

LESOTHO COUNTRY PROFILE

LAWS, POLICY, AND REGULATIONS AFFECTING
THE WATER-ENERGY-FOOD NEXUS



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1 SUMMARY

- Lesotho is a small, mountainous, and landlocked country, surrounded by its much larger neighbor, South Africa. It has a land area of 30,355 square kilometers, a population of 2.2 million, and nominal GDP per capita of 1,091 USD in 2021.¹
- Lesotho's economy is closely linked to South Africa's, with imports from South Africa (primarily food) accounting for 80 % of total imports. The decrease in South African imports contributes to food shortages in Lesotho, fueling inflationary pressures. Inflation was expected to fall only slightly, to 5.0 % in 2020 from 5.2 % in 2019. The fiscal deficit is expected to rise to 10.2 % of GDP in 2020, up from 5.6 % in 2019, owing largely to a 25 % increase in government spending, primarily on the wage bill and government spending on health care to combat COVID-19.²
- Textile manufacturing, agriculture, diamond mining, remittances from Basotho's working in South Africa, and regional customs revenue form a large part of Lesotho's economic base.
- Agriculture is a relatively small part of Lesotho's economy, contributing an average of 6 % to the national GDP over the period 2012–2016.
- Lesotho's agricultural production pathway focuses on animal grazing and expansion of agricultural cropland to keep pace with food demand for the population. The pathway is characterized by agricultural support for a monoculture cropping system dominated by maize. The World Bank states that this pathway is unsustainable and depletes the land resources on which production relies on over time.
- The abundance of water, coupled with Lesotho's high altitude and geographic proximity to major demand centers in southern Africa, makes water one of the country's most valuable renewable and sustainable natural assets. A large dam and tunnel infrastructure project (The Lesotho Highlands Project – LHWP) supplies water to South Africa and provides revenue and hydropower to Lesotho.³
- Lesotho is already experiencing the negative effects of climate changes, including increased frequency of droughts, increased rates of soil erosion and desertification, and reduced soil fertility. Climate projections highlight that Lesotho will continue to experience rainfall variability and increasing temperatures. These changes have significant implications for agriculture, poverty, and vulnerability as agriculture accounts for 70 % of the population, most of whom live in rural areas.⁴
- The energy sector in Lesotho is characterized by a low level of energy consumed from commercial sources (electricity, petroleum, coal, and gas) with a high level of consumption of energy from biomass sources. Like most countries in sub-Saharan Africa, Lesotho's fuel share of total final consumption is dominated by biofuels and waste at 57 % followed by oil, 26 %, electricity at 7 % and coal at 7 %.⁵

1.1 Current Political and Socio-economic Conditions

- Lesotho is a constitutional monarchy, ruled by a King as the Head of State. In recent years, the army's involvement in the country's already fragile politics has resulted in political instability and a security crisis. Corruption remains a challenge in Lesotho. Three

elections were held during the period 2012-2017, resulting in the establishment of coalition governments. These elections cost the Government more than USD 70 million in an already limited fiscal space.⁶

- The Kingdom of Lesotho has a long history of political instability and security concerns. Instances of instability and insecurity constrain the performance of state institutions and their ability to deliver public services. Political parties regularly splinter and consequently governments rarely complete five-year terms.⁷
- Between 2019 and 2021, Lesotho underwent national reforms aimed at strengthening institutions, ensuring the separation of powers, promoting meritocracy in the appointment of public officials, and enhancing transparency and accountability within public service.⁸
- The government established the multi-stakeholder National Reforms Authority (NRA) to implement reforms of the security services, parliament, judiciary, media, civil service, constitution, and economy.
- Socio-economic factors such as poverty, unemployment, lack of job opportunities in rural areas, and high food insecurity caused by recurrent droughts fuel irregular migration from Lesotho to South Africa.⁹
- Lesotho is positioned at 165 out of 189 countries on the United Nations Development Program Human Development Index, with a score of 0.527.
- The majority of poor people (80.4 %) live in rural areas and are predominantly engaged in subsistence agriculture, which employs approximately 38 % of the labor force.¹⁰
- Lesotho's fragile political landscape interferes with the need for long-term integrated planning across ministries.¹¹ Political instability is attributed to Lesotho's unhealthy parliamentary rules that encourage the formation of factions and a small and moribund economy that makes holding political office one of the most profitable positions in the country. An additional factor is the country's culture of combative politics and South Africa's interventions to attain political order.¹²

1.2 Priorities and Resources for Innovators in the Water-Energy-Food (WEF) Nexus

- The Government of Lesotho has mainstreamed regional and international commitments, including the Sustainable Development Goals, into national priorities, defined through the National Strategic Development Plan (NSDP II) 2018/19-2022/23.
- The NSDP II aims to transform Lesotho from a consumer-based economy to a producer and export-driven economy. It emphasizes private sector development and gives priority to pursuing people-centered development.¹³
- Sustainable commercial agriculture and food security is highlighted as a key priority area.
- Political instability is identified as a key hindrance to the successful implementation of the first NSDP.

- In the medium-term, construction-related projects are expected to boost economic growth. Some of these include the second phase of the Lesotho Highlands Water Project (LHWP II), the Lesotho Lowlands Water Development Projects (LLWDP -I and-II), government roads construction projects, and the Maseru district hospital construction.
- The water and electricity subsectors are expected to be boosted by green energy projects, while the tertiary sector is expected to recover to near pre-pandemic levels in the medium-term as less restrictions are imposed and more travel is permitted, adding impetus to the growth momentum.
- Lesotho recognizes that inclusive and quality education and training is a critical enabler for achieving sustainable development in the country.
- The Government has established the Economic Labs project to mobilize private sector investment and participation in creating employment and economic growth in context of the NSDP II. It sets out the jobs and growth strategy anchored in the four productive sectors; agriculture; manufacturing; tourism and creative industries; and technology and innovation.
- The Kingdom of Lesotho is committed to good governance, the pursuit of peaceful and inclusive societies and access to justice for all while building effective, accountable, and inclusive institutions at all levels.
- In recognition of its low electrification rate, reliance on imported fuels, and dwindling forest reserves, Lesotho is keen to develop on- and off-grid renewable energy solutions.¹⁴

2 MACRO-ECONOMIC ENVIRONMENT

- Lesotho's economy is heavily export driven, with the key economic sectors being manufacturing, mining, agriculture, and services. Major export products include textiles, diamonds, water, electricity, wool, and mohair.
- Lesotho faces multiple and overlapping structural and economic challenges, which may compromise the attainment of the SDGs and economic growth targets. Persistent income inequality, high unemployment and poverty levels, macroeconomic instability and political uncertainty all threaten Lesotho's sustainable economic development.¹⁵
- Majority of households gain their livelihoods from subsistence farming and migrant labor in South Africa.
- Additional economic drivers in Lesotho include food, beverages, textiles, handicrafts, construction, and tourism.
- The economy was projected to grow by 4.1 % in 2021 and 4.4 % in 2022, owing to mining and construction associated with the second phase of Lesotho Highlands Water Project. Inflation was projected to decline further to 4.9 % in 2021 and 4.8 % in 2022, owing to subdued demand arising from the second wave of the pandemic in neighboring South Africa, the main trading partner.¹⁶

- The Kingdom of Lesotho ratified the African Continental Free Trade Area (AfCFTA) in November 2020. The AfCFTA provides an opportunity for Africa to create the world's largest free trade area, comprising 1.2 billion people and a US\$ 2.5 trillion market. This has allowed Lesotho the opportunity to increase its trade with the continent, and to trade more competitively, offering an opportunity to support real economic growth, the balance of payments, and employment.¹⁷
- Lesotho's main exports include clothing (40 %) and diamonds (22 %). The other exports include wool, water, and tobacco. The main export partners are the United States and South Africa. Other export partners include Belgium, Switzerland, and the United Arab Emirates.¹⁸

2.1 Gross Domestic Product (GDP)

- Agricultural activities account for 7 % of the country's GDP. However, the sector is characterized by extreme levels of underemployment and working poverty. The agricultural sector remains one of the lowest paying sectors, and is further characterized by informality, declining productivity, and gender inequality.¹⁹
- The decline in exports to both South Africa and the United States and reduced investments from China and South Africa, coupled with dwindling incomes and transfers, led to a deterioration in the current account deficit from 6.0 % of GDP in 2019 to 7.2 % in 2020. The widening current account deficit also reflected a 26.6 % decline in diamond exports and a 21.2 % decline in textile exports. It will be financed by a drawdown in foreign reserves. The banking sector remains stable with non-performing loans declining marginally from 3.2 % in 2019 before increasing to 4 % in the second quarter of 2020.²⁰
- Sustained political instability, coupled with slow economic growth in the South African economy, contribute to Lesotho's weak economic performance. Real GDP growth rate is estimated to have contracted by 1.2 %, 0.4 %, and 9.5 % in 2018, 2019 and 2020 respectively and is projected to average 3.0 % in 2022.
- Agriculture was the most dominant sector contributing 15.2 % to GDP in the 1980s. However, in recent years, the contribution is 5.2 %; it remains an important sector supporting the lives of more than 70 % of the total rural population.

2.2 Labor Force and Unemployment

- Lesotho continues to experience high rates of unemployment. In 2014/15, it was estimated that 67.2 % of the population in the labor force is employed, resulting in an unemployment rate of 32.8 % with 26.2 % male, 39.7 % female, and 32.3 % youth. This represents an increase from 28.4 %.
- From Lesotho's labor force, 49 % are employed in services, 42 % in industry and 9 % in agriculture. Micro, small and medium sized enterprises (MSMEs) dominate Lesotho's private sector and account for the majority of private sector employment.²¹
- Both female and youth unemployment are higher than the average; female unemployment stood at 27 % in 2019 and youth unemployment at 34 %. Although youth unemployment has declined from 37 % in 2010, it remains a persistent challenge. A general mismatch between skills and labor market demands, weak infrastructure, and a

limited investment environment have adversely affected employment opportunities, which in turn threatens the realization of poverty alleviation and decent work for all. ²²

- Smallholder agriculture continues to be the major labor absorbing sector in the economy with more than 40.6% of the economically active population aged between 15 years and above engaged in smallholder farming. ²³
- The third Decent Work Country Program (DWCP III) for Lesotho is a national planning framework which seeks to harness collective effort towards advancing the decent work agenda in the country and contribute towards improved standard of living for all. DWCP III is premised on three program priorities: (i) employment creation particularly for young women and men; (ii) access to social protection and; (iii) good governance of the labor market.
- The DWCP III highlights that women are migrating to seek domestic work opportunities and cross-border trade while men seek opportunities in construction industry. Moreover, seasonal agricultural workers are also migrating to seek temporary jobs particularly in the Western Cape and Free State provinces in South Africa. ²⁴
- The private sector is highly informal and there are many MSMEs. Over 50% of MSMEs operate in the agriculture and wholesale and retail sectors. There is limited innovation and value addition; 30% buy and sell goods in the same form. A lack of sophistication amongst MSMEs prevents them from being innovative and productive, from accessing formal financial services and therefore from investing in their business development. ²⁵

2.3 Doing Business in Lesotho

- Lesotho ranks 122nd in the Ease of Doing Business 2020 World Bank report with a score of 59.4.
- Out of 100, Lesotho scores 94 on *Obtaining Credit for Business*, which results in a score of 55 for *Starting a Business*, Lesotho ranks 84th with a topic scope of 88.2.
- For *Resolving Insolvency*, Lesotho had a rank of 26 with a score of 37.0.
- For the *Paying Taxes indicator*, Lesotho ranks 110th with a score of 68.9.
- The Government of Lesotho regards itself a relatively open economic and business environment based on its market principles and private ownership of property.
- The Government of Lesotho introduced new e-licensing and e-registration platforms aimed at reducing the time for business creation and licensing, these changes are part of Lesotho's 2012 Companies Act, which seeks to improve the country's corporate environment.
- The volatility experienced with the South African Rand (ZAR) directly affects the exchange rate in Lesotho.
- Barriers that companies face when exporting to Lesotho include prohibited or restricted imports based on their risks to security, health, and the economy. Prohibited imports include, weapons, drugs, and used clothes and shoes. The Agricultural Marketing Act Imposes

quality control restrictions on bread, legumes, sugar, eggs, meat, fruit, vegetables, and dairy products.



Figure 1: Ease of Doing Business in Lesotho (Source: World Bank, 2021)

3 COVID-19 MITIGATION MEASURES AND RESPONSE

- COVID-19 destabilized the Kingdom of Lesotho’s development agenda, reducing economic growth and destroying people’s livelihoods.
- The poverty levels are projected to remain higher than pre-COVID-19 levels, a reflection of slow labor market recovery caused by the COVID-19 lockdown measures that led to job and income losses with the effects concentrated in urban areas.²⁶
- Food prices have increased since COVID-19 lockdown measures were implemented and remain higher than the same period in 2019.
- During the COVID-19 lockdown, 87% of households were not able to access the market for meat, milk and eggs, 68% of households were not able to buy tubers and 39% of households were unable to buy grains. While Lesotho launched a timely national response to COVID-19, it continues to experience resurgences of infections which pose challenges to the health sector and the economy as a whole. Lesotho is affected by the evolution of the pandemic in South Africa.²⁷
- Although the human capital index increased from 0.34 in 2010 to 0.40 in 2020, Lesotho already fares below the average of lower middle-income countries and the situation has been exacerbated by the pandemic. In addition to the immediate impact of income losses, disruptions in essential health and education services are likely to reverse progress made in human capital accumulation and poverty alleviation.
- The Lesotho COVID-19 Socio-Economic Response Plan was developed under the leadership of the Resident Coordinator, with support from UNDP as technical lead, and in collaboration with the Lesotho UN Country Team (UNCT), including resident and non-resident agencies. To date, US\$ 9.4 million has been reprogrammed by the UN in Lesotho to support the Kingdom of Lesotho’s COVID-19 response and recovery. The response plan notes the need for US\$ 70 million for social and economic relief targeted

at expanding social protection schemes, offering tax relief to businesses, offering support to the agricultural sector, alongside improving access to finance to micro, small and medium-sized enterprises (MSMEs), through credit guarantee schemes.²⁸

4 TAXATION STRUCTURE

- Lesotho has a residence-based tax system, which states how residents are subject to tax on their worldwide income, whereas non-residents are subject to tax only on their Lesotho-sourced income.
- Resident companies and permanent establishment of foreign companies are subject to corporate tax at the rate of 25%. A concessional tax rate of 10% applies to income from manufacturing and commercial farming.
- The maximum tax rate for individuals is 35%. In July 2003, Lesotho replaced its sales tax with a value-added tax (VAT) system with a standard rate of 14%. Additional tax categories and definitions are explained in Table 1 (see Annex 3).

5 SMMES AND ENTREPRENEURSHIP

- The Government of Lesotho states that there are 76,067 SMMEs of which 18 % (13,680) are registered and active. The government reports that 45% of the SMMEs lack business sophistication and market driven strategies.
- Innovators, entrepreneurs, and small businesses often do not meet commercial bank requirements and have difficulties accessing credit. This is a challenge, as they are at the epicenter of Lesotho's National Development Plan for job creation. The SMMEs in Lesotho are estimated to have created more than 118,000 jobs, primarily for women under the age of 35.²⁹
- Market orientation, competitive intensity and technological dynamics influence the competitive growth of SMMEs in Lesotho.
- According to a 2016 Finscope survey of the SMMEs in Lesotho, 22% of SMMEs are currently active in agriculture; they have limited employment growth and remain small. The survey showed that the majority of SMME owners are women and that only 7% of all SMMEs contribute to exports.³⁰
- Informal businesses and SMMEs have limited access to formal financial services and government support services. Inadequate financial literacy and digital financial literacy among the population and government financial literacy support constrains of financial inclusion and private sector development amongst SMMEs.³¹
- There are a number of ministries and public agencies that play a role in promoting smallholder agricultural development and rural economic development in Lesotho. The most prominent of which are the Ministry of Agriculture and Food Security (MAFS) and the Ministry of Small Business Development, Cooperatives and Marketing which are currently the lead agencies for the International Fund for Agricultural Development (IFAD) supported projects, responsible for the development and implementation of policies and programs in the agricultural sector.

- In 2021, The Ministries of Finance and of Agriculture and Food Security signed a Memorandum of Understanding (MOU) with Lesotho Post Bank to finance the purchase of tractors for farmers while the Ministry of Finance as the guarantor opened an investment account with the Bank and deposited funds amounting to M50 million. The criteria used when selecting eligible farmers was set to include small-scale and large-scale farmers.
- In 2019, the International Fund for Agricultural Development (IFAD) signed the financing agreement for the Smallholder Agriculture Development Project (SADP II), a USD 62 million project ending in 2026. This project seeks to promote the cultivation of cash crops, such as fruits and vegetables, and aims to link farmers to markets where they can sell their products. Project participants are set to benefit from new technologies for land and water management including the modernization of irrigation infrastructure to reduce producers' dependence on rain-fed farming. Furthermore, the project will train participants in nutrition, food preparation and better hygiene.³² Additional enablers for SMME growth are listed in Annex 4.

6 POLICIES AND TRENDS IN THE WATER-ENERGY-FOOD NEXUS

6.1 Agricultural Context

- The current agricultural production pathway in Lesotho focuses on extensive animal grazing and expansion of agricultural cropland to keep pace with food demand for the population. The pathway is characterized by agricultural support for a monoculture cropping system dominated by maize.³³
- In 2020, agriculture contributed 7% to Lesotho's GDP, a significantly low contribution in comparison to 29.97% from industry and 52.39% from services.
- The main agricultural products include corn, wheat, pulses, sorghum, barley, and livestock.
- Between 2018 and 2019, food production decreased by 76% due to drought and farmers dependence on rain-fed agriculture. Erratic rainfall and above-average temperatures between December 2019 and March 2020 have further increased the likelihood of a reduced harvest in 2020.³⁴
- In 2018, arable land as a share of land area for Lesotho was 14.1%. Despite the country having abundant water resources, less than 1.2% of the arable land is irrigated.³⁵
- Food insecurity affects nearly 70% of the population in rural areas who depend on subsistence farming. Food insecurity is exacerbated by low productivity in agriculture and the absence of other economic opportunities. Poor agricultural productivity is a result of low adaptation of high-yielding technologies, poor adaptation to climate change, and land loss due to erosion.³⁶
- Lesotho's agricultural system faces a growing number of climate-related vulnerabilities with drought, floods, pests, and extreme temperatures occurring more frequently.

- Rural agricultural laborers typically depend on remittances to pay for their inputs and thus are highly vulnerable to the state of the economy. Low private sector investment in agriculture has translated into low use of irrigation schemes, limited uptake of new technologies, low access to credit, and low quality of extension and advisory services.³⁷
- Lesotho's Vulnerability Assessment Committee highlights that the agriculture sector is not able to meet the food demand of the population, implying that large shares must be imported, and threatening agricultural growth for zero hunger in Lesotho.
- The Government of Lesotho is committed to sustainable agricultural growth that will contribute towards food security and poverty reduction. This commitment is portrayed in the NSDP II 2018/19-2022/23, where the agriculture sector has been identified as a pillar for economic growth.

6.2 Water and Energy in Agriculture

- Lesotho's major natural resource is water, often referred to as 'white gold' by the Basotho people. During 1995 and 1997, with intense construction activities involving the multi-million Lesotho Highlands Water Project (LHWP), Lesotho registered an impressive economic performance. The real GDP growth rate made Lesotho one of the top ten performers in Africa at this time.³⁸
- The value of Lesotho's water resources is derived from its strategic position in the Orange-Senqu River basin. The basin accounts for over 10% of GDP in Sub-Saharan Africa and is the third most economically important basin per unit area on the African continent after the Nile and the Limpopo River basins.³⁹
- The water transfers to South Africa represent 3% of GDP and 10% of total government revenues, a considerable resource for the funding of development projects in Lesotho. The LHWP uses hydroelectric power to transfer water from Lesotho to the Gauteng region of South Africa, where water is even more scarce. Ensuring the continued sustainable development of Lesotho's water resources requires an integrated and strategic long-term approach to inform a long-term vision that can respond to the challenges of climate change.
- Local communities lack the infrastructure needed to benefit from Lesotho's water supply. While the Highlands are water-rich and valuable for the economy, the area is susceptible to climate change risks. Developing new sources of water and water treatment, advanced transfer methods and increased bulk resource storage are all tenets of the Lesotho Lowlands Water Supply Scheme (LLWSS).⁴⁰
- In Lesotho, approximately 47% of households have access to electricity, concentrated mainly in urban areas. The government has set a goal of increasing the electrification rate to 75% of households by 2022. Lesotho has identified hydropower, wind generation, and solar power as potential renewable energy sources to help reach these targets.⁴¹
- Currently, Lesotho generates 72 megawatts of hydropower through the 'Muela Hydropower plant, which does not satisfy domestic demand. There is potential to expand hydropower capacity and establish wind farms. The majority of the population primarily live in small, rural communities, which makes the country a good market for solar energy products.⁴²

- According to Lesotho's Department of Energy, Lesotho could potentially produce 450 MW in hydropower and several hundred more with wind power. However, only 17% of this potential is being exploited, 96% of it at the 'Muela hydro-power plant and the rest from mini hydro-power plants at Mants'onyane, Mokhotlong, Tsoelike, and Semonkong.
- Lesotho's energy profile is characterized by a predominance of traditional biomass energy to meet the energy needs of rural households and a heavy dependence on imported petroleum for the modern economic sector needs.⁴³
- Lesotho privatized most state-owned enterprises (SOEs) following the adoption of the Privatization Act of 1995, including telecommunications, banks, and the government vehicle fleet. The government did not privatize the electricity and water utility companies, which enjoy monopolies in their respective sectors.⁴⁴

7 AGRICULTURE INVESTMENT POTENTIAL

7.1 Agri-businesses and Agro-processing

- Agriculture and agro-processing products feature prominently in the country's export profile, which is dominated by its clothing exports to the United States, followed by water exports to South Africa and some additional diamond exports to Belgium.⁴⁵
- The government of Lesotho believes the agro-processing sector could be a potential growth area for its predominantly small-scale farmers. The 2016 Micro, Small and Medium Enterprise (MSME) Policy identified the agro-processing sector as a priority area.
- The agro-processing sector stands to benefit from the Southern African Development Community Economic Partnership Agreement (SADC EPA), in Lesotho and South Africa. This is because of the advantageous tariff preferences embedded in the agreement. Tariff preferences alone, however, will not ensure that opportunities are realized, and the two governments should aim to support especially their SMME farmers and processors.
- Greater awareness of SADC EPA opportunities in the agro-processing sector can be created by hosting events in Lesotho that specifically target women and youth groups and SMEs. These awareness-raising events should not just state the benefits that could accrue but also point out how new entrants to farming can become important cogs in the wheel to augment local production.
- Lesotho has potential to expand the poultry and dairy industries, which are currently dominated by imports from South Africa. The Government of Lesotho has declared the dairy industry a priority for food security, and several initiatives are underway to stimulate dairy development.⁴⁶
- In recent years, Lesotho has shown significant potential in horticulture. Lesotho has further demonstrated potential in aquaculture, particularly the production of trout, which takes place in the Highlands. Trout is exported to South Africa and Japan.

- Recent advancements in legalizing cannabis for medicinal purposes has opened a market for export mainly to Canada.
- Investments in green energy technologies will reverse the trends in deforestation and soil erosion, enable society to heat homes, and cook using cleaner, more efficient technologies. Adoption of green technologies will help rebuild Lesotho's natural capital.
- Lesotho has an Agribusiness Network, which is an agricultural and commercial platform incorporating farmers, suppliers, consumers, third party developers and related stakeholders. It specializes in sourcing and selling almost all agricultural products and creating enabling environments for farmers.⁴⁷
- Two South African companies, Alpha Farms and Denmark Estates, have collaborated with farmers in Lesotho to produce for the Lesotho, South Africa, and EU markets. Due to the country's elevation, good soil, and abundance of water, the quality of the produce is high, and the fruits ripen earlier than in other countries in the southern hemisphere, offering an opportunity to supply the regional market early in the season.⁴⁸
- Lesotho has entered into bilateral investment treaties with Germany, Switzerland, and the United Kingdom.
- Lesotho's investment promotion agency, the Lesotho National Development Corporation (LNDC), is responsible for the initiation, facilitation, and promotion of Lesotho as an attractive investment destination. LNDC also undertakes investment project appraisals, provides pre-investment and after-care services, risk management, trade and investment research, and strategic planning. It also ensures investors' compliance with the country's legal frameworks. Through LNDC, the government actively encourages investment in manufacturing and agriculture sectors. LNDC also implements the country's industrial development policies.⁴⁹
- The government of Lesotho modernized the regulatory framework for utilities through the establishment of the independent Lesotho Communications Authority (LCA), which regulates the telecommunications sector, and the Lesotho Electricity and Water Authority (LEWA), which regulates the energy and water sectors. The two authorities set the conditions for entry of new competitive operators. The LEWA allows both the Lesotho Electricity Company and the Water and Sewerage Company to maintain monopolies in their respective sectors.⁵⁰
- A horticultural market center will allow farmers to better preserve their fruits and vegetables and receive prompt payments for their products. Farmers can now drop off produce at the center for cleaning, packing, and cold storage. They receive payment upon delivery in cash or through bank transfer, when possible. The center then sells the produce including tomatoes, spinach, cucumbers and peaches to hotels and supermarkets in Lesotho. This marks an important step in helping producers work towards their goal of exporting in SADC.⁵¹
- Lesotho has a net export deficit when it comes to trade in fresh and processed foods. It also has only a 0.01% share of the global fresh food market. Its global participation in this sector is negligible, and there is almost no product or market diversification. In many ways, Lesotho's agriculture and agro-processing sectors are starting from a near zero base in terms of export capacity.⁵²

8 GENDER AND SOCIAL INCLUSION IN THE WEF NEXUS

- Women in Lesotho make up the majority of the agricultural labor force and make substantive inputs to household food security through their active participation in agriculture, livestock production, home gardens, and non-farm activities.
- A 2021 study by the Partnership for Economic Policy highlights that drought episodes in Lesotho increase men's participation in farming activities, yet they reduce women's labor-force participation in farm activities and increase their unemployment, making women less resilient to climate shocks.⁵³
- Despite progress in formally advancing gender equality, most women and girls in rural areas still suffer from limited access to finance and land, insufficient infrastructure, limited technical and professional skills, and poor health outcomes.⁵⁴
- The unequal distribution of gender in block farming can be linked with an exodus of men to seek employment in towns and outside the country. The cultural practices show that men are breadwinners in the families.
- Lesotho has a National Gender and Development Policy (2003) which mentions the need for equitable access to land and other natural resources as a key requirement for the adoption of more resilient agricultural practices.
- The recent studies show that with the retrenchment of many Basotho men from the South African Goldmines, there is an increasing movement of Basotho women working as domestic workers in South Africa. This suggests a new form of gender relations in farming in rural Lesotho, where men are now back in farming and women migrating into South Africa.
- Lesotho's Gender Inequality Index stands at 0.546, 135 out of 162 countries.
- 59.1% of females over 15 are active in the labor force (2014).⁵⁵
- With the exception of inheritance rights, women in Lesotho generally enjoy the same legal status and rights as men. Both formal and customary law prohibit discrimination against women.
- Governance Women make up almost 60% of local government positions in Lesotho and the country has a greater proportion of female voters than males (UNDP, 2016).
- The constitution of Lesotho guarantees the right to equality and non-discrimination on the basis of sex, however customary laws are exempted from this constitutional guarantee.
- The constitutional principle of nondiscrimination does not, however, apply to laws relating to adoption, marriage, divorce, burial, devolution of property, death or other matters that fall under personal law or where Customary Law governs the parties concerned.
- With respect to access to land, the principal land legislation in Lesotho is the Land Act of 1979. This legislation is gender neutral.

- Although the law is gender-neutral, customary practices provide that land is allocated primarily to men through inheritance, requiring women to access land through their husbands.
- The Labour Code of 1992 provides for basic workers' rights including the provision of adequate working conditions, including the prohibition of unfair treatment to female employees.
- It also provides for equal remuneration for work of equal value for both men and women.

ANNEX 1: FIGURES

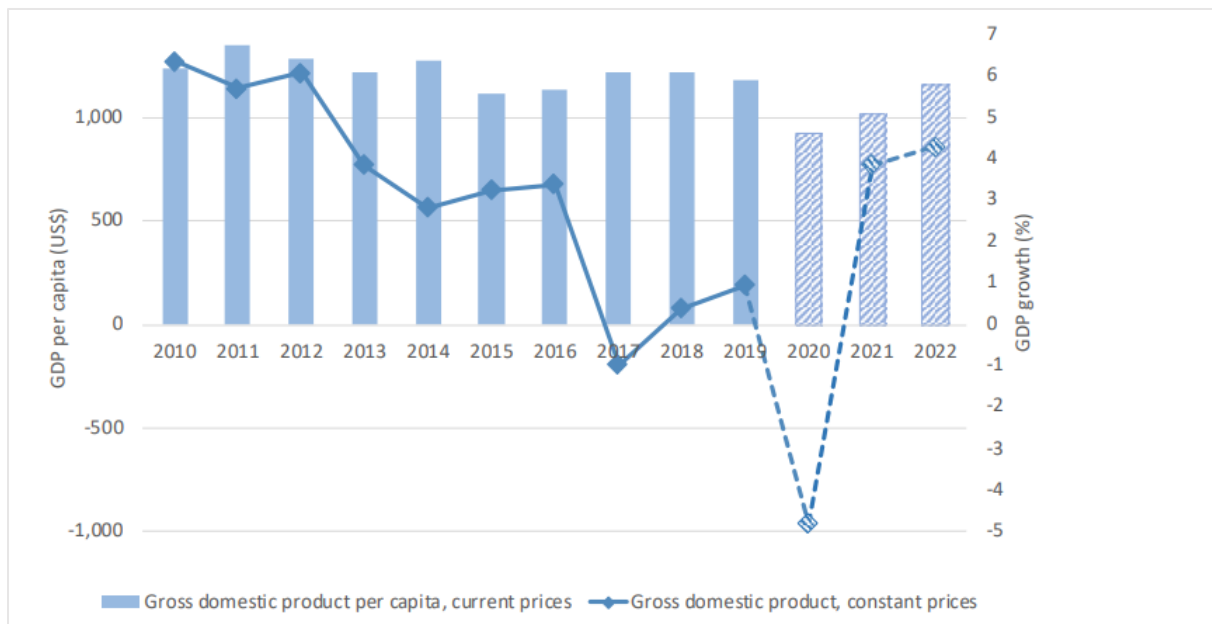


Figure 2: Lesotho GDP Growth (Source, IMF World Economic Outlook, 2020)

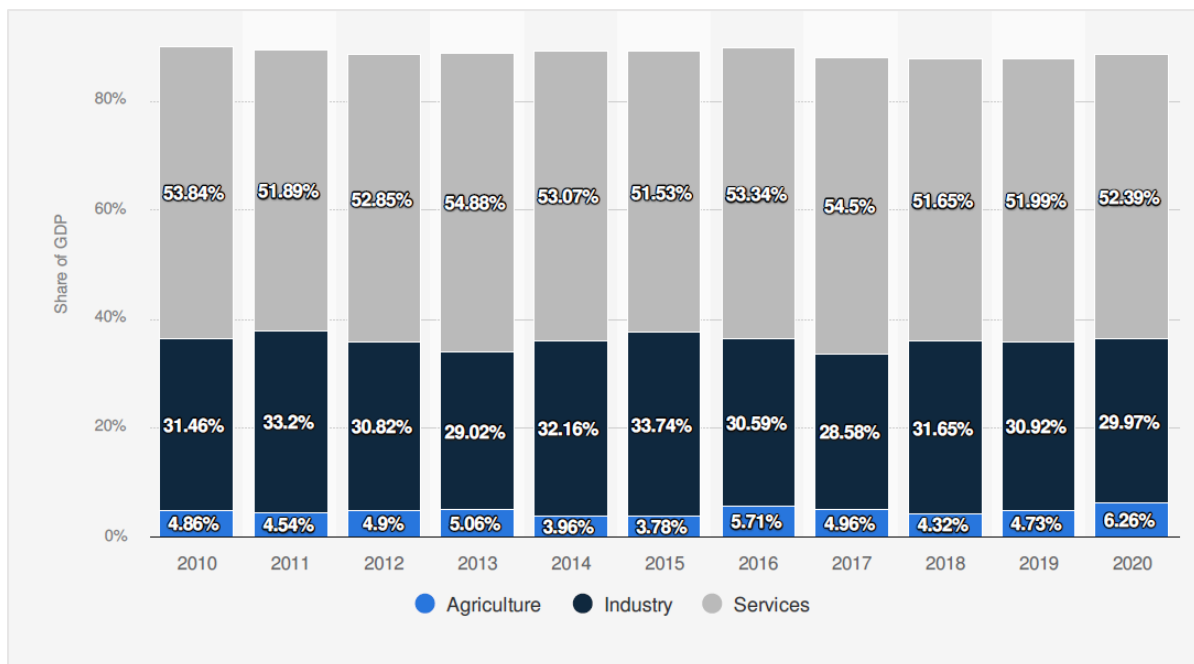


Figure 3: Distribution of gross domestic product across economic sectors 2010 -2020 (Source: Statista)

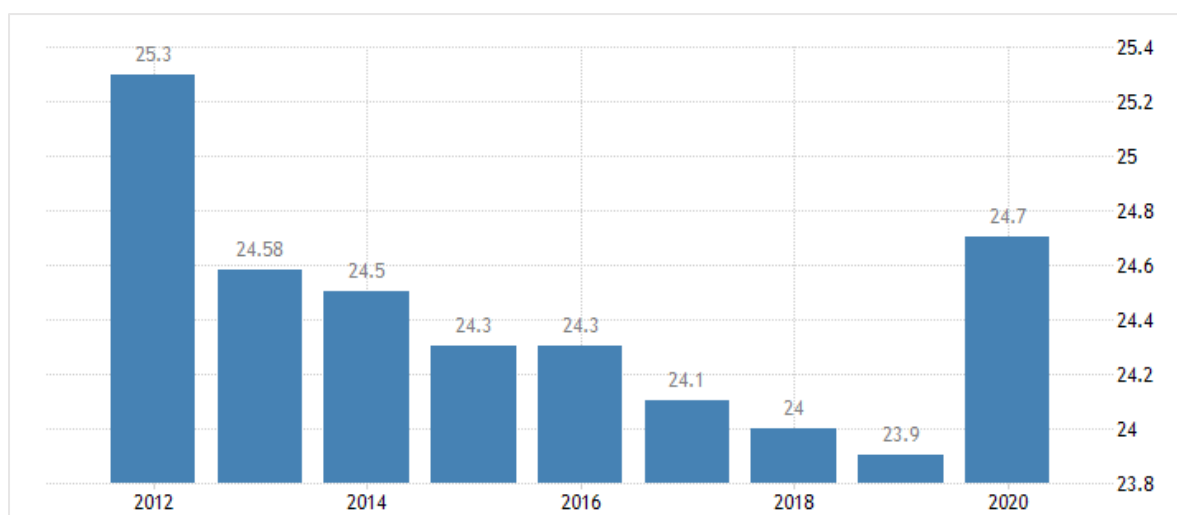


Figure 4: Lesotho unemployment rate 2012 – 2020 (Source: ILO)

Investment Opportunity	Brief Description
1. Bio-Trade	Lesotho has biodiversity and derivatives that should be commercialised sustainably. Some local businesses already use for medicinal, cultural, and cosmetic purposes.
2. Commercial Poultry Production (e.g. Chicken, Eggs, and Related Value Chain Products), Seed Potato Production, Asparagus	The country currently imports more than 80 percent of poultry products from South Africa so local demand could support poultry production. Given competitive wages, poultry production and related value chain products remain opportunities for investment. Seed potatoes and asparagus also have great export potential.
3. Horticulture	There is potential for crop and fruit tree farming. Feasibility studies are complete and negotiations with owners of suitable land for production are underway. Experimental evidence provided through the World Bank "Private Sector Competitiveness" project showed that Lesotho has a comparative advantage of high-altitude conditions, which are conducive for early ripening seasons.
4. Aquaculture	Lesotho's climate conditions present great potential for aquaculture. Trout is currently bred and exported to Japan and the European Union.
5. Red Meat Production	The country's rangelands have potential to support production of organic red meat.
6. Medicinal Plants (e.g., Cannabis)	Private companies are planting medicinal cannabis plants, then marketing and selling to the United Kingdom, Canada, and United States. Further investment potential exists.
7. Wool, Mohair, Hides, and Related Products	Lesotho is second in the world in terms of production of wool and mohair. The potential lies in value chain development and scaling-up production.

Table 1: Lesotho agriculture investment opportunities (Source: The Government of Lesotho, National Strategic Development Plan 2018/2019 – 2022/23)

ANNEX 2: TAXATION STRUCTURE

Tax Type	Definition	Rates (%)
Corporate Income Tax (CIT)	Manufacturing income derived from a manufacturing activity or enterprise which promotes industrial, scientific, educational, or other development within Lesotho. A corporate tax rate of 25% is imposed on profits of a resident non-manufacturing company or branch profits of a non – resident company. Capital gains are treated as ordinary income and subject to tax at the regular corporate income tax rate.	25
Personal Income Tax (PIT)	For Resident individuals (Due Annually 30 th June): <input type="checkbox"/> Excess tax	30
	For Non – residents: <input type="checkbox"/> Standard rate	25
Pay As You Earn (PAYE)	For Resident individuals: <input type="checkbox"/> 1 st M 5,090.00 is taxable at 20% <input type="checkbox"/> Excess is taxable at 30% <input type="checkbox"/> less tax credit of M 800.00 per month	20
	For Non – residents: <input type="checkbox"/> Standard rate	30
Fringe Benefits Tax (FBT)	Charged on taxable fringe benefit taxable amount Quarterly on the following dates: <input type="checkbox"/> 14 July <input type="checkbox"/> 14 January <input type="checkbox"/> 14 April	40
Withholding tax	Charged on income paid to resident contractors for services provided.	5
	Levied on income paid to non-residents for services provided.	10
	It is imposed on passive income paid to non-resident otherwise lower Double taxation agreement rate is applied on income due to existing treaty partner.	25
Company tax	Lesotho resident companies are subject to company tax on income from all sources located in and outside Lesotho. Non-resident companies are subject to tax in Lesotho on Lesotho-sourced income only.	25
Value Added Tax	Charged on the value of basic commodities, sanitary towels & exports. VAT is levied on the supply of goods and services in Lesotho and on the importation of goods and services.	0
	Electricity	8
	Telecommunication services 20th of every month	12
Tax treaties	Lesotho has entered into tax treaties with Botswana, Mauritius, South Africa, and the United Kingdom, following the withholding tax rates for dividends, interest, royalties and management and technical fees under these treaties.	

ANNEX 3: OPPORTUNITIES AND CHALLENGES IN WEF NEXUS

Opportunities	Challenges
<p>Policy reform for job creation: supporting legislative reforms for advancement of employment opportunities in alignment with priorities outlined in Lesotho's Decent Work Programme. Sectors of the economy including the informal, agriculture and public sector to improve working conditions for all workers in Lesotho.</p>	<p>Creation and diversification of employment opportunities; inadequate development of pro-employment policies and investments within the key sectors of manufacturing, agriculture, infrastructure, tourism, technology, and innovation.</p>
<p>Investment in agricultural diversification: There are opportunities in aquaculture, horticulture, and poultry farming. Due to the country's elevation, good soil, and abundance of water, the quality of the produce is good, and the fruits ripen earlier than in other countries in the southern hemisphere, offering an opportunity to supply the regional market early in the season. In addition, Lesotho's climate is good for mushroom farming, and the kind of mushroom produced in Lesotho is in high demand in South Africa, Botswana, and other southern African countries. Lesotho currently does not have processing and packing facilities for these products, so another opportunity exists in food processing.⁵⁶</p>	<p>Expansion of agriculture sector benefits: the lack of structural transformation stemming from weak linkages between agriculture and industry, lack of value addition, low agricultural productivity, huge infrastructural deficit, and weak institutional capacity. The performance of the agricultural sector has become increasingly erratic as climate change affects yields and many smallholder farmers do not have access to irrigation or climate smart agricultural technologies.⁵⁷ The government of Lesotho has not been actively seeking investors in the agriculture sector</p>
<p>Private sector investment, especially in agriculture and facilitation of emergence of land markets. The regulation of land markets is also weak as private agents trade land without concern of authorities and, in some instances, creating land speculation.</p>	<p>Lesotho had a shortage of arable land, and a lack of agricultural inputs and poor farming practices meant the quality of already scarce farmland was deteriorating too. The lack of access to land for productive use and lack of enforcement has affected private investments, especially foreign investors.</p>
<p>Women and youth development: opportunities in the agriculture sector remain largely untapped, and the sector has great potential to create jobs, especially for the population living in rural areas, women, and youth (including those not transiting to tertiary education, which is more than 65 % of the total youth population).</p>	<p>Limited inclusion of women and youth in WEF nexus: Lesotho comes off a very low base when targeting informal farmers, specifically women and youth living in rural setting</p>
<p>Enhanced support to SMME in WEF: Most weaving enterprises make products, mostly tapestries, which no longer meet market demands in terms of product design and or quality</p>	<p>Limited access to finance, lack of access to reliable and sustainable markets, inability to access quality raw materials and adopt latest technologies, low levels of entrepreneurial and managerial skills and the fact that it is still dominated by old women (mostly). Unfavorable business climate and lack of financing and investment. Lesotho's agriculture and agro-processing production is still in its infancy.</p>

ANNEX 4: LOCAL ENABLING ENVIRONMENT ACTORS AND STAKEHOLDER IN THE WEF NEXUS

- **The Innovation Hub** established at the National University of Lesotho has experimented with several products, some of which have been launched and commercialized while others are in the early phases. Potential remains for exploring and leveraging other products from geological formations and deposits, together with biomass resources such as marbles, glass fiber, geopolymers, Portland cement, high-value ceramic tiles, masonry, decorative cladding, natural fiber composites, bio-fuels, and bio-chemicals. The National University of Lesotho has recently started to experiment with processing yogurt and sorghum biscuits. These products are only distributed on the local market, as they do not meet international standards or product labelling specification.
- **Basotho Entrepreneurship Development Corporation (BEDCO):** Parastatal entity under the Ministry of Small Business Development, Co-operatives and Marketing to promote micro, small and medium enterprise development.
- **The Vodacom Innovation Park** offers business training, mentorship, and links local financial investors to selected entrepreneurs aged 18-35 (including, but not limited to, digital entrepreneurs). The program, which accepts approximately six applicants per year, highlights innovative partnerships that allow for business training, increased access to information, reputational signaling to investors, and furthering of knowledge and learning agendas.
- **The EU delegation in Lesotho** supports the water, energy and governance sectors and not economic development, which is supported via regional programs by the EU delegation in Botswana.
- **International Development Association (IDA)** Lesotho's farmers and agribusiness owners will now be able to minimize the potential impacts of climate change on their produce and improve productivity. This is as a result of \$50 million in financing from the IDA and an additional \$2 million from the Japanese Policy and Human Resource Development (PHRD) Fund.
- **World Bank Private Sector Competitiveness and Economic Diversification Project** is implemented by the MTI and aimed at economic diversification through the expansion of the commercial horticulture sector. Fruit farmers in particular have been targeted to test a variety of fruit and their suitability to being farmed in Lesotho. The program has successfully produced Grade 1 apples and will now be rolled out more broadly across the country via a block farming approach
- **The Canada Fund for Local Initiatives – Lesotho:** The CFLI is a program designed to support small-scale, high-impact projects in developing countries, which align with Global Affairs Canada's thematic priority areas for engagement. The program is directed at projects conceived and designed predominantly by local partners.

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