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Economic Commission for Africa

COUNTRY PROFILE 2017

LESOTHO

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Content

Abbreviations and acronyms

AGOA	African Growth and Opportunity Act
ECA	Economic Commission for Africa
FDI	foreign direct investment
GDP	gross domestic product
ILO	International Labour Organization
SACU	Southern African Customs Union
SADC	Southern African Development Community
UNCTAD	United Nations Conference on Trade and Development
UNICEF	United Nations Children's Fund
WHO	World Health Organization

Acknowledgments

The *Country Profiles* series is published annually by the Economic Commission for Africa (ECA). The aim of the series is to produce and disseminate country- and region-specific policy analyses and recommendations for economic transformation, with an emphasis on promoting sustainable growth and social development, strengthening regional integration and facilitating development planning and economic governance. The series is the result of the close collaboration of offices and departments within ECA, including its subregional offices and the African Centre for Statistics, with contributions provided by the Macroeconomic Policy Division, the Regional Integration and Trade Division, and the Social Development Policy Division.

The country profile for Lesotho was prepared under the overall coordination and substantive guidance of the Deputy Executive Secretary of ECA for Knowledge Delivery, Giovanie Biha, and the direct leadership of the Director of the Subregional Office for Southern Africa, Said Adejumobi, with supervision from the Chief of the Subregional Data Centre, Sizo Mhlanga. The Lesotho Country Profile was co-authored by Marta Duda-Nyczak and Cathy Lubuya Bashala of the Subregional Office for Southern Africa.

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Lesotho at a glance

General information	
Subregion	Southern Africa
Official language	Sesotho, English
Currency	Loti
Capital	Maseru
Membership of regional economic communities	SADC

Classification	Rank	Of a total of	Year	Source
Human Development Index	160	159	2015	UNDP
Gender inequality index	132	159	2015	UNDP
Ibrahim Index of African Governance	15	54	2015	Mo Ibrahim Foundation
Ease of doing business index	100	190	2017	World Bank
Corruption perceptions index	83	176	2016	Transparency International

Economic growth

In the fiscal year 2016–2017, the economy of Lesotho grew at a rate of 2.1 per cent, up from 1.6 per cent in 2015 (Ministry of Finance 2017). The cyclical recovery in global manufacturing and trade, together with optimistic global financial markets, are expected to steer the world economic growth upward to 3.5 per cent in 2017 and 3.6 per cent in 2018, which would stimulate the country's exports (Ministry of Finance, 2017).

Fiscal policy

Lesotho is facing a decreasing share of Southern African Customs Union (SACU) revenues, owing to the volatility and pro-cyclical streams of national income which have been major risks in assuring fiscal consolidation. SACU revenues dropped from 7,034 million maloti in 2014–2015 to 4,519 million maloti in 2016–2017, while the 2017–2018 SACU revenue target estimate is 6,154 million maloti, an improvement of 3.3 per cent of gross domestic product (GDP) (Ministry of Finance, 2017). The Government's fiscal efforts have thus concentrated on increasing the tax base and growing tax revenues to fill the gap caused by diminishing SACU receipts. The 2017–2018 budget for taxes has been set at 7,604 million maloti (Ministry of Finance 2017).

Monetary policy

In September 2017, the inflation rate stood at 5.6 per cent. The major contributors to the inflation rate include food and non-alcoholic beverages with a contribution of 7.5 per cent, housing, water and gas with 6.6 per cent, furnishings, housing equipment and routine maintenance of the house with 6 per cent, recreation and culture with 6.3 per cent, education with 6.6 per cent and miscellaneous good and services with 4.7 per cent (Ministry of Finance, 2017).

Current account

The current account balance has remained negative and relatively stable over the period 2011–2015, reaching its record low of a deficit of 3 billion maloti in 2012 and stabilizing at a deficit of 2.5 billion maloti at the end of the period. The 2017–2018 current account is expected to worsen to a deficit of 15.6 per cent from a deficit of 8.6 per cent in 2015–2016 due to flat income remittances and lower SACU revenues (Ministry of Finance, 2017).

Capital and financial accounts

The capital and financial account balance in Lesotho has been positive since 2011, reaching over 4 billion maloti in 2015, the highest level over the last five years. The level of capital account, however, has been on the decrease over the period 2012–2014 period, from 1.4 billion to 178 million maloti, yet, it rebounded to 739 million maloti in 2015 (Central Bank of Lesotho, 2017a). The initial expectation was that there would have been significant investment inflows from the United States following promulgation of the African Growth and Opportunity Act (AGOA). The data show, however, that in 2006 a mere 5.4 per cent of the foreign direct investment in the country originated from the United States, while in 2011 there was no flow of foreign direct investment from the United States at all. This suggests a very weak direct AGOA-induced investment from the United States (Ministry of Trade and Industry, 2016).

Demographics

According to the latest national data (2014), the country's population was 1.92 million with little change registered since 2000. The annual population growth rates (the rate was only 0.4 per cent) are particularly low, owing to increased migration of the working age population and a heavy (yet decreasing) HIV/AIDS burden (Ministry of Development Planning, 2012). Investments in health care are expected to bear fruit in the medium and long term and the population is projected to increase to 2.26 million in 2020 and 2.49 million in 2030 (Bureau of Statistics, 2015c).

Poverty

In accordance with the national strategic development plan for 2012–2013 to 2016–2017, between 2012 and 2017, the minimum GDP growth rate needed to ensure sustainable poverty reduction should be at least 5 per cent per year, assuming the population remains stable. Poverty levels have however remained relatively unchanged since 2003 (at a rate of 60 per cent), whereas the GDP per capita growth rate (below 5 per cent since 2011) has overall been moderate and insufficient (Bureau of Statistics, 2015c).

Employment

In 2014 (latest available data), 59 per cent of the male population was employed; by contrast, only 38 per cent of the female population was employed. At the same time, women were twice as likely to be employed if they had more than secondary school education, rather than no or incomplete primary education. No such correlation can be observed for men (Ministry of Health, 2016).

Health

Lesotho continues to struggle with the HIV/AIDS pandemic and the insufficient health infrastructure places severe constraints on efforts to improve the health status of the population. According to the most recent data (2014), 25 per cent of Basotho adults aged between 15 and 49 were infected with the virus, up from 23 per cent in 2009, with a disproportionately higher prevalence among women of all age groups. The rate reached its record high of 30 per cent for the adult female population and 19 per cent for the adult male population, both figures up from 26.7 per cent and 18 per cent respectively in 2009. Life expectancy reported in 2014 was barely 44 years. (Bureau of Statistics, 2015c; Ministry of Health, 2016).

Education

In comparison to other African countries, Lesotho ranks very high in literacy levels. The literacy rate for the population aged between 15 and 49 was 87.4 per cent in 2011 (Bureau of Statistics, 2013). In 2015, for young people aged between 15 and 24, the literacy rate was 76.9 per cent for men and 93.4 per cent for women, culminating in an average literacy rate of 85.1 per cent for the population as a whole (Ministry of Health, 2014).

Gender

Gender equality is evident for the survival rate of those under 5 years of age and access to land. Women are at an advantage relative to men in such categories as under-5 who are not stunted, life expectancy at birth, youth literacy rate and net enrolment in secondary education. There is significant gender disparity in favour of men where political representation is concerned, with only 27 women holding seats in parliament compared to 91 men. According to the World Bank's Global Findex, the gender parity score for access to credit and labour force participation is 8 (World Bank, 2014).

1

Overview

The most recent national strategic development plan for Lesotho for the period 2012–2013 to 2016–2017 serves as the country's growth and development strategic framework. The slogan, "Towards an accelerated and sustainable economic and social transformation", together with the strategic development plan, guide the Government of Lesotho in implementing its National Vision 2020. The plan is a continuation of the vision set out in previous documents, namely the poverty reduction strategy and the interim national development framework. The vision stipulates that: "By the year 2020 Lesotho shall be a stable democracy, united and prosperous nation at peace with itself and its neighbours. It shall have healthy and well-developed human resource base. Its economy will be strong, its environment well managed and its technology well established".

The goals of the national strategic development plan include: fast economic growth, which is widely distributed to create employment; the development of key infrastructure; the improvement of health; the reversal of environmental degradation; adaptation to climate change; and the promotion of peace, democratic governance and effective institutions. The goals are inspired by the Government's recognition of the need and urgency to transform its economy. This includes the capacity to produce goods and services for exportation to the regional, African and global markets. The urgency and need to transform the economy stemmed from the poverty, inequality, unemployment, poor health and high mortality which the country faced at the time the national strategic development plan was formulated. The low employment and productivity on the other hand are the major contributors to the poverty and inequality experienced in the country. Another highlighted challenge is low life expectancy, which is mainly due to the high but now decreasing prevalence of HIV/AIDS and high food insecurity. These have both raised the mortality rate (Ministry of Development Planning, 2012).

On the macroeconomic front, there is an urgent need for transformation because of the country's small and open economy, which renders it vulnerable to natural and adverse external shocks. Given that the period 2012–2013 to 2016–2017 has lapsed and the year 2020 is fast approaching, the country profile gives an indication of the progress made by Lesotho towards the attainment of the goals of the national strategic development plan.

Where economic performance is concerned, the real GDP growth of Lesotho has been weak and volatile over the recent years, averaging 4.1 per cent during the period 2011–2015. In 2015, the growth rate was 1.6 per cent and by 2016–2017, it had risen slightly to 2.1 per cent. The small economy's recent slow growth was induced by global and regional trends such as slow and uneven economic recovery, weakened global manufacturing demand and lower levels of revenue from SACU. The domestic manufacturing sector was further squeezed by stiff competition from Asian exports to the United States. At the same time, the decline in SACU revenue has been a major risk in assuring fiscal consolidation. As a result, the current account balance is expected to worsen to a deficit of 15.6 per cent in 2017, up from a deficit of 8.6 per cent in 2015 (Ministry of Finance, 2017).

The declining revenues are also not offset by the slow growing tax revenues, resulting in a budget deficit of 7.8 per cent of GDP in 2016–2017 (Ministry of Finance, 2017). The capital and financial account balance on the other hand has been positive since 2011, reaching over 4 billion maloti in 2015. Measured in months of import cover, official reserves were estimated at 4.9 at the end of the first quarter 2017, up from 4.4 in 2015 (Central Bank of Lesotho, 2017d; Ministry of Finance, 2015b). The agriculture sector has also negatively contributed to GDP growth in the 2016–2017 fiscal year, owing to the El Niño-caused drought in 2016. Agriculture production for 2017–2018 is projected to increase, however, and this in turn is expected to boost the medium-term GDP growth. At the macroeconomic level, the inflation rate has remained below the 6 per cent target (5.6 as of September 2017), while on the political economy front, it is widely acknowledged that the rising insecurity, political instability and the crumbling rule of law have further crippled the prospects of economic recovery and, unless quickly addressed, they will delay the economic recovery process (Ministry of Finance, 2017).

The slow growth and political risk experienced means that the country's persistent and unchanging poverty level of 60 per cent since 2003 and unemployment rate of 25.3 per cent may not be easily remedied (Bureau of Statistics, 2015c). The level of poverty and the unemployment rate are such despite the high literacy rate (87.5 per cent for population aged 15–49) which the country boasts, with the literacy rate positively skewed towards women. In 2014, 60 per cent of women and 47 per cent of men aged between 15 and 49 are reported to have attended some form of secondary school, but only 19 per cent of women and 16 per cent of men completed it (Ministry of Health, 2016). Despite the high female literacy rate, the labour market is negatively skewed towards them, with only 38 per cent of women employed, in contrast to 59 per cent of men in 2014 (ILO, 2017).

According to the latest available data (2014), the prevalence of HIV/AIDS is also higher for women of all age groups (30 per cent of females and 19 per cent of men), while 25 per cent of adults aged between 15 and 49 were infected with the virus, up from 23 per cent in 2009. New infections amounted to 1.9 per 100 persons exposed, which was lower among women than men (Ministry of Health, 2016). At the same time, life expectancy reported in

2014 was barely 44 years, men living on average for 42.5 years and women for 45.6 years, a deterioration since 1990, which is not surprising because of the high prevalence of HIV/AIDS.

On the gender equality front, on the other hand, there is a significant gender disparity in favour of men in political representation, with 27 women holding seats in parliament compared to 91 men. Among the population, large income inequalities continue to exist (little change since 1993), illustrated by a Gini coefficient of 0.538 (Bureau of Statistics, 2015c).

In view of gender inequality and the need for women's empowerment, the manufacturing sector has long been identified as a tool for economic growth and obtaining the necessary revenues for social development and the empowerment of women. This includes sustainable economic and social transformation, as emphasized in the national strategic development plan, and structural transformation of the economy, as benefits of the industry spill over to the rest of the economy. This is because the sector has been an engine for economic performance in Lesotho and it still accounts for over 40 per cent of the country's exports and provides employment to the most vulnerable groups of workers (Ministry of Trade and Industry, 2017). The industry possesses various highlighted shortcomings, such as vulnerability to external shocks, no backward links within the sector, little diversification, limited upstream manufacturing activities and low competitiveness, including a high prevalence of HIV/AIDS in the textile and garment factory areas of Maseru (28 per cent) and Leribe (25 per cent). Policymakers should therefore focus attention on reducing exposure to external shocks by diversifying the export base and destinations, diversifying the light manufacturing sector by including activities within the textile and garment industry, reinforcing the comparative advantage of Lesotho in the textile and garment sector, providing access to quality healthcare and education; and assuring affordable housing around the textile and garment factory zones in order to strengthen and grow both the export sector and the economy.

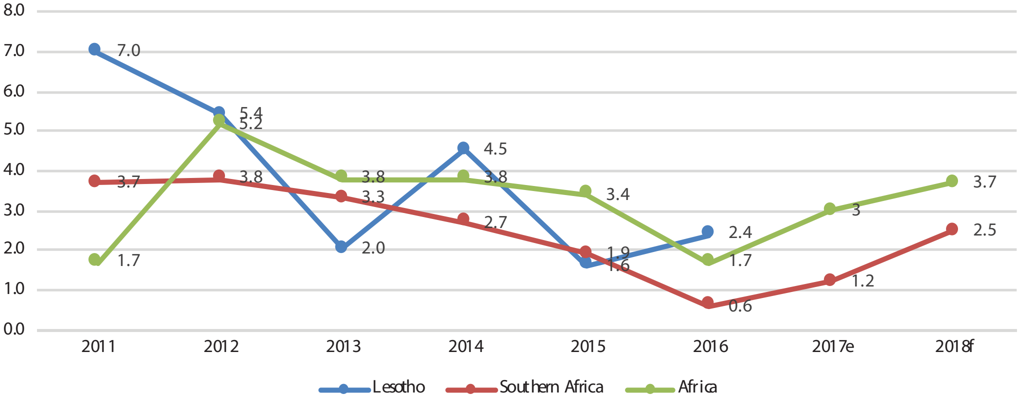
2

National and subregional context

Over the past five years, the economy of Lesotho has undergone various fluctuations, with the real growth rate averaging 4.1 per cent over the period 2011–2015, below the minimum 5 per cent envisaged in the country's national development plan 2013–2017 as a tool for employment and poverty reduction. As illustrated in figure 1, after the robust performance of 7.0 per cent in 2011, the pace of economic growth in Lesotho decelerated to 5.4 per cent in 2012. Subsequently, GDP growth fell to nearly 2 per cent, after which it rebounded with a growth rate of 4.5 per cent, recorded in 2014. Low commodity prices affected Lesotho after the short period of moderate growth, leading the economy to grow by barely 1.6 per cent in 2015, below subregional and continental averages (Bureau of Statistics, 2016a). In comparison, over the same period, the Southern African subregion reached its growth peak of 3.8 per cent in 2012, which then decreased gradually to 0.6 per cent in 2016. At the same time, the continent as a whole was strongly affected by shocks to major economies, such as the war in Libya in 2011. Consequently, the overall growth rate fell to 1.7 per cent in 2011, rebounding to 5.2 per cent in 2012 and stabilizing between 3.4 and 3.8 per cent from 2013 to 2015 before dropping to 1.7 per cent in 2016. The continental growth for 2017 is estimated at 3 per cent, while Southern African growth is estimated at 1.2 per cent. Meanwhile, the forecast for real GDP growth in 2018 is estimated at 2.5 and 3.7 per cent for Southern Africa and the continent respectively (United Nations, 2018).

Lesotho's volatile growth figures were strongly attributed to fluctuations in the external demand for the country's manufacturing exports and the dependence on a few trading partners and developments in the trading partners' markets. Furthermore, low implementation of public investment has taken its toll on the construction sector. Generally, however, good performance of mining and services over the period boosted the economic standing of the country. For the subregion, the growth rate over the period was subdued, mainly owing to an economic downturn in South Africa resulting from the world economic crisis of 2007 and 2008. The strong performance of the fast growers of the subregion, such as Mozambique and Zambia, was offset by sluggish growth in the subregion's largest economies. Simultaneously, since 2011, the Southern African economies have been adversely affected by falling prices of their main export products under the impact of plummeting world commodity prices. Growth in Southern Africa is therefore still expected to remain below the continental average in 2017 and 2018.

Figure 1: Real GDP growth, Lesotho vs. Southern Africa and Africa, 2011–2018, percentage



Source: Lesotho Bureau of Statistics (2018), for Lesotho, and United Nations Department for Economic and Social Affairs (2018), for Southern Africa and Africa rate for 2016–2018. Calculations by African Centre for Statistics, for Africa real GDP growth (2011–2015).

A comparison of the selected economic indicators of Lesotho to that of its Southern African Development Community (SADC) peers on the other hand tells a sombre story. As illustrated in table 1, the current GDP of Lesotho at market prices is very small and has been decreasing since 2012. The SADC average has also been on a decreasing path, with fluctuations between the years. The current GDP of Lesotho at market price is about one third of the region's total GDP and, in 2016, the current GDP at market price was $2,241 billion, while SADC had a total current GDP of $599,888 billion. The GDP per capita in the country is also small and on a decreasing path, at the level of about two thirds of the average GDP per capita of SADC in general. These figures provide a justification for the Government's insistence on the need and urgency for the social and structural transformation of its economy in the country's national strategic development plan. The latest available data, however, illustrate that the Government's plans have not yet materialized.

This failure is partly due to the share of manufacturing GDP to total GDP for Lesotho within SADC that has decreased tremendously since 2010. In 2010, Lesotho's share of manufacturing GDP was almost twice as high as the SADC average (21.9 per cent and 12.3 per cent respectively). By 2016, however, the SADC average was close in line with the country's share of manufacturing GDP to total GDP in SADC (11.1 per cent and 11.8 per cent respectively). The country's decreasing share is due to its reliance on a few trading partners and its susceptibility to external shocks as highlighted above. Despite the relatively small size of the economy of Lesotho, the country's external debt as a percentage of GDP from 2010 to 2015 was generally higher than the SADC average. By 2016 however, the SADC average had surpassed the level of the external debt of Lesotho as a percentage of GDP, evidenced by figures of 41 per cent and 34.8 per cent respectively.

Table 1: Lesotho in SADC: selected economic indicators (2010–2016)

Selected Indicators	2010	2011	2012	2013	2014	2015	2016
Lesotho current GDP at market price (M USD)	2,393	2,781	2,681	2,534	2,512	2,337	2,241
SADC total (M USD)	609,781	702,732	711,647	703,989	706,972	630,128	599,888
Lesotho annual real GDP growth rate (%)	6.2	7	5.9	2.2	2.3	5.6	2.9
SADC average(%)	4.4	4.2	4.7	3.9	3.4	2.3	1.4
Lesotho GDP per capita (USD)	1,265	1,466	1,410	1,328	1,311	1,214	1,154
SADC average (USD)	2,176	2,441	2,411	2,322	2,267	1,976	1,834
Lesotho share of manufacturing GDP to total GDP in SADC (%)	21.9	21.1	17.5	13.2	13.1	12.1	11.8
SADC average (%)	12.3	11.4	10.9	10.6	10.8	10.9	11.1
Lesotho imports of goods and services as a % of GDP	100.9	94.2	100.3	88.9	86.9	87.7	85.1
SADC average (%)	34.1	36.1	36.8	38.4	37.7	35.6	32.2
Lesotho external debt as a % of GDP	30.2	28.3	32.3	33.2	35	43.4	34.8
SADC average (%)	27.4	25.6	29.7	30.7	34.1	35.6	41

Source: SADC Selected economic indicators.

A similar trend may be observed in the country's imports of goods and services as a percentage of GDP. In this instance, however, the SADC average is not higher than the level of imports of goods and services by Lesotho by 2016. It can be seen that, in 2010, the imports of goods and services by Lesotho, expressed as a percentage of GDP, was 100.9 per cent, while the SADC average was 34.1 per cent. In 2016, the country's imports of goods and services as a percentage of GDP was 85.1 per cent, while the SADC average was 32.2 per cent. The decrease may possibly be attributable to the country's decreasing GDP (current at market price), from $2.681 billion in 2012 to $2.241 billion in 2016.

Despite efforts made at regional integration and macroeconomic level, including a period of political stabilization that followed the swearing in of a new cabinet in March 2015, the SADC-monitored political and security situation has remained fragile and uncertain. After the vote of no confidence against the prime minister, the parliament was dissolved in March 2017 and early general elections were held in June 2017. The elections, which were pronounced free and fair by the African Union, brought relief across the region and the political future of Lesotho strongly depended on whether a coalition could be successfully formed. Further political instability will, without a doubt, work as a strong deterrent to potential investors and will jeopardize the positive economic prospects of Lesotho.

Box 1: Africa Regional Integration Index: Lesotho

The Africa regional integration index is designed to measure the extent to which each country in Africa is meeting its commitments under the various pan-African integration frameworks, such as Agenda 2063 and the Abuja Treaty. The index, which is a joint project of the African Development Bank, the African Union Commission and the Economic Commission for Africa, covers the following dimensions: free movement of people, trade integration, productive integration (development of regional value chains), regional infrastructure, and financial integration and macroeconomic policy convergence. The following section analyses the five dimensions and their respective indicators. A technical description of the indicators may be found at https://www.integrate-africa.org.

Overall rank: 10th in SADC (score 0.39). Best performing country in SADC is South Africa (score 0.74).				
Free movement of persons	**Trade integration**	**Productive integration**	**Infrastructure**	**Financial integration and macroeconomic policy convergence**
Joint 8th in SADC with Malawi and Botswana, (score 0.60). Best performers in SADC are Seychelles and Swaziland (score 0.70).	6th in SADC (score 0.54). Best performer in SADC is South Africa (score 1.0).	15th in SADC (score 0.07). Best performing country in SADC is Zimbabwe (score 0.74).	15th in SADC (score 0.29). Best performer in SADC is Botswana (score 0.82).	7th in SADC (score 0.42). Best performer in SADC is South Africa (score 0.92).

Source: https://www.integrate-africa.org

Free movement of persons: Lesotho performs moderately in this dimension. Lesotho has ratified the SADC protocol on free movement. At the time of the calculation of the index, citizens from half of the SADC member States enjoy visa-free entry to the country.

Trade integration: Lesotho is a moderate performer on this dimension of the index. This moderate score is mainly derived from its zero tariff on intra-regional imports. The share of regional trade for Lesotho remains low, however: between 2010 and 2013, Lesotho accounted for an average of 3 per cent share of regional trade while the country's exports to the regional economic communities were below 15 per cent of its GDP.

Productive integration: Lesotho is among low performers in this dimension. The country shows low integration into regional value chains. This performance is mainly due to the low complementarity between its trade structure and that of its SADC partners. In this regard, the average value of the United Nations Conference on Trade and Development (UNCTAD) merchandise trade complementarity index for Lesotho between 2010 and 2013 was below 0.1 (on a range of 0–1). The share of intermediates in the imports and the exports of Lesotho from SADC were relatively low; namely 0.10 per cent (imports) and 0.14 per cent (exports) between 2010 and 2012.

Infrastructure integration: Lesotho performs poorly in this dimension. This performance is mainly due to low infrastructure development (based on the African Development Bank infrastructure index with scores above 15.10 (on a range of 0–100) during the period 2010–2012 and infrastructure gaps reflected in high telephone roaming costs and low electricity trade within the regional economic community.

Financial integration and macroeconomic policy convergence: Lesotho is among moderate performers in this dimension. This performance is mainly due to the low inflation rate relative to others SADC members (an average value of 5 per cent during the period 2010 to 2013). The currency (loti) is not convertible, however, into any of the currencies of fellow member States of its regional economic communities.

In general, the regional integration performance of Lesotho varies widely through the dimensions of the index. Lesotho seems to have a better integration performance in trade and financial dimensions. With regard to the movement of people regionally, productive integration and infrastructure development, the country still has a long way to go. Improving the regional integration of Lesotho would certainly entail a better penetration to regional trade value chains, while improving investment in infrastructure development.

3

Economic performance

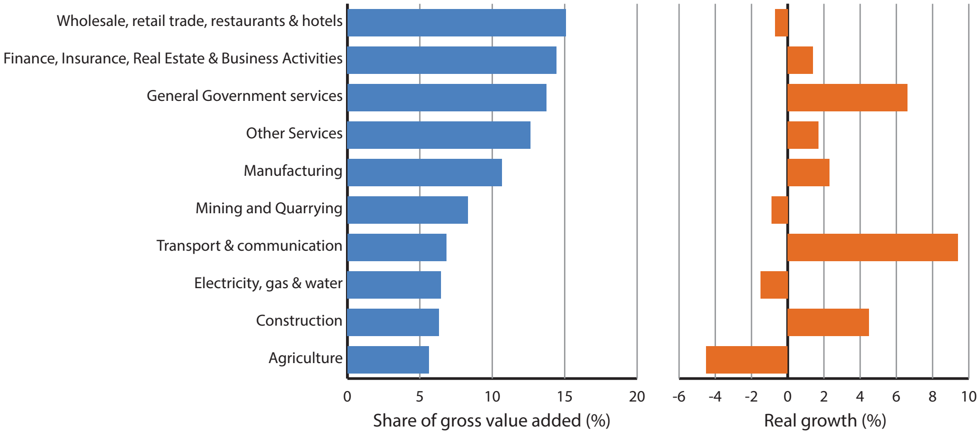
3.1 Economic growth

The slow and uneven global and regional economic recovery experienced, specifically that of South Africa (as the largest trading partner and export destination for Lesotho) continues to have negative effects on the ability of the country to export and collect SACU revenues. In the second half of 2016 there was a recovery in global manufacturing, which had weakened in 2015. This cyclical recovery in manufacturing and trade, including optimistic global financial markets are expected to steer the world economy on an upward growth trajectory of 3.5 per cent in 2017 and 3.6 per cent in 2018, up from a growth rate of 3.2 per cent registered in 2015 (Central Bank of Lesotho, 2016c), which in turn would stimulate the exports of Lesotho (Ministry of Finance, 2017). The growth rate experienced is mainly driven by developing and emerging market economies (Central Bank of Lesotho, 2016b).

On the domestic front, the economy of Lesotho grew by only 1.6 per cent in 2015 and 2.1 per cent in 2016–2017 (Ministry of Finance, 2017). Previously, the economy had grown by an average rate of 4.7 per cent between 2011 and 2014. The low growth GDP rate of 1.6 per cent of 2015 is attributed to the wholesale, retail trade, restaurants and hotel sector, which constitutes the largest share of value added in the GDP growth of Lesotho. It registered a negative growth contribution of 0.7 per cent. The mining and quarrying, electricity, gas and water and agriculture sectors also experienced negative growth rates of -0.9 per cent, -1.5 per cent and -4.5 per cent respectively. Save for the transport and communication and the general government services sectors, all the other sectors have experienced growth rates of less than 5 per cent, together averaging a GDP contribution growth of 2.5 per cent (Bureau of Statistics, 2015a).

The growth of agricultural value addition to GDP has been negative since 2014, registering values of -3.5 and -4.5 per cent in 2014 and 2015 respectively, down from 23.6 per cent in 2013, despite the Government's cropping programme. The results were driven by the drought and flooding experienced in the fiscal years 2011–2012 and 2012–2013 and an army worm attack in the fiscal year 2013–2014 (Bureau of Statistics, 2015a). In the fiscal year 2014–2015, the sector was further negatively affected by poor rainfall distribution and a protracted dry spell in early 2015. As for the structure of the economy (figure 2), agriculture is a relatively small contributor to GDP, accounting for just 5.6 per cent in

Figure 2: GVA shares and growth, Lesotho, 2015, percentage



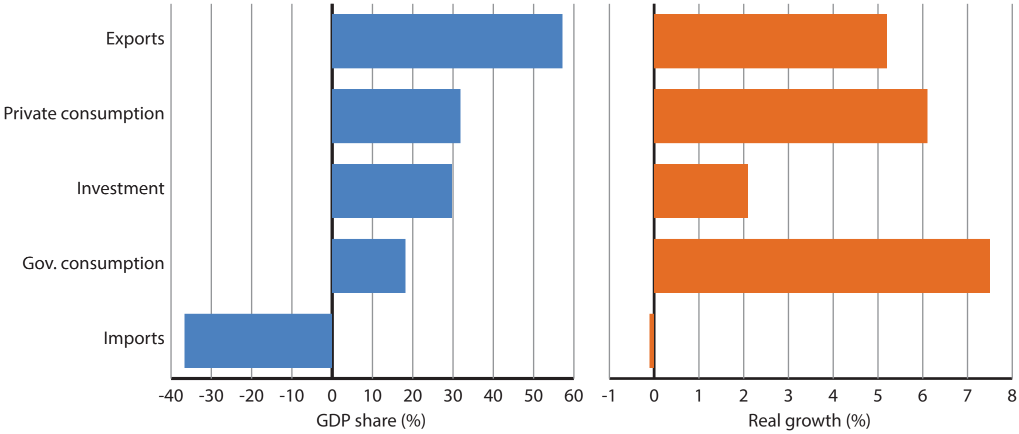
Source: SADC Statistical Year book (2017).

2015 (Bureau of Statistics, 2015a). Agriculture is expected to recover during the 2017–2018 crop year, thanks to a 139 per cent increase in planted areas over the 2016–2017 crop year (Ministry of Finance, 2017). Owing to this increased agriculture production, the Government of Lesotho projects a 3.4 per cent recovery in economic activity over the medium term.

The reopening of the Kao and Letseng mines led to increased mining production (although subdued by the temporary closure of the Liqhobong diamond mine), contributing to a remarkable growth in gross value addition of 8.2 per cent in 2014, after a serious dip of 27.6 per cent the year before. A dip of -0.9 per cent has, however, been experienced in 2015 (figure 2), owing to exchange rate risks and current construction of the Liqhobong mining plant (Central Bank, 2016). Overall, the gross value addition growth rate averaged 22 per cent over 2011 and 2012. The mining sector is expected to accelerate to 17.3 per cent in 2017–2018, from 8.1 per cent in 2016–2017, since production is set to commence in the Liqhobong mining plant, along with the attainment of full capacity at existing plants, namely, Letseng and Kao (Ministry of Finance, 2017).

At the same time, after a drop of 3.4 per cent in 2012 (Ministry of Finance, 2015b), the recovery of the industrial sector (excluding mining) was mainly due to developments in construction, which benefited from continuing work on Metolong Dam and other government projects. Manufacturing has been on an increasing and negative growth path since 2011, registering value add growth shares of -0.6, -3.3, -2.6 and -6.9 per cent between the years 2011 and 2015 due to falling global demand in the textile, clothing and electronics industries (Bureau of Statistics, 2015a). Manufacturing in Lesotho, consisting primarily of textiles and apparel, most of which are exported to the United States, has been facing and continues to face stiff competition from Asian exports to that country.

Figure 3: Demand shares and growth, Lesotho, 2013* (shares), 2014* (growth), percentage



Source: Lesotho Bureau of Statistics for demand shares; Central Bank of Lesotho for growth rates.

* Latest available data.

Nonetheless, the gross value added of the industrial sector as a whole[1] grew by 2.2 per cent in 2014, down from the 3.9 per cent growth recorded in 2013, with an outlook of average growth of 1.1 per cent annually until 2018 (Ministry of Finance, 2015b). At the same time, the industrial sector's share of GDP has stagnated in recent years, recording 23.1 per cent of GDP in 2014 (versus 25.3 per cent in 2010). Manufacturing dropped, registering 2.3 per cent in 2015 and -6.9 per cent in 2014 (Bureau of Statistics, 2016a). This decline resulted primarily from uncertainties surrounding the extension of the AGOA preferences[2] and, hence, a shrinking of the contribution from the garment sector.

The service sector has been contributing positively to growth, mainly through the health sector, which, after the 2011 opening of the new Queen Mamohato Memorial Hospital, grew at an average of 24.1 per cent annually until 2014 (Bureau of Statistics, 2015a). Financial intermediation, which consists of finance, insurance, real estate and business activities, profited greatly from reforms to improve access to credit,[3] while wholesale and retail trade and transport and communications were boosted by investments in other areas of the economy.

On the demand side (figure 3), increases of 12.3 per cent in public spending in 2014 were the main driving forces behind demand growth, with government projects benefiting in particular the construction, transport, communications and health sectors over the last few years. Private consumption, which is the largest component of the aggregate demand, with 97.8 per cent in 2013 (Bureau of Statistics, 2015b), registered in contrast a modest increase of 2.9

1 Mining and quarrying are excluded.
2 The African Growth and Opportunity Act preferences were extended only on 29 July 2015.
3 These include the Legal Capacity of Married Persons Act (2006), which gave women the right to conduct business on their own, and the Land Act (2010) and Land Administration Authority Act (2010), which made it possible to use fixed property as collateral.

per cent in 2014 owing to better access to credit, remittances from Basotho migrant workers and a stable inflation rate. Investment dropped by 17 per cent in 2013 and by 3.7 per cent in 2014 respectively, contrary to robust growth of 30 per cent in 2012 (Central Bank of Lesotho, 2015). Gross fixed capital formation was spurred by the completion of various investment projects, amounting to 36.4 per cent of GDP in 2013 (Bureau of Statistics, 2015b).

A notable project that has positively contributed to employment and performance in Lesotho is the Lesotho Highlands Water Project, whose phase II contract was finally approved in 2016. This is a joint-investment project between the Government of Lesotho (3 per cent investment share) and the Government of South Africa (93 per cent investment share), aimed at benefiting both countries. It remains a crucial initiative in the region where infrastructural developments are concerned. The benefits attributable to Lesotho include a water transfer scheme which allows Lesotho to sell its excess water to South Africa, a supply of tremendous importance in mitigating water shortages in Gauteng – the financial and industrial engine of South Africa. The project benefits are: continuous domestic infrastructure developments such as dams, tunnels, reservoirs, access roads, bridges, camps, schools and health facilities, along with a range of employment opportunities and the sale of water and hydroelectricity, which is expected to bring additional revenue into the budget. The benefits also include the increased electrification of the country from its five hydropower stations, namely, Muela, Semonkong, Tlokoeng, Tsoelike and Mants'onyane. In the future, the project also aims to provide water to the southern part of Botswana. A tripartite agreement in that regard was signed in November 2015 and feasibility studies are under way.

During phase I, more than 16,000 jobs were created, in addition to the vast opportunities created for local contractors and the supply of goods and services. The improved infrastructure greatly enhanced access to the country's highland areas, resulting in decreased travelling time across this mountainous country. During phase II of the project, infrastructural outputs similar to those from phase I, and other economic and social spin-offs are anticipated. In this case, the impact on the engineering industry is expected to be even greater. As much as 50 per cent of all the advanced infrastructure work had been allocated to Lesotho, and at least 10 per cent of the main works such as the Polihali dam and its associated 38-kilometre tunnel (Parliamentary Monitoring Group, 2016).

In addition to the increased phase II social and economic spillovers, much wider access to water will be available for households, industry and agriculture. With the improved water security and availability, and additional infrastructure, poverty alleviation efforts should bear fruit. This means that a majority of the population could experience economic upliftment. Since high-level discussions have placed emphasis on black economic empowerment, jobs and income opportunities in the direct project construction contracts and consultancies will be a platform for engaging black professionals and companies. Skills transfer is regarded as another channel that can empower the Basotho working population, in particular its young people, through internship programmes, study bursaries and various job opportunities.

3.2 Fiscal policy

Lesotho is facing a decreasing share of SACU revenues and volatility and pro-cyclical streams of national income which have been major risks in assuring fiscal consolidation. As illustrated in table 2, the gradual drop in SACU revenues has been registered since fiscal year 2014–2015, from 7,034 million maloti to 4,519 million maloti in the fiscal year 2016–2017 or from 28.2 per cent of GDP to 15.5 per cent, respectively. In the fiscal year 2017–2018, SACU revenue target estimate is 6,154 million maloti (Ministry of Finance 2017). The Government's fiscal efforts have thus concentrated on increasing the tax base and growing tax revenues to fill the gap caused by diminishing SACU receipts.

In the fiscal year 2014–2015, taxes amounted to 5,785 million maloti and grew to 7,044 million maloti in the fiscal year 2016–2017. The 2017–2018 budget for taxes has been set at 7,604 million maloti. In relative terms, from a percentage of 39.7 in the fiscal year 2014–2015, the tax revenue has grown to over a half of the total current budget. It has however only marginally grown as a percentage of GDP, from 23.2 per cent to 25.0 per cent. Grants have also increased over the past few years. They remain relatively low however, adding slightly over 6 per cent to the total revenues. Reducing dependency on SACU revenues by mobilizing tax and non-tax domestic revenues will remain the priority to maintaining long-term financial sustainability (Ministry of Finance, 2016).

On the expenditure side, civil service wages consume the major share of the budget. In the current fiscal year 2017–2018, compensation of employees rose to 6,209 million maloti, which is nearly 50 per cent of the total expenses. This is an increase from the previous fiscal years' figures of 4,744 million maloti in 2014–2015, 5,400 million maloti in 2015–2016 and 5,760 million maloti in 2016–2017. Other rising expenditure includes interest payments (which more than doubled) and social benefits spending between fiscal years 2014/15 and 2017/18 to 377 million and 1,049 maloti, respectively. Despite the country's current financial predicament, the latter increase demonstrates the Government's commitment to its social policies. The spending on use of goods and services has remained relatively stagnant through the fiscal year 2016–2017, with a slight increase in 2017–2018 to 3,187 million maloti. The Government of Lesotho is committed to further implementing the medium-term expenditure framework, aligning its ministerial objectives and funding requirements with Vision 2020, the strategic development goals and the national strategic development plan (Ministry of Finance, 2016).

The sharp decline in SACU revenues is not offset by the slow growth in tax revenues, resulting in a budget deficit of -7.8 per cent of GDP in the fiscal year 2016–2017. Despite improved fiscal performance in the fiscal year 2017–2018, the deficit has been registered at -4.8 per cent (Ministry of Finance, 2017). With further expected deterioration in Lesotho's share of the SACU common revenue pool however, the fiscal position will continue to worsen and only rigid cuts in high and unsustainable recurrent expenditure, paired with domestic

Table 2: Lesotho fiscal accounts, millions of maloti, 2017

	2014–2015	2015–2016	2016–2017	2017–2018
Revenues	14,583	15,300	13,845	16,035
Taxes	5,785	6,578	7,044	7,604
Grants	496	966	866	793
SACU	7,034	6,399	4,519	6,154
Expenses	-9,936.0	-11,180	-11,637	-12,902
Wages	-4744	-5,400	-5,760	-6 209
Use of goods and services	-2,478	-2,829	-2,802	-3,187
Interest payments	-177	-274	-283	-377
Social benefits	-768	-883	-843	-1,049
Fiscal balance (Govt. of Lesotho)	859	-628	-2,470	-989
Percentage of GDP	3.4	-1.6	-7.8	-4.8

Source: Ministry of Finance (2017).

resources and better capital spending, will assure long-term macro-fiscal sustainability (Ministry of Finance, 2016).

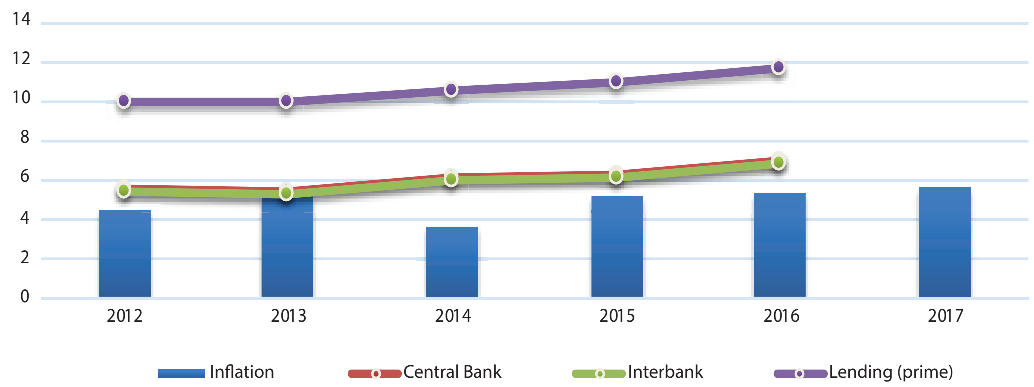
Where debt is concerned, the Government's gross debt reached 13,989 million maloti in the fiscal year 2016–2017 or 48 per cent of GDP, a decrease from 14,835 million maloti in 2015–2016, which amounted to 56.2 per cent of GDP, the highest debt level in the recent years (Ministry of Finance, 2016). As one of the strategies in attaining macroeconomic convergence, SADC member States are advised to maintain debt-to-GDP ratios of 60 per cent or less (SADC 2011). The Government of Lesotho performs well in this regard. The external debt remains the major component of the country's financial liabilities, comprising approximately 83 per cent of the total public debt at the end of 2016 (Central Bank, 2017a). According to the latest available data, made available by the Department of Public Debt Management of the Ministry of Finance (2016), 86 per cent of external debts were owed to multilaterals and 9 and 5 per cent were due to bilateral agreements and export credits respectively. Essentially, the drastic increase in debt was primarily due to the depreciation of the loti and therefore an increase in the loti value of foreign denominated borrowing. To meet its debt obligations and maintain debt sustainability, Lesotho will focus on assuring macroeconomic stability (Ministry of Finance, 2016).

3.3 Monetary policy

As a member of the common monetary area, the currency of Lesotho, the loti, remains pegged to the South African rand and hence movements in price indices and other monetary indicators closely mimic or adjust to developments of the country's larger neighbour. Concerning the inflation rate, after a record low of 3.6 per cent in 2014, inflation rose by 1.5 percentage points in 2015 and reached 5.3 per cent by the end of 2016[4] (figure 4). Rising prices of food items, which to a large extent come from imports, were still the major contributor to the growing consumer price index. Food inflation stood at 9.4 per cent in December 2016, and at 9.3 per cent a year earlier. The depreciating loti was a strong trigger of increasing prices. In 2016, the cost of fuel, however, was still on a downward trend, following the drop in the world oil markets, thereby significantly benefiting oil importers such as Lesotho. Other products whose prices stagnated or increased negligibly are hospital and transport services, communications and recreational items and services (Bureau of Statistics, 2017a and 2016b). The easing in inflation has also been brought by the more favourable exchange rate of the rand (and thus the loti) to the United States dollar. After reaching a peak exchange rate of 14.71 in 2016, it decreased to slightly above 13 in May 2017[5] (South Africa Reserve Bank, 2017).

Overall, in 2016, the SACU goal of maintaining stable inflation of below 6 per cent (between 3 and 6 per cent – SACU, 2016) had been achieved and by September 2017, the inflation rate reached 5.6 per cent. This figure is an increase from the inflation rate of 5.3 per cent estimated in May 2017 (Bureau of Statistics, 2017b). Since the maintenance of low and stable inflation is one of the principles of macroeconomic convergence in SADC (SADC, 2011), the inflation results for Lesotho indicate good performance on macroeconomic convergence and in meeting SACU inflation targets. The major contributors to the inflation rate are food and non-alcoholic beverages with a contribution of 7.5 per cent, housing, water and gas with 6.6 per cent, furnishings, housing equipment and routine maintenance of the house with 6 per cent, recreation and culture with a contribution 6.3 per cent, education with 6.6 per cent and miscellaneous good and services with a contribution 4.7 per cent (Central Bank of Lesotho, 2017a; Bureau of Statistics, 2017c).

Figure 4. **Inflation and interest rates, Lesotho, 2011–2017, percentage**



Source: Bureau of Statistics for inflation; Central Bank of Lesotho for interest rates.

4 All annual inflation rates in this section are year-on-year rates.
5 As of 24 May 2017.

Regarding the latest developments in other monetary indicators, the broad money supply (referred to as "M2") growth rate decreased over the second half of 2016. It contracted by 5.4 per cent in September, and by a further 4.2 per cent in December 2016. This was due to a decline in net foreign assets. Following a rise in domestic credit, however, the broad money supply expanded by 5.7 per cent in February 2017 (Central Bank of Lesotho, 2017c; and 2017b). As for the interest rates, after the Central Bank of Lesotho set its reference rate of 6.25 at the end of 2015, it was quickly increased to 7.0 per cent at the beginning of 2016 in response to the depreciating currency and has been maintained at that level[6]. Subsequently, lending rates of commercial banks have also increased slightly (Central Bank of Lesotho, 2017b).

3.4 Current account

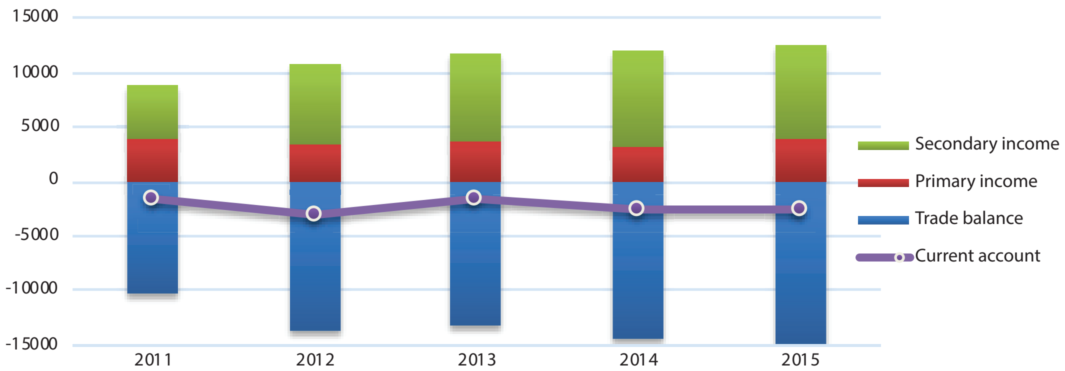
As illustrated in figure 5, the current account balance has remained negative and relatively stable over the period 2011–2015, reaching its record low of -3 billion maloti in 2012 and stabilizing at -2.5 billion maloti at the end of the period. The most pronounced feature is the steady widening of the trade deficit, from 10.3 billion maloti in 2011 to nearly 15 billion maloti in 2015. Even though the income account and, in particular, remittances from abroad reflected in the secondary income have been increasing over time, the pace has been too slow to outperform the negative trade balance. Rising imports value were to a large extent spurred by the falling exchange rate and related food imports, whereas the expected large-scale construction works associated with the Lesotho Water Highlands Project triggered higher demand for machinery and equipment. Primary income has not registered any significant changes and has floated between 3.3 billion maloti and 4 billion maloti, whereas secondary income has been on the increase, from 5 billion maloti in 2011 to 8.5 billion maloti in 2015 (Central Bank of Lesotho, 2017a).

Overall, the latest data, for the first quarter of 2017, indicate that the current account deficit narrowed to 6.5 per cent of GDP in relative terms, from a 10.4 per cent deficit in the previous quarter, driven primarily by improvements in the income account (Central Bank of Lesotho, 2017d). Meanwhile, the 2017–2018 current account is expected to worsen to a deficit of 15.6 per cent from a deficit of 8.6 per cent in 2015–2016 as a consequence of flat income remittances and lower SACU revenues (Ministry of Finance, 2017).

As the country is an enclave within South Africa, the trade patterns of Lesotho are strongly dependent on this peculiar geographical situation. Unsurprisingly, where both exports and imports are concerned, South Africa is its leading trade partner. Even though the latest available national data are from 2012, the major trade flows have remained very similar. Of the total imports value, 88.9 per cent originated from South Africa, whereas 47.3 per cent of exports were destined for the South African market in 2012. Following closely with nearly 44 per cent, the United States was the second largest export destination owing to the

6 As of 25 May 2017

Figure 5: Balance of payments, Lesotho, 2011–2015*, millions of maloti



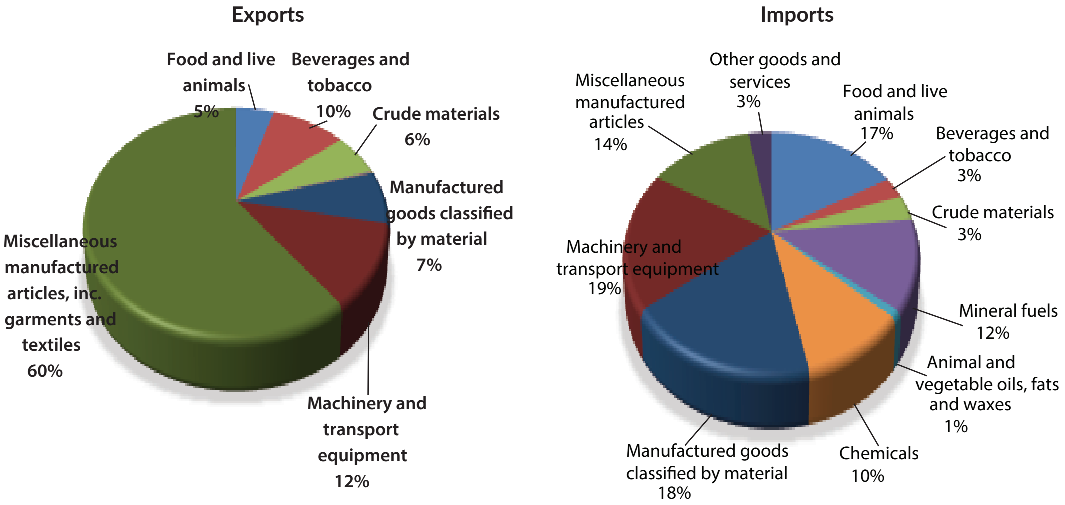
Source: Central Bank of Lesotho (2015).

* Latest available data

large volume of imports of Lesotho's textiles and garments pursuant to AGOA preferences. With significantly lower shares, the Taiwan Province of China, China and the Hong Kong Special Administrative Region were other major importers of goods from Lesotho, followed by the European Union, the United Arab Emirates and other SACU member States (Bureau of Statistics, 2014a).

The trade structure is illustrated in figure 6. Manufactured articles top the list of exports. It is important to note, however, that clothing, textiles and diamonds account for nearly all the exports from Lesotho, indicating little diversification of local manufacturing. This can also be

Figure 6. Import and export composition, Lesotho, 2012,* percentage



Source: Lesotho Bureau of Statistics.

* The latest detailed report on trade statistics is from 2012.

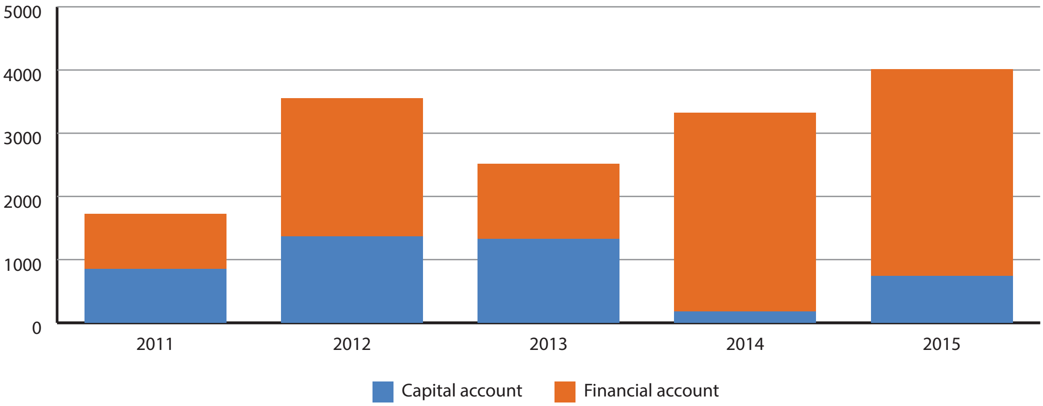
deduced from the composition of its imports, as manufactured goods are one of the major categories. Food and machinery follow suit since there is little domestic agro-processing, while large-scale construction work related to the Lesotho Highlands Water Project generates a high demand for appropriate equipment.

3.5 Capital and financial accounts

The capital and financial account balance in Lesotho has been positive since 2011, reaching over 4 billion maloti in 2015, the highest level in the last five years (figure 7). The level of the capital account, however, has been on the decline over the period 2012–2014, from 1.4 billion maloti to 178 million maloti, but it rebounded to 739 million maloti in 2015 (Central Bank of Lesotho, 2017a). More detailed data show that foreign direct investment remained relatively stable between 2011 and 2014, fluctuating between 445 million and 505 million maloti over the same period. The major component of the financial account is other investment (2 billion maloti in 2014), such as official development assistance grants and loans and their repayments. Portfolio investment on the other hand does not reach notable levels.

As the main instrument in keeping the loti at parity with the South African rand, the target floor for the net international reserves has been successively reduced, from $730 million in the second half of 2016 to a record low of $600 million in April 2017, thanks to the currency stabilization over the period (Central Bank of Lesotho, 2016 and 2017b). Following recent developments however, the Central Bank of Lesotho increased the floor to $630 million at the end of May 2017 (Central Bank of Lesotho, 2017d). Measured in months of import cover, official reserves were estimated at 4.9 at the end of the first quarter 2017, up from 4.3 in 2012 and 4.4 in 2015 (Central Bank of Lesotho, 2017d). Previously, the 2014 stock of net international reserves amounted to $1.12 billion, slightly down from $1.14 billion in 2013 (Bureau of Statistics, 2015c).

Figure 7: **Capital and financial account, Lesotho, 2011–2015*, millions of maloti**



Source: Central Bank of Lesotho (2015).

* Latest available data

The initial expectation was that the introduction of AGOA would have triggered significant investment inflows from the United States. Figures show, however, that in 2006, merely 5.4 per cent of the foreign direct investment in the country originated from the United States, while in 2011 there were no flows of foreign direct investment from the United States at all. This suggests the investment from the United States directly induced by AGOA was in fact very weak. By contrast, the majority of the county's foreign direct investment is either of South African or of Asian origin. In 2011, South Africa accounted for 86.6 per cent of total foreign direct investment (in comparison to 52.8 per cent in 2006), investing mainly in mining and quarrying, finance and insurance, and manufacturing.

Interestingly, 7.2 per cent of foreign direct investment (versus 0 per cent in 2006) came from the British Virgin Islands and Bermuda as tax havens, mostly used by East Asian companies. The share foreign direct investment attributable to China, on the other hand, rose from 0.9 per cent in 2006 to 2.4 per cent in 2011. Where the sectoral distribution is concerned, 2006 data show that 58 per cent of the liabilities were accounted for in the manufacturing industry, and more specifically in textiles and garments. The transportation and communication industry took second place, accounting for 24 per cent of the liabilities, whereas mining and quarrying ranked third with 11 per cent (Ministry of Trade and Industry, 2016).

4

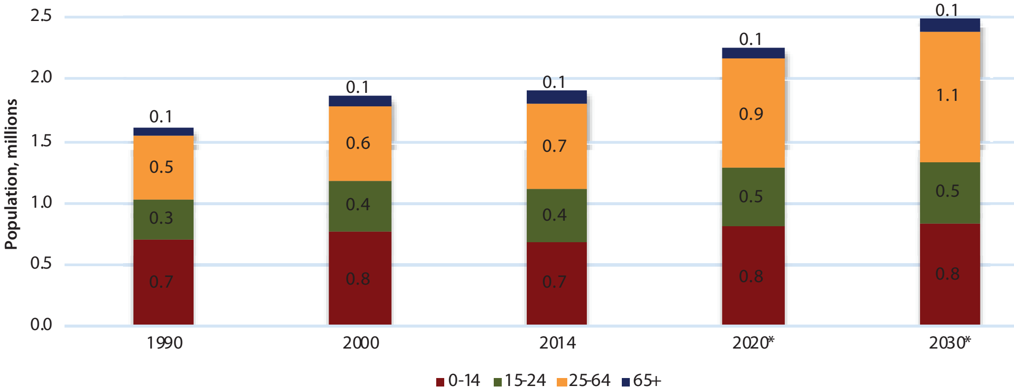
Social developments

4.1 Demography

According to the latest national data (2014), the country's population was 1.92 million, with little change registered since 2000 (figure 8). Basotho women constitute a higher proportion of the population aged 25 to over 65 and men among those aged 0–24. The annual population growth rates are particularly low because of increased migration of the working age population and a heavy (yet decreasing) HIV/AIDS burden (Ministry of Development Planning, 2012). In 2014, the rate was only 0.4 per cent, and the population grew by merely 2.7 per cent between 2000 and 2014 and by 19.6 per cent since 1990 (Bureau of Statistics, 2015c). Investments in health care are expected to bear fruit in the medium and long term and the population is projected to increase to 2.26 million in 2020 and to 2.49 million in 2030. This will accelerate the growth rate to an average 1.6 per cent annually from 2014 to 2030 (United Nations, 2015b). The rate of urbanization is also low and relatively stagnant, with 26.6 per cent of people living in urban areas in 2014 compared to 20 per cent in 2000 (Bureau of Statistics, 2015c).

Lesotho has a relatively young society, since close to 60 per cent of the population is under the age of 24, whereas just 5 per cent is over the age of 65. This age distribution translates into a high dependency ratio, fluctuating between 65.7 and 72 per cent between the years 2000 and 2014 (Bureau of Statistics, 2015c). Because the percentage of the

Figure 8. Population by age group, Lesotho, 1990–2030, millions



Source: Lesotho Bureau of Statistics, for 1990–2014, United Nations Population Division, for 2020–2030.
Note: * indicates projections

working age population is rising, however, and thus the proportion of children below 14 years of age declining, the ratio should fall below 50 per cent by 2030. If the labour market were to absorb the growing young labour force through targeted programmes fostering such areas as small entrepreneurship , the country could reap the benefits pertaining to its demographic landscape.

4.2 Poverty and employment

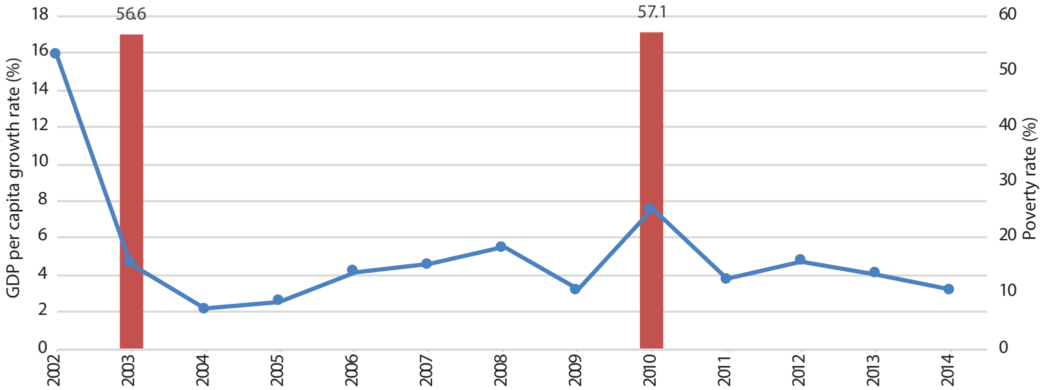
Poverty remains a very persistent phenomenon in Lesotho. The growth rate experienced over the last few years has been too sluggish to remedy the poverty situation. As per the national strategic development plan for the period 2012–2013 to 2016–2017, the minimum GDP growth rate needed to ensure sustainable poverty reduction should be at least 5 per cent per year, assuming the population remains stable.[7] Figure 9 demonstrates that the poverty level has been relatively unchanged since 2003 (poverty rate of 60 per cent), whereas the GDP per capita growth rate has overall been moderate and insufficient (below 5 per cent since 2011). Furthermore, the share of the population living below the national poverty line increased from 49.2 per cent in 1993 to 57.1 per cent in 2010, with rural areas affected the most (61.2 per cent of the rural population, in comparison with 39.6 per cent of the urban population in 2010). The 2010 Gini coefficient of 0.538 recorded little change from its 1993 level of 57.9, also suggesting persistent and large inequalities among the population (Bureau of Statistics, 2013 and 2015c).

Recently, the plight of the rural poor was exacerbated by the detrimental effects of the El Niño-induced drought and its repercussions, which resulted in a food security crisis in the country. More than 709,000 people in rural areas remained in a food-insecure state, representing 46 per cent of the rural population and over one third of the total population of the country. Of all food insecure individuals, nearly 70 per cent of them were in immediate need of help, which compelled Lesotho to request humanitarian relief assistance from international partners in 2016 (Lesotho Vulnerability Assessment Committee, 2016).

In 2014, the labour market structure consisted of 59 per cent of employed men in contrast to 38 per cent of employed women. At the same time, women were twice as likely to be employed if they had more than secondary school education in comparison to no or incomplete primary education. By contrast, there was no apparent correlation between education levels and the employment of men, a phenomenon influenced by the patriarchal nature of the Basotho society. The International Labour Organization (ILO) projects that the labour force participation rate in 2017 will be 67 per cent in total for all the population above the age of 15, although the employment result is still higher for men than for women (Ministry of Health, 2016; ILO, 2017).

7 An average annual population growth of 2 per cent would require a minimum of 7 per cent annual GDP growth to fight poverty (Ministry of Development Planning, 2012).

Figure 9. Poverty and economic growth per capita, Lesotho, 2002–2014*, percentage



Source: Lesotho Bureau of Statistics.

* Latest available data

In 2011, the largest proportion of the employed, namely 40.6 per cent (29.5 and 58.8 per cent for men and women respectively) make a living from services, while 38.4 per cent of the Basotho population are engaged in the agriculture sector (51.5 per cent of men and 16.3 per cent women) as subsistence farmers and 21.2 per cent of the population are employed on the commercial side (19 per cent of men and 24.8 per cent of women) (Bureau of Statistics, 2013). In turn, the total unemployment rate estimated by the national source was 25.3 per cent in 2008, distributed almost equally between men and women. The 2016 ILO estimates on the other hand show a 2 percentage point increase in the total unemployment rate to 27.4 per cent, including a growing divide between unemployed men (23.8 per cent) and women (31.9 per cent). Among young people (aged 15–24), however, the rate in 2008 was significantly higher, 32 per cent for men and 40.7 per cent for women (Bureau of Statistics, 2008). A more recent analysis demonstrated that registered unemployment is mostly an urban problem, strongly affecting young university graduates (Bureau of Statistics, 2014b).

4.3 Health

Although efforts to reduce the child mortality rate have been remarkable since 2009, bringing mortality to its lowest level since 1994 (figure 10), one in every twelve Basotho children still dies before their fifth birthday. In 2014,[8] the neonatal mortality rate was 34 per 1,000 live births, the infant mortality rate dropped to 59, whereas the under 5 mortality rate declined to 85.[9] In addition, 33 per cent of Basotho children are stunted,[10] 3 per cent are wasting, while 10 per cent are underweight. There is a large variation among child mortality rates and child nutritional status by regions, which are all lower in urban areas. Furthermore, boys are more

8 2014 is the latest available data.

9 All child mortality rates are per 1,000 live births.

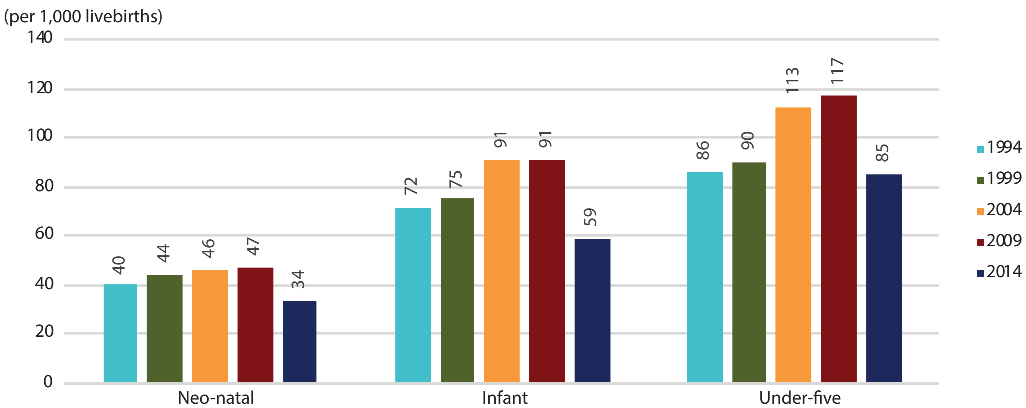
10 Children are stunted if they experience impaired growth and their height-for-age is more than two standard deviations below the WHO child growth standards median, due to poor nutrition, repeated infection, and inadequate psychosocial stimulation. While stunted is regarded as chronic malnutrition, wasting refers to acute malnutrition because it is believed that the period of wastage is short.

likely either to die or to be subject to malnutrition in childhood than girls. The higher mortality rate for boys observed in Lesotho is consistent with the mortality rate observed in most parts of the world. Researchers have found that child mortality is affected by mother and child characteristics, and also by circumstances at birth (Ministry of Health, 2016).

At the same time, the maternal mortality rate reached 1,024 (per 100,000 live births) in 2014, slightly down from the 2009 level of 1,155, but much higher than the levels observed in 2004 (762 per 100,000). On a positive note, the share of women who received antenatal care has risen from 90 per cent in 2004 to 95 per cent in 2014. This improvement can be attributed to the priority that the Government of Lesotho has attached to maternal and newborn health, as detailed in the health sector strategic plan of 2013 and the national strategic development plan of 2012, specifically through the provision of maternal health education to communities. Only 74 per cent of pregnant women, however, had at least four medical checks as recommended by the World Health Organization (WHO) and urban women are more likely to be attended to by skilled personnel in contrast to rural mothers (Ministry of Health, 2016).

Lesotho continues to struggle with the HIV/AIDS pandemic and the country's insufficient health infrastructure continues to have a negative impact on efforts to improve the health status of the population. In 2014 (latest available data), 25 per cent of Basotho adults aged 15–49 were infected with the virus, up from 23 per cent in 2009, with a disproportionately higher prevalence among women of all age groups. As illustrated in figure 11, in 2014, the rate reached its record high of 30 per cent for the adult female population, whereas it was 19 per cent for the adult male population, both figures up from 26.7 per cent and 18 per cent, respectively, in 2009. The prevalence rate decreased to 13 per cent for women aged 15–24 versus 6 per cent of men in that age cohort, yet there has been no improvement and the rate has actually increased for men since 2009.

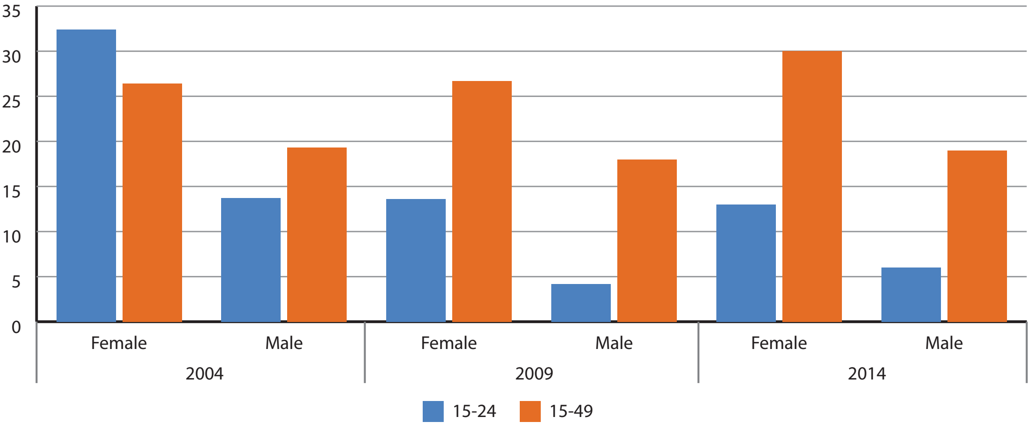
Figure 10. **Neonatal, infant and under-5 mortality rates, Lesotho, 1994–2014*, per 1,000 live births**



Source: Ministry of Health (2016); Ministry of Health and Social Welfare (2005).

* Latest available data

Figure 11. HIV prevalence rates by sex and age group, Lesotho, 2004–2014*, percentage



Source: Ministry of Health (2016); Ministry of Health (2010); Ministry of Health and Social Welfare (2005).
* Latest available data

At the same time, the HIV incidence rate measured in 2014 was 1.9 new infections per 100 persons exposed, and was lower among women than men (Bureau of Statistics, 2015c; Ministry of Health, 2016). Despite various HIV prevention initiatives, ranging from prevention of mother-to-child transmission programmes, voluntary medical male circumcision to condom distribution, the Government's response to the epidemic still falls short of the needs. In June 2016, Lesotho became the first African country to implement a "Test and Treat" strategy, in other words offering antiretroviral therapy to each person who tested HIV positive regardless of their CD4 count.

In the last proposed budget for 2017–2018, however, the public spending allocation to the health sector measures only 11.5 per cent, which is below the Abuja Treaty target of 15 per cent (Ministry of Finance, 2016). The life expectancy reported in 2014 was barely 44 years, owing to the high but decreasing HIV/AIDS prevalence. Elevated food insecurity levels have also negatively affected life expectancy, which have significantly raised the mortality rate in Lesotho. Men live on average for 42.5 years and women for 45.6 years. Life expectancy has been deteriorating since 1990, when mean life expectancy was 59.3 years (58 years for men and 60.8 years for women), falling to 47.2 years (46.7 years for men and 47.6 years for women) in 2000 (Ministry of Development Planning, 2012; Bureau of Statistics, 2015d). Owing to its high HIV/AIDS rate as already highlighted, Lesotho is therefore not able to enjoy one of the fruits of high literacy rates (highlighted below), namely, rising life expectancy.

4.4 Education

By comparison with other African countries, Lesotho ranks very high in literacy levels owing to the Government's commitment to universal literacy through the implementation of free and compulsory primary school education, which has improved its enrolment (above 80 per cent) and completion (87.5 per cent) rates. The Government's commitment includes the improvement of access to secondary and high school education (Ministry of Health, 2016).

Notably, the literacy rate for the population aged 15–49 was 87.4 per cent in 2011 (Bureau of Statistics, 2013), while, at the same time, Basotho women as a group scored a literacy rate of 85 per cent in 2014 (Ministry of Health, 2016). In 2015, for young people aged 15–24, the literacy rate was 76.9 per cent for men and 93.4 per cent for women, culminating in an average literacy rate of 85.1 per cent for the population as a whole (United Nations Educational, Scientific and Cultural Organization Institute for Statistics, 2015[11]).

In addition, the predominance of girls is visible in the school enrolment rates (figure 12). The overall net enrolment rate was 76.6 per cent in primary school education and 37.7 per cent in secondary school education in 2014, whereas gross enrolment rates were 102.3 and 64.5 per cent, respectively. Since the practice of keeping boys out of school to herd livestock is still prevalent among the Basotho, girls constitute a higher share of participants in the education system. In 2014, the gender parity index stood at 1.04 for primary school education, 1.6 at the secondary level and 1.42 for tertiary education (Bureau of Statistics, 2015d). Access to free primary education, school meals and bursaries for orphans and vulnerable children has reduced the dropout rate at the primary level, which fell to 3.2 per cent in 2013 (Bureau of Statistics, 2015d). Dropping out is widespread at the secondary school level, however. In 2014, 60 per cent of women and 47 per cent of men aged 15–49 reported having attended some form of secondary school, but only 19 per cent of females and 16 per cent of males have completed that level (Ministry of Health, 2016). Girls are more likely to quit school in urban areas, whereas boys are more likely to quit in rural areas (Bureau of Statistics, 2013).

High public spending on the education sector, measuring 17.2 per cent in the proposed 2017–2018 budget (Ministry of Finance, 2017) is also reflected in the enhanced quality of

Figure 12. Gross enrolment rate in primary and secondary education by sex, Lesotho, 2002–2014*, percentage

Source: Lesotho Bureau of Statistics (2015d).

* Latest available data

11 National data not available.

schooling. The pupil-teacher ratio has improved over the years, reaching ratios of 33:1 and 24:1 for primary and secondary school respectively in 2014, down from ratios of 42:1 and 26:1in 2005. At the same time, in primary schools, the pupil-classroom ratio dropped from 65:1 in 2003 to 47:1 a decade later (2013). Regarding the number of pupils per qualified teachers, there were 45 pupils per qualified teacher in 2013 in contrast to 69 in 2003. It is important to note that the geographical distribution of teachers is very unequal, with remote rural areas at a particular disadvantage (Bureau of Statistics, 2015d).

Advanced education attainment is quite rare in Lesotho. Only 9 per cent of the female population and 8 per cent of the male population have more than secondary education (Bureau of Statistics, 2015d). Higher education tends to be the preserve of students from wealthier families (Ministry of Health, 2016). Added to which, the country's student bursary scheme, which since 1978 has been managed by the National Manpower Development Council and Secretariat, is static in design. A major criticism is that the loan perpetuates inequality since most bursary recipients are from wealthy families that are able to pay fees. Furthermore, the subsidies are so high that they exclude private sector participation in bursary provision. As a result, the number of students funded is limited to taxpayer resources (Ministry of Finance 2017).

4.5 Gender equality and women's empowerment

The status of gender equality and women's empowerment is measured by the key areas (such as employment, education, business, women in politics, health and access to credit and land) indicated in the circular chart below. These categories are important for the improvement of women's lives and their contribution to sustainable and inclusive growth in Africa.

To determine the actual extent of gender inequality and to achieve the goal of measuring gender equality and women's empowerment in Africa, the Economic Commission for Africa (ECA 2016) has developed a monitoring tool, the African Gender Development Index. The Index allows policymakers to assess their own performance in implementing policies and programmes geared towards ending women's marginalisation.

The calculation for the scoring is based on gender status index data. The gender status index is one of the components of the African Gender Development Index. For each key indicator, the score is calculated by taking the female-to-male ratio of the indicator values, multiplying it by 10 and rounding the result off to the nearest whole number. A score of zero represents the highest level of inequality, 5 shows middle parity level while 10 represents perfect parity. Parity levels exceeding 10 represent situations where women have outperformed men, irrespective of the level of development of the area being assessed.

Most of the data used to calculate the scores were drawn from the latest nationally available data sources, mainly the 2014 Demographic and Health Survey. For a few indicators, however, where countries have no disaggregated data, international data are used. These sources include the ILO statistical database, the World Bank's Global Findex, the State of the World Children's Report for 2017 by the United Nations Children's Fund (UNICEF), the UNICEF and WHO 2015 report on progress on sanitation and drinking water and the 2017 update of the United Nations World Population Prospects.

Box 3: Gender equality and women's empowerment – Lesotho

In Lesotho, gender equality is evident for the under 5 survival rate (classified under the health category) and access to land. Women are at an advantage relative to men regarding under-5s who are not stunted, life expectancy at birth, youth literacy rate and net enrolment in secondary education. There is significant gender disparity in favour of men concerning political representation, with 27 women holding seats in parliament compared to 91 men. Furthermore, of the 36 members of cabinet, only 5 women are ministers and 3 are deputy ministers (Government of Lesotho, 2018). These figures do not meet the targets set out in article 12(1) of the SADC Protocol on Gender and Development, which stipulates that, by 2015, at least 50 per cent of decision-making positions in the public and private sectors are to be held by women (SADC, 2008). According to the World Bank's Global Financial Inclusion database (Global Findex)* the country's gender parity score for access to credit and labour force participation is 8 (World Bank, 2014).

According to the demographic and health survey of 2014, the maternal mortality ratio was 1,024 per 100,000 live births. Access to a drinking water source is estimated at 95 per cent and 77 per cent for urban and rural areas respectively. Access to improved sanitation is estimated at 37 per cent for urban areas and at 28 per cent for rural areas.

Employment : 8

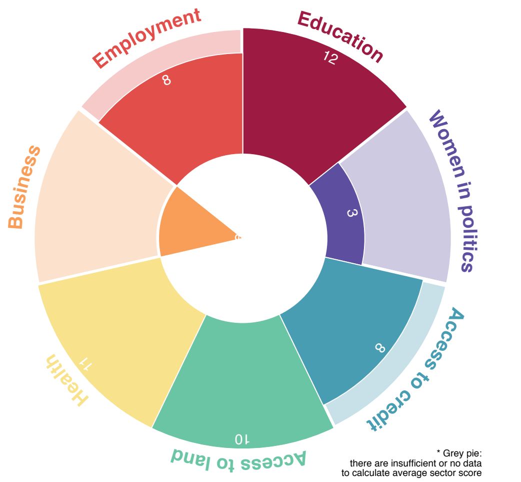
Employment in nonagricultural sector	No data
Labour force participation rate	8

Business :

Top management in firms	No data
Ownership in firms	No data

Health : 11

Under-five survival rate	10
Children under age five who are not stunted	12
Life expectancy at birth	11
Share of population without HIV	9



Education : 12

- Youth literacy rate
- Enrolment ratio in secondary education
- Enrolment ratio in tertiary education

Women in politics : 3

- Representation in parliament
- Ministerial positions-cabine

Access to credit : 8

- Account at a financial institution
- Borrowed from a financial institution

Access to land : 10

- Access to land

Stand-alone indicators

Access to drinking water source within 15 minutes (urban)	95	Improved sanitation (urban)	37	Maternal mortality ratio
Access to drinking water source within 15 minutes (rural)	77	Improved sanitation (rural)	28	

Source : African Union Commission and ECA, 2015.

* Global Findex, available from http://www.worldbank.org/en/programs/globalfindex.

5

Major policy challenges: textile and garment industry

In view of the persistent gender inequality and need for the empowerment of women, the manufacturing sector has long been identified as a tool for economic growth and obtaining the revenues necessary for poverty alleviation, social development and, by corollary, the empowerment of women. This includes sustainable economic and social transformation as emphasized in the national strategic development plan, along with structural transformation of the economy, since the sector possesses important economic spinoffs that are beneficial to the rest of the economy. This is because the sector has served as an engine for economic performance in Lesotho and it still accounts for over 40 per cent of the country's exports, including the provision of employment to the most vulnerable groups of workers (Ministry of Trade and Industry, 2017).

Accordingly, the Lesotho textile and apparel sector has been at the forefront of the industrialization of the country's economy since the early 2000s. With the introduction of AGOA, the immediate growth in both industries boosted the country's manufacturing industry. The growth rate of the sector leapt from 17.7 per cent in 2000 to 29.7 per cent in 2002 and the textiles industry alone contributed 83 per cent of total exports in the same year. Furthermore, the textile, garment and apparel industry has surpassed the Government as the biggest formal employer, in particular of female workers (Ministry of Trade and Industry, 2016). In 2003, employment in the sector reached its peak at 54,000; in 2012, the sector employed up to 43,000 workers, mainly women, and the latest data show that employment has exceeded 45,300 (Ministry of Development Planning, 2012; Ministry of Trade and Industry, 2017). There is no doubt that the economic performance of Lesotho is attributed to the light manufacturing industry, export growth and diversification, in addition to employment creation.

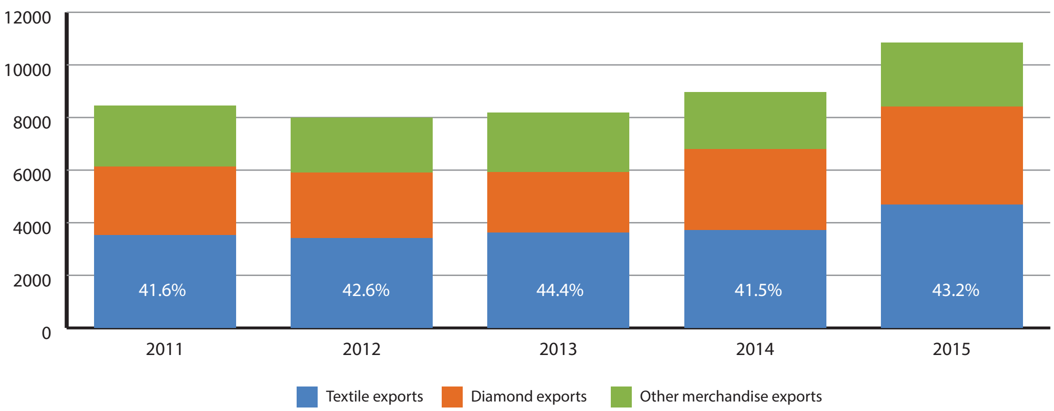
The sector's contribution to the economy goes far beyond the industry itself. This is because there are vital employment and economic spinoffs. A number of other formal and informal activities support the sector, ranging from small packaging, courier and road freight services, clearing agents, passenger transport, vending services, to residential accommodation, water, electricity and other utilities. The wages earned by the sector workers have crucial spillovers to the rest of the economy, which often assure subsistence of the entire family. Since April 2016, Lesotho introduced a monthly minimum wage for skilled garment workers, of approximately $94 dollars per month, and for unskilled of about $86 dollars per month, along with measures to enforce the ILO core conventions, covering such matters as the prohibition of child or forced labour, non-discrimination and freedom of association. These measures have attracted support from international donors for the country's development programmes, such as the multi-faceted Better Work Lesotho (Ministry of Trade and Industry, 2017).

Nonetheless, although textiles still account for over 40 per cent of the country's exports (figure 13), including the industry's frequent provision of employment to the most vulnerable groups of workers, the initial success story has proved to have numerous shortcomings (Ministry of Trade and Industry, 2017). Vulnerability to external shocks, no backward linkages within the sector, little diversification, limited upstream manufacturing activities and low competitiveness are the most deficiencies frequently cited by the critics of industry benefits for the economy. Similarly, those focusing on the social ramifications argue that the very low sector wages and long working hours only trap the workers and their families in a circle of poverty.

Unquestionably, there is tremendous potential for the development of the sector and for its conversion into an engine of the structural transformation of the Lesotho economy. This will however require an unprecedented effort from the Government that ventures beyond exclusive reliance on the preferential AGOA treatment and enables it to confront the challenges that are currently impeding development of the industry.

The unparalleled jump in the growth of the manufacturing industry at the beginning of the 2000s soon started to exhibit signs of extreme volatility. The anchor textile and garment industries are highly vulnerable to fluctuations of external markets, in particular the United States, since it is the main export destination for the garments from Lesotho. Of the total amount of textiles produced and destined for exports, 98 per cent is destined for the United

Figure 13: Textile exports versus total merchandise exports, Lesotho, 2011–2015*, millions of maloti



Source: Central Bank of Lesotho

* Latest available data

States market. Lesotho is the number one exporter to the United States under AGOA and the estimated total value of AGOA United States imports from Lesotho amounted to over $295 million in 2016 (South African Institute of International Affairs, 2012; AGOA, 2017). Furthermore, uncertainties surrounding the possible extension of AGOA preferences in 2015 resulted in a drastic shrinking of the sector by 10.2 per cent in 2014. This demonstrated that one of the main objectives of AGOA, namely, creating a sustainable apparel industry extending beyond the preferential period had proved unrealistic (Bureau of Statistics, 2016a).

The AGOA preferences did not attract as much foreign direct investment as had been expected, in particular from United States companies. The Asian firms that set up in the market often lack any regional strategy and do not invest in local capacity-building, while South African companies profit from the lower labour costs to boost supply to their domestic market. Despite its tremendous potential, the sector still relies heavily on imported inputs and is mainly limited to what is known as "cut, make and trim" manufacturing, with very little backward integration or higher value-added activities. Input sourcing, product development and design, merchandising and marketing and logistics are all conducted externally, leading to a very shallow supply chain locally.

The most telling illustration of the untapped potential of the apparel industry in Lesotho is the lack of backward linkages within the sector. Formosa Textiles, headquartered in the Chinese Province of Taiwan, is the only vertically integrated textile mill in the market, specializing in the manufacturing of denim fabrics. At the same time, as may be seen in table 3, the knit garment industry is the largest component of the apparel industry of Lesotho, with 33 firms employing over 24,500 employees. Over 115 million knitted garments are produced on an annual basis, and it is estimated that between 22,000 and 26,000 metric tons of knitted fabric are consumed each year (Ministry of Trade and Industry, 2017; Lesotho National Development Corporation, 2017). Despite this, not one single knit mill has been established in the country to support the upstream activities of the garment industry, nor are there firms focusing on higher value added knitted garments. Business opportunities are also abundant

Table 3: Lesotho textile and garment value chain producers – firms, jobs and production volumes, 2017

	Firms	Jobs	Approximate units of garments produced per annum
Textile	1	1 220	Yarn – 18,000t, Fabric – 15.6m
Denim (woven bottoms)	9	13 124	23 304 000
Non-denim woven fashion	4	1 580	6 360 000
Industrial workwear	6	4 696	11 003 800
Knit garments	33	24 513	115 143 600
Supporting industries	11	218	-
Total	64	45 351	155,811,400 (typical clothing units)

Source: Ministry of Trade and Industry (2017).

in the associated light manufacturing area, such as for the production of garment accessories (zippers, buttons, etc.) or packaging materials. Currently, however, all finishing accessories and most packaging materials are imported.

Another limitation to reaping full benefits of the textile and garment industry is the low competitiveness of Lesotho at a global level. The fierce competition from the Asian countries in the United States market derives primarily from their cheap labour costs and favourable exchange rates. What is more, the low labour productivity and limited skills in the Lesotho apparel industry do not augur well for the future sustainability of the sector, discouraging potential investments. With nearly all high-skilled activities being outsourced or conducted at their headquarters, the existing firms have little incentive to invest in local upskilling, thus perpetuating the low productivity-low investment cycle. The recent Trans-Pacific Partnership Agreement, which grants concessions to the Pacific Rim countries similar to those granted to Africa under AGOA, further erodes the competitiveness of Lesotho and renders ever more urgent the need to seek comparative advantage, if the apparel sector is to continue driving the Lesotho economy after AGOA ends its current 10-year period in 2025.

In addition, the landlocked status of Lesotho is another trade barrier undermining its competitiveness. Some of the major obstacles faced by exporters of Lesotho textile and garment products include inflated transportation costs due to the need to transit through South Africa to the ports of Durban, Port Elizabeth and Cape Town, infrastructure difficulties, time delays at borders, bureaucratic burdens, visa difficulties and corrupt practices. To avoid the closing down of factories, cost savings need to be enhanced to improve the profit margins. Only by increasing efficiency in its exporting processes can Lesotho remain an attractive and viable destination for the investors in the apparel industry.

Last but not least, equal importance must be attached to social aspects of the sector. Structural transformation cannot be achieved if the benefits of the industry do not contribute to poverty alleviation. The economic profits generated by the sector must be harnessed to generate an inclusive growth path for the Basotho people to improve their livelihoods. The introduction of a minimum wage in April 2016 was aimed at providing the basic minimum for textile and garment workers, yet the continuing low wage levels are still pushing many female workers to look for alternative means to provide for their often large families. Most garment workers are young women who migrate from rural zones to the Maseru and Leribe districts, the main garment factory areas. According to the 2014 demographic and health survey, those zones have the highest HIV prevalence rates, at 28 and 25 per cent, respectively (Ministry of Health, 2016). Interestingly, studies have shown that a large proportion of sex workers in those areas were originally garment workers (International Organization for Migration, 2006). With low pay and long working hours, women have little or no access to healthcare, including sexual and reproductive health. This has inevitably contributed to the spread of HIV/AIDS.

Policy implications

There is no doubt that the initial introduction of AGOA has afforded Lesotho an opportunity to set up a strong and vibrant manufacturing sector anchored on the textile and garment industry. Although given the form in which the economy has developed until now, Lesotho has not managed to establish a sustainable sector capable of leading a long-term, structural transformation process. The decision to extend the AGOA preferences up to 2025 thus creates an opportunity to revisit lessons learned so far and to formulate strategies that will protect and reinforce the industry, in particular in view of its labour-intensive nature. The policy focus areas relating to the textile and garment industry that could be further explored include the following:

- **Diminishing exposure to external shocks by diversifying the export base and destinations:**
  The country's high export concentration is destabilizing to the trade account in the wake of the global crises and declining external demand. An effort to support and enhance other exports, beyond textiles, garments and diamonds, could serve as a stabilizing factor, while fostering more intra-African exports, such as through preferential regional agreements beyond SACU, could counteract the fluctuations in the United States market.

- **Diversification of the light manufacturing sector, including activities within the textile and garment industry:**
  The activities in the sector have a limited scope, although there are vast opportunities that are currently largely untapped. These include expanding the upstream activities within the apparel industry (such as by establishing knit mills), and developing activities to increase value addition, such as the production of high-end apparel and building and expanding light manufacturing in other related areas, such as garment accessories, shoe manufacturing, leather goods, car-seat covers, automotive components and packaging materials. To that end, the Government should introduce business facilitation measures, such as shortening and easing the current company registration procedures and improving export efficiency, in order to attract investment.

- **Defining and reinforcing the comparative advantage of Lesotho in the textile and garment sector:**
  The country should focus on using its preferential access to the United States market in order to build its own comparative advantage. This can serve as a platform to attract direct investment from the United States and to upgrade to higher segments of the value chain. Access to new technologies could be fostered, such as through tax breaks, to modernize the sector and increase its productivity.

- **Justify the country's higher labour costs in comparison to those of its Asian competitors through social responsibility and raising labour productivity:**
  The commendation earned by Lesotho through its respect for basic labour laws has already attracted a number of multi-donor support programmes. Attracting firms committed to social responsibility could thus be a niche which the country should exploit. Investment in upgrading the skills of its employees could serve as an additional incentive for those investors. Setting up various training programmes could be the main focus area.

- **Providing access to quality healthcare and education and assuring affordable housing around the textile and garment factory zones:**
  To minimize the risk of spreading HIV/AIDS among the factory workers, various targeted direct and indirect actions should be mounted. First, the organization of HIV/AIDS awareness-raising sessions should be a requirement within the sector, as female migrants from rural areas are often the most vulnerable group partly because of their lack of such awareness. Second, HIV testing and counselling should be free and easily accessible within the workplace. Finally, assuring children's education costs and affordable housing, for example by providing subsidies in the respective areas, could work as a deterrent to seeking alternative sources of income.

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