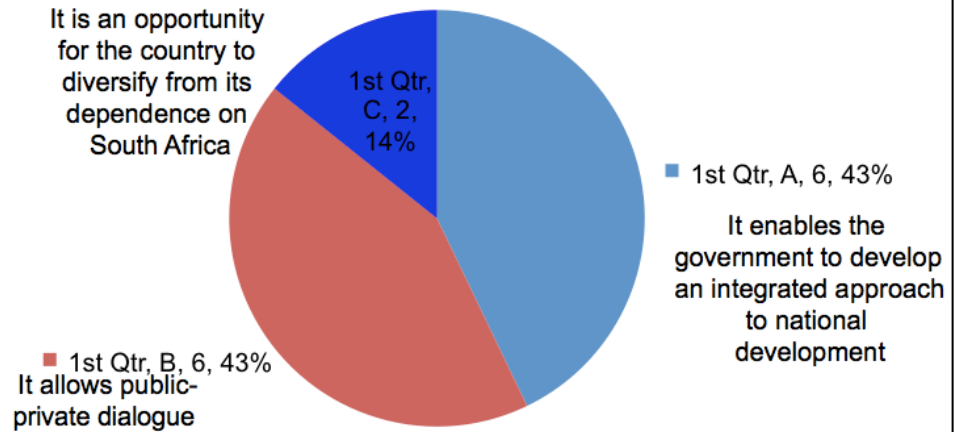
76% of respondents said that it was hard to obtain that credit loans

Preliminary findings based on information recorded in 17 interviews.

Do you support the government's initiatives to formulate the National Development Plan?

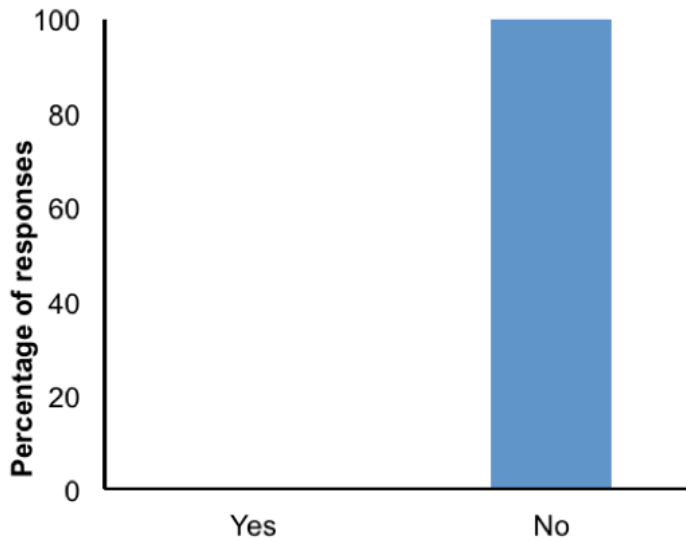
100% of respondents answered Yes.

Why do you support these initiatives?



Preliminary findings based on information recorded in 14 interviews.

Do you believe that relative to the international donor and investor community, you are a priority for the government?



Tour Operators in Lesotho

The Project contacted numerous local tour operators in Lesotho to collect qualitative information regarding the tourism sector as well as the corresponding set up of hard and soft TRI in the country. One key finding is the lack of government support on tourism operation, according to the tour operators interviewed. Further study in the subject can help supplement the findings of this report.

Preliminary findings based on information recorded in the interviews with Mehahlula Tours, T-Connection Tours, S&M Tours and Khotso Travel and Tours.

ANNEX V: GATS SCHEDULE OF SPECIFIC COMMITMENT OF LESOTHO

Modes of supply: 1) Cross-border 2) Consumption abroad 3) Commercial presence 4) Presence of natural persons

Sector or Subsector	Limitations on Market Access	Limitations on Natural Treatment	Additional Comments
I. HORIZONTAL COMMITMENTS			
ALL SECTORS INCLUDED IN THIS SCHEDULE	<p>1) None</p> <p>2) None</p> <p>3) Foreign-owned enterprises including joint-venture enterprises with Lesotho, must satisfy minimum capital outlay and foreign equity requirements as follows:</p> <p>Wholly foreign-owned company required a minimum equity capital outlay of US\$200,000. Joint-venture company should have a minimum foreign-equity capital outlay of US\$50,000 in cash or in-kind.</p> <p>Agency establishment must have authority to negotiate and conclude contracts on behalf of foreign patent company.</p> <p>4) Automatic entry and work permit is granted for up to 4 expatriate senior executives and specialized skill personnel in accordance with relevant provisions in the Laws of Lesotho. Approval is required for any additional expatriate workers beyond the automatic level. Enterprises must also provide for training in</p>	<p>1) None</p> <p>2) None</p> <p>3) None</p> <p>4) None</p>	

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Sector or Subsector	Limitations on Market Access	Limitations on Natural Treatment	Additional Comments
II. SECTOR-SPECIFIC COMMITMENTS			
9. TOURISM AND TRAVEL RELATED SERVICES			
A. <u>Hotels and Restaurants</u> (including catering) (CPC 643)	1) Unbound except for catering: none 2) None 3) Unbound except as indicated in the horizontal section 4) Unbound except as indicated in the horizontal section	1) Unbound 2) None 3) Unbound except as indicated in the horizontal section 4) Unbound except as indicated in the horizontal section	
B. <u>Travel Agencies and Tour Operators Services</u> (CPC 7471)	1) Unbound 2) Unbound 3) Unbound 4) Unbound except as indicated in the horizontal section	1) Unbound 2) Unbound 3) Unbound 4) Unbound except as indicated in the horizontal section	
C. <u>Tourist Guide Services</u> (CPC 7472)	1) Unbound* 2) None 3) None 4) Unbound except as indicated in the horizontal section	1) Unbound* 2) None 3) None 4) Unbound except as indicated in the horizontal section	

Coding: Number indicated in each sectoral commitment is references to the Services Sectoral Classification List (MTN.GNS/W/120) – and the UN Provisional Central Product Classification of 1991.

* Unbound due to lack of technical feasibility

ANNEX VI: LIST OF PROJECT INTERVIEWS

Project interviews were conducted in Lesotho, France, Switzerland, South Africa and the United Kingdom in both individual and collective settings.

	Ministry / Organization / Company	Interviewee	Position
1	African Development Bank (South Africa)	Eva Ruganzu	Principal Country Programme Officer
2	African Development Bank (South Africa)	Wolassa Lawisso Kumo	Country Economist
3	Agence Francaise de Developpement	Adrien Haye	Regional Coordinator, South Africa, Lesotho, Zambia, Zimbabwe
4	Basotho Development Enterprises Corporation	Mokhosi	Acting CEO
5	Brazilian Embassy in Pretoria	Maria Carmen Rial Gerpe	First Secretary and Head of Trade Section
6	Central Bank of Lesotho	Tanka Tlelima	Economist
7	Central Bank of Lesotho	Thato Mohasoa	Head of Public Relations
8	Cotton Corp Ltd	Tabarruk	Owner and Investor
9	Cuminore (Pty) Ltd	Jaafar bin Ahmad	Chairman
10	Delegation of the European Union to the Kingdom of Lesotho	Josephine Kalinauckas	Head of Operations
11	Delegation of the European Union to the Kingdom of Lesotho	Laura Lindoro	Attaché Operations
12	Delegation of the European Union to the Kingdom of Lesotho	Sarah Jurreit	Second Secretary (Operations)
13	Department For International Development, UK (Lesotho)	Colin Clark	Country Representative
14	Department of Trade & Industry, South Africa	Bernhard Meyer	Director of Tourism
15	Department of Trade & Industry, South Africa	Riaan Le Roux	Chief Operating Officer
16	Divine Travel and Tours	Liotla Tshehlo	Counsellor
17	Divine Travel and Tours	Tankiso Nteso	Owner
18	Divine Travel and Tours	Tebello Ntelo	Travel Consultant
19	Enhanced Integrated Framework Secretariat	Dorothy Tembo	Executive Director
20	Enhanced Integrated Framework Secretariat	Sari Laaksonen	Coordinator
21	Food and Agriculture Organisation (Lesotho)	Mokitinyane Nthimo	Assistant FAO Representative
22	Gesellschaft für Technische Zusammenarbeit (Lesotho)	Martin Meyer	Program Coordinator
23	Grant Thornton Consulting, Johannesburg	Gillian Saunders	Director of Strategic Solutions and Principal

24	Hong Kong Trade Development Council (Southern Africa)	Conrad Hendry	Regional Manager
25	House 9 Publications	David P. Ambrose	Academic
26	IMESA (Pty) Ltd	Derick Knoetze	Project Manager (Snr) - Technical
27	International Labour Organization	George Dragnich	Executive Director
28	International Labour Organization	Wolfwang Weinz	Senior Technical Specialist
29	International Labour Organization	Ekkehard Ernst	Senior Economist, The Social Impact of Globalisation
30	International Monetary Fund (France)	Pierre Ewencyk	Senior Economist
31	International Monetary Fund (South Africa)	Alfredo Cuevas	Senior Resident Representative
32	International Trade Centre	Fabrice Leclercq	Senior Trade Promotion Officer
33	Irish Aid (Lesotho)	Keratile Thabana	Programme Manager
34	Khotso Travel and Tours	Jack Nair	Partner
35	Lesotho Chamber of Commerce & Industry	Fako Hakane	Director
36	Lesotho Chamber of Commerce & Industry	S.K. Phafane	President
37	Lesotho Highlands Water Project	Mamhlongo Maphisa	LHWP and Public Relations Manager
38	Lesotho National Development Corporation	Matsimane	Representative
39	Lesotho Post Bank	Refiloe Lehohla	Director of Operations
40	Lesotho Post Bank	Lehlohonolo Moea	Marketing Director
41	Lesotho Tourism Development Corporation	Sehlabaka Ramafikeng	Head Research and Development
42	Lesotho Tourism Development Corporation	Tebello Thoola	Director of Marketing
43	Limkokwing University of Creative Technology (Lesotho)	Hafizi Ghazali	Representative
44	Limkokwing University of Creative Technology (Lesotho)	Sonny Jumbo	Representative
45	Malaysia Tourism Promotion Board, Ministry of Tourism	Mazhaidy Mazlan	Director, Tourism Malaysia Johannesburg
46	Malaysia Trade Centre (MATRADE) (South Africa)	Mansor Shah Wahid	Trade Commissioner
47	Malaysia Trade Centre (MATRADE) (South Africa)	Norman Dzulkarnain Nasri	Assistant Trade Commissioner
48	Maloti Chamber of Business	Thuso Green	Secretary-General
49	Mehahlaula Tours	Keletso Motopo-Matli	Manager
50	Millennium Challenge Account (Lesotho)	Lesoetsa Makafane	Programme Manager
51	Millennium Challenge Corporation (Lesotho)	Brian Baltimore	Deputy Resident Country Director
52	Ministry of Communications, Science and Technology	Makuena	Principal Secretary
53	Ministry of Foreign Affairs and International Relations	Limpho Masilo-Motsamai	Counsellor, International Organization and Economic Division
54	Ministry of Foreign Affairs and International Relations	Tumelo Raboetsi	Counsellor, International Organization and Economic Division
55	Ministry of Labour and Employment	Clark Esau Clark	Representative

56	Ministry of Public Works and Transport	Isaac Morienyane	Director General
57	Ministry of Public Works and Transport	M.C. Pama	ITP Project Manager
58	Ministry of Public Works and Transport	Thamar	Environmental Specialist
59	Ministry of Tourism, Environment and Culture	Mannete 'Malethole Ramaili	Minister of Tourism, Environment and Culture
60	Ministry of Tourism, Environment and Culture	M Moeketsi	Director of Tourism
61	Ministry of Tourism, Environment and Culture	Stanley Demane	Director of Environment
62	Ministry of Trade and Industry, Cooperative and Marketing	Kekeletso Motopi	Senior Trade Officer
63	Ministry of Trade and Industry, Cooperative and Marketing	Motebang	Director of Trade
64	Ministry of Trade and Industry, Cooperative and Marketing	Teboho Tsekoa	Chief Trade Development Officer
65	Monitor Newspaper	Lerato Matheka	Journalist
66	Morija Museum & Archives	Stephen Gill	Curator
67	National Implementation Unit (Lesotho), Enhanced Integrated Framework	Bokang Montsi	NIU Coordinator
68	National Treasury of South Africa	Chris Lotter	Senior Economist
69	Netcare Limited	Victor Litiakanya	Head of Stakeholder Relations
70	Organisation for Economic Co-Operation and Development	Alain Duperyras	Coordinator of Tourism Group
71	Organisation for Economic Co-Operation and Development	Massimo Geloso-Grosso	Policy Analyst, Trade and Services Division
72	Organisation for Economic Co-Operation and Development	Dambudzo Muzenda	Policy Analyst, Investment Division, Directorate for Financial and Enterprise Affairs
73	Pick n' Pay	Andre Beukes	Franchisee
74	Pick n' Pay	Samuel Mphana	Franchisee
75	Ramabanta Trading Post Lodge	Rose Marie	Representative
76	Road Fund		
77	S&M Tours	Masebina Kao	Owner
78	Standard Lesotho Bank	Dave Rose	Head of Corporate & Investment Banking
79	Sun International of Lesotho	Clix Salman	Marketing Manager
80	T-Connection Tours	Thabo Maretlane	Owner
81	The Monitor Journal	Keletso Motopo-Matli	Journalist
82	U.S. Embassy in Lesotho	Alexander Sharp	Economic Officer
83	U.S. Embassy in Lesotho	Eilizabeth Power	Deputy Chief of Mission
84	United Nations Commission for Europe	Geoffrey Hamilton	Chief of Cooperation and Partnerships
85	United Nations Conference on Trade and Development	David Vivas Eugui	Senior Economist Affairs Officer
86	United Nations Conference on Trade and Development	Frederic Frantz	Training Expert
87	United Nations Conference on Trade and Development	Magdi Farahat	Principal Advisor on Trade - Economic Commission for

				Africa
88	United Nations Conference on Trade and Development	Martine Julsaint Kidane	Expert	
89	United Nations Conference on Trade and Development	Kee Hwee Wee	Economic Affairs Officer	
90	United Nations Conference on Trade and Development	Shin Ohinata	Economic Affairs Officer	
91	United Nations Conference on Trade and Development	Jean-Francois Baylocq	Chief of the e-Services for Development Unit	
92	United Nations Development Programme	Alka Bhatia	Economic Advisor & Head of Strategy Policy Unit	
93	United Nations Development Programme	Tiina Turunen	Programme Analyst	
94	USAID (Southern Africa)	Leslie Reed	Deputy Mission Director (Regional)	
95	World Bank (Lesotho)	Edmund Motlatsi Motseki	Operations Officer	
96	World Bank (Lesotho)	Husam Abu Dagga	Senior Country Officer	
97	World Economic Forum	Thea Chiesa	Associate Director	
98	World Trade Organization	Dale Honeck	Counsellor	
99	World Trade Organization	Joshua Setipa	Counsellor, Office of the Director General	
100	World Trade Organization	Michael Roberts	Counsellor, Trade and Development Division	
101	World Travel and Tourism Council	Olivia Ruggles-Brise	Deputy Director, Policy & Research	
102	Ying Tao Restaurant	Jason Chen	Director	
103	Youth Chamber of Business and Links Association	Teboho Mothebesoane	President and Co-Founder	