



SERVICES POLICY REVIEW



LESOTHO





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UNCTAD/DITC/TNCD/2012/1/Rev.1

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FOREWORD

For many years, the United Nations Conference on Trade and Development (UNCTAD) has been emphasizing the importance for developing countries of strengthening and diversifying their service sectors. Since 1990, the share of services in the national gross domestic product (GDP) in developed countries grew from 64 per cent to 72 per cent. By contrast, in developing countries, the share of services in GDP grew from 46 per cent to 50 per cent, with services accounting for 37 per cent of formal employment. These figures suggest a large untapped potential for developing countries to advance the development of their service sectors.

The Accra Accord states that “The services economy is the new frontier for the expansion of trade, productivity and competitiveness, and for the provision of essential services and universal access”. The Accord calls upon UNCTAD to assist developing countries and countries with economies in transition to establish regulatory and institutional frameworks and cooperative mechanisms to strengthen the capacity, efficiency and competitiveness of their services sector, and to increase their participation in global services production and trade, including by “providing support in national services assessment and policy reviews”. UNCTAD developed its tailor-made Services Policy Reviews (SPRs) in response to the Accra Accord. The Doha Mandate reiterates that the development of, and access to, services, supported by adequate regulatory and institutional frameworks, are important for sound socio-economic development. UNCTAD members have therefore requested UNCTAD to continue its work on services.

The services sector in the Kingdom of Lesotho is the largest sector in the economy, with a share of GDP of 59.7 per cent in 2010. This share has, however, declined over the last two decades (from 62.4 per cent in 1990) as the contribution of industry has expanded. The Lesotho SPR focuses on three areas within the services sector, namely tourism, and financial and professional medical services.

In conducting the SPR, UNCTAD undertook a desk study on the services sector of Lesotho. The desk study recommended that national services development strategies should be developed through participative consultations at the national level with all key actors, including parastatal institutions, potential foreign and domestic investors, the private sector, labour groups and academia. This will not only ensure buy-in and support, but will also generate desirable spill-in and spill-over effects among related economic sectors. The study also suggested that a master plan, which outlines not only national strategies but also defines a process and series of practical steps through which strategic objectives should be pursued. These strategic objectives should be based on a national consultation process and should provide a strategy for developing the services sector and services trade to maximize the expected development gains. The recommendations of the desk study aim to assist the Government of Lesotho in its development of such a master plan and in its determination of the way forward in terms of pacing and sequencing of further trade policy and sector reforms.

A team of experts, with support from UNCTAD, engaged with a broad group of stakeholders from the Government, industry, academia and civil society to identify challenges and opportunities in the three sectors. The stakeholders were involved through interviews and questionnaires, and provided inputs to the report. They also participated actively in two national workshops, the second of which served to validate the findings of the SPR report as well as to refine and adopt horizontal and sector-specific recommendations, in addition to discussing which national entities could be responsible for leading the implementation of each adopted recommendation.

The UNCTAD team worked closely with Ms. Mary Motebang, Director of Trade, Ministry of Trade and Industry, Cooperatives and Marketing as well as with His Excellency Ambassador Mothae Anthony Maruping and Mr. Moshe Kao of the Permanent Mission of the Kingdom of Lesotho to the United Nations Office in Geneva.

The review process included an analysis of the following elements: current policy framework for tourism; financial and professional medical services; regulatory and institutional challenges inhibiting sectoral development; national development objectives; prospective policy options to strengthen domestic supply capacity and small and medium-sized enterprise (SME) competitiveness; the potential impacts of services and services trade liberalization on sectoral foreign direct investment (FDI), SMEs, efficiency, employment, access to foreign markets and universal access to basic services.

The resulting wide-ranging recommendations from the SPR are set out in detail in the body of this report and include cross-sectoral recommendations that are designed to strengthen the services sector broadly. The recommendations address the following fields:

- The development of a national services development strategy plan;
- An investigation of ways to improve infrastructure services that support the services sector, including the instigation of innovative financing models and public–private partnerships;
- An exploration of ways to boost the employment creation impact of the main service sectors in Lesotho;
- The adoption of competition law and establishment of a competition authority;
- Enactment of a comprehensive investment code;
- Improvement of Lesotho’s business climate through the implementation of the new Companies Act (2011);
- Further efforts to eliminate red tape and simplify regulatory processes and procedures;
- Greater use of district bodies, authorities and structures in the promotion of tourism, monitoring and evaluation of health professionals;
- Provision of financial services;
- The securing of access to other markets.

The report also includes recommendations and an action plan specific to each of the three sectors analysed in the review.

I hope that the contents of this publication will contribute to providing a strategic vision for the development of Lesotho’s services sector, and assist the country to continue to derive development benefits from trade in services.



Supachai Panitchpakdi
Secretary-General of UNCTAD

EXECUTIVE SUMMARY

Increasingly, services production and trade is moving to the forefront of government agendas in the world. Boosting services trade is seen as a way to develop economies, boost employment creation and alleviate poverty. However, inadequate laws and policies, and inefficient institutions hamper countries' abilities to take full advantage of the benefits of services trade. The UNCTAD Lesotho Services Policy Review (Lesotho SPR) aims, inter alia, to investigate policy, regulatory and institutional weaknesses, and to make recommendations addressing such deficiencies in the sectors of tourism, and financial and professional medical services.

Today, Lesotho's services sector is the biggest contributor to national GDP and it has shown resilience even in the wake of the global economic crisis. As the dominant sector in the economy, the services sector has great potential to generate sustainable growth and create employment opportunities in Lesotho in the future.

Lesotho's trade in services, measured in terms of export flows, has been expanding since 1995. Despite this increase, the relative performance of Lesotho's services exports has been poor in comparison with the country's total merchandise exports over the past two decades. Furthermore, Lesotho remains a net services importer.

In the financial services sector, despite relatively high levels of financial inclusion, the majority of financial and non-financial institutions in Lesotho are based in urban areas (mostly in Maseru), with only limited access to financial services in the country's rural areas. Women, in particular, are facing great difficulty in accessing credit. However, the differences in access to financial services between urban and rural locations have been addressed, to some extent, through the presence of informal financial services such as unregistered moneylenders. Nevertheless, in order to enhance the contribution of the financial services sector to the national economy, it is clear that there remains a need to improve the current levels of access to financial services in Lesotho. This situation could be addressed in part by the adoption of microfinance legislation in Lesotho to support the creation of microfinance institutions which would diversify the financial services sector.

Turning to the professional medical services sector, although progress has been made in the provision of health services to the Basotho people, limited capacity within Lesotho's health sector remains a major challenge to addressing and combating the spread of diseases such as HIV and AIDS, and tuberculosis. This problem is exacerbated by the fact that 80 per cent of the Basotho population live in remote rural villages, often several hours away from the nearest clinic. The development and expansion of professional medical services can play an important role in addressing these issues. Some progress has been made in this regard. Specifically, with the exception of dentists, the numbers of doctors, pharmacists and paramedics in Lesotho have all grown steadily since 2005. Despite this, the health sector in Lesotho is confronted by a scarcity of skills in the medical and allied professions. Lesotho continues to suffer from a brain drain of skilled Basotho medical professionals, precipitating imports of doctors from Nigeria and the Democratic Republic of the Congo, and an influx of private practitioners from South Africa to fill the gaps. Furthermore, the country ranks poorly in terms of the density of health personnel for every 1,000 members of the population in comparison with other countries in Africa. Among the possible remedies are the implementation of a retention strategy to avoid the exodus of health care professionals out of the country, and the establishment of a medical school and of more training institutions for nurses which offer high level qualifications.

The tourism sector in Lesotho has been promoted as a key element of strategies for national development. Tourism has significant potential to contribute to economic growth and employment generation in Lesotho. The labour-intensive nature of the sector means that it can create many direct and indirect jobs. In turn, the sector boasts a number of backward and forward linkages with other economic sectors. The sector is already an important contributor to GDP and employment – with close to 36,000 people employed directly or indirectly in the sector. Despite the potential of the tourism services sector, its recent performance – characterized by stagnating growth – has been constrained by limited progress in diversifying source markets of arriving tourists, as the country continues to rely heavily on the South African market. A number of areas require attention in order to boost the contribution of the tourism services sector to the national economy. These include the need to distinguish Lesotho from key competitor destinations, develop new tourism products and diversify the country's

tourism product base. There is also a need to create an enabling environment for rapid tourism growth, improve visitor access to and within Lesotho, and establish appropriate policy, planning, and legal frameworks to manage the tourism sector in the country.

The laws in the financial, professional medical and tourism services sectors are generally outdated and they are not keeping pace with current global developments. This is particularly so with respect to the professional medical and tourism service sectors, in which gaps in existing legislations are wide and need urgent attention. Encouragingly, however, there are concerted efforts in both sectors to remedy these shortcomings. In comparison, the financial services sector benefits from more comprehensive and up-to-date regulations, although there are still some important areas that are devoid of regulation (for example, micro finance and consumer protection). A few pieces of legislation in the financial sector are also undergoing amendments so that they can address new challenges.

Generally, policies are shallow across the three sectors as legislations are being adopted without a proper policy framework. The institutions mandated to support and develop these three sectors suffer from almost identical problems of underfunding, inadequate staffing and being effective outside the capital city because of centralized offices. Some face hindrances to their efficacy due to legislation that does not empower them to act decisively in matters of supervising and taking disciplinary action.

Services liberalization under the Southern African Customs Union (SACU) is non-existent and, although it is envisioned under the Southern African Development Community (SADC), negotiations are still in the very early stages. Most of the liberalizations have taken place at the multilateral level under the General Agreement on Trade in Services (GATS), where Lesotho has liberalized its economy extensively yet has not reaped many benefits from doing so. This liberalization needs to be considered within a comprehensive, integrated and coherent strategy of growth, development and trade, accompanied – where necessary – by further sectoral development planning and macroeconomic, social, investment, competition, and environmental policies.

The Lesotho SPR recommendations include the need to improve the investment climate so as to attract more domestic as well as foreign investment to develop services. There needs to be greater coordination of cross-sectoral institutions for greater impact on services growth. Improved infrastructure is critical to the development of all of the three services sectors. With respect to trade, Lesotho should concentrate on securing access to other markets (beginning with those of its SADC trading partners) and advance in the implementation of regional initiatives that may have a positive impact in strengthening regulatory and institutional frameworks underpinning services trade.

ACKNOWLEDGEMENTS

This publication presents the result of a SPR undertaken by the Government of Lesotho in cooperation with UNCTAD. It draws on the ongoing substantive work of UNCTAD in the services sector.

This publication was prepared by a team led by Mina Mashayekhi, Head, Trade Negotiations and Commercial Diplomacy Branch (TNCDB) of UNCTAD. The team included TNCDB staff members and experts based in Lesotho and South Africa. Staff members of TNCDB who participated in the drafting of this report are Martine Julsaint Kidane, Luisa Rodriguez and Mesut Saygili. Experts included Tsofeng Tsietsi based in Maseru and Dr. Milford Soko, Founding Director of Mthente Research and Consulting Services (Pty) Ltd and Associate Professor at the University of Cape Town Graduate School of Business. Inputs were also provided by the research team at Mthente Research and Consulting Services under the direction of Neil Balchin, Programme Manager, Senior Researcher and Consultant at Mthente.

Comments were provided by Mina Mashayekhi, Liping Zhang and Deepali Fernandes (UNCTAD/TNCDB). The authors are also grateful for the comments of the following external peer reviewers: Inye Briggs (African Union Commission), Trudi Hartzenberg (Trade Law Centre for Southern Africa), Markus Jelitto (GFA/GIZ SADC Trade in Services Project), Seth Lartey (Commonwealth Foundation), Calvin Manduna (African Development Bank), and Laura Paez (United Nations Economic Commission for Africa).

The views expressed herein are those of the authors and do not necessarily represent those of the Government of Lesotho or of UNCTAD.

The Lesotho SPR project was made possible through financial support obtained through the General Trust Fund on Services, Development and Trade and the Development Account.

Laura Moresino-Borini designed the cover and Nathalie Loriot carried out the desktop publishing.

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