Rising to the Challenge: Socioeconomic Development Opportunities in Lesotho

February 2023

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Publications Section
Economic Commission for Africa
P.O. Box 3001
Addis Ababa, Ethiopia
Tel: +251 11 544-9900
Fax: +251 11 551-4416
E-mail: eca-info@un.org
Web: www.uneca.org

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Foreword

I am pleased to present this comprehensive and multidimensional diagnostic assessment of the national development landscape of Lesotho, reflecting an in-depth analysis of the past, present and future socioeconomic trajectories of the country. The evolution of the pursuit of inclusive and sustainable development by Lesotho over the past two decades has been marked by a tapestry of achievements and setbacks. Despite those challenges, the resilience of the country and its steadfast commitment to progress have helped to lay the groundwork for a brighter future.

The present report reveals pivotal concerns that lie at the heart of the development narrative in Lesotho. It underscores the imperative of sound governance as the bedrock of development, highlights the pervasive effect of gender inequality and gender-based violence on economic development, exposes the sobering impacts of climate change and biodiversity loss, and provides an examination of the complex role of agriculture and industry in the livelihoods of the people of Lesotho. Acknowledging those challenges provides the impetus for positive systems and behavioural transformation, an opportunity to reshape and implement policies that help the country to achieve its development aspirations.

This report underscores the central role of the National Strategic Development Plan II, Strategic Focus 2023/24–2027/28, illuminating its capacity to steer Lesotho away from development challenges and towards a future harmonized with the Sustainable Development Goals. Furthermore, the report provides a crucial input into the common country analysis that will inform the strategic priorities of the United Nations in Lesotho for the next five years, as outlined in the United Nations Sustainable Development Cooperation Framework for the country for the period 2024–2028.

The aim of sharing the report is to galvanize action and dedication, both within the borders of Lesotho and on the global stage, for a Lesotho that is more prosperous and equitable. Individuals, decision makers, development partners and all stakeholders are invited to view the challenges identified in the report as opportunities to craft the narrative of the country. Furthermore, it is hoped that the report will help to encourage ongoing conversations and learning about those challenges and opportunities. The sharing of knowledge will contribute to interventions that are informed in real time by contextual realities.

I thank the Economic Commission for Africa, the United Nations Development Programme, the teams of the Resident Coordinator Office and the United Nations country team for supporting this informative report. My thanks also go to Haroon Akram-Lodhi and Mamello Nchake for helping to deliver a good socioeconomic analysis of Lesotho.

Kea leboha!

Amanda Khozi Mukwashi
UN Resident Coordinator, Lesotho

Abbreviations

COVID-19	coronavirus disease
ECA	Economic Commission for Africa
FAO	Food and Agriculture Organization of the United Nations
FDI	foreign direct investment
GDP	gross domestic product
ILO	International Labour Organization
IMF	International Monetary Fund
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
SADC	Southern African Development Community
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UN-Women	United Nations Entity for Gender Equality and the Empowerment of Women

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The study for the present report was done under the overall leadership of the Resident Coordinator in Lesotho, Amanda Khozi Mukwashi, and the direct supervision of the Resident Representative for UNDP, Lesotho Country Office, Jacqueline Olweya, the Director of the ECA Subregional Office for Southern Africa, Eunice Kamwendo and Olayinka Bandele, Chief of the Inclusive Industrialization Section, ECA Subregional office for Southern Africa. The present report was developed as a technical background paper for the common country analysis for the development of the United Nations Sustainable Development Cooperation Framework (2024–2028).

Professor at Trent University, Canada, A. Haroon Akram-Lodhi, and Professor at Stellenbosch University, South Africa, Mamello Nchake, prepared the report, which was finalized under the direct technical supervision of Programme Specialist and National Economist at UNDP, Lesotho Country Office, Mabulara Tsuene; Economic Affairs Officer at the ECA Subregional Office for Southern Africa, Oliver Maponga; Economic Adviser for Eswatini and Lesotho at UNDP, Souleman Boukar; and Economist at the Resident Coordinator Office, Lesotho, Fanwell Bokosi. The contribution of colleagues from United Nations entities in Lesotho and at the ECA Subregional Office for Southern Africa, Voronica Mufudza and Maria Ngarachu, in the review and finalization of the report is acknowledged. The overall coordination carried out by Deputy Resident Representative at UNDP, Lesotho Country Office, Nessie Golakai Gould, and Coordination Specialist, Resident Coordinator Office, Lesotho, Vimbainashe Mukota, is acknowledged and appreciated.

The report benefited from consultations with national stakeholders and policymakers, including representatives of the Government of Lesotho, development partners, the private sector, academia, civil society organizations and independent researchers. The consultations included engagement with individual experts to share their perspectives. Data and other information from various reports were collected for the drafting of the present report. A hybrid meeting was held on 24 January 2023 and attended by various national stakeholders, including those from the National University of Lesotho, the Limkokwing University of Creative Technology and the Lesotho Bureau of Statistics. Representatives from United Nations entities, IMF, the World Bank, the private sector, the media and civil society reviewed and corroborated information in the present report and established consensus on the recommendations contained therein.

Executive summary

As part of the process for developing the United Nations Sustainable Development Cooperation Framework for Lesotho (2024–2028), the present report contains a multidimensional diagnostic evaluation of the country's national development context. Key trends in the social and economic development of the country over the past two decades are highlighted in order to identify areas of progress and opportunities, as well as the gaps and bottlenecks that Lesotho is facing in confronting and overcoming its socioeconomic development challenges. The present report shows that gender inequality in households shapes the terms and conditions under which women and men engage in work and care and how that inequality structures the operation of the economy in Lesotho. Most people in Lesotho, in particular in rural areas, work in crop and livestock production as small-scale farmers, but this livelihood has demonstrated mediocre improvements in productivity while being strongly affected by climate change and biodiversity loss. The report shows that this productivity record is replicated in industry, in particular in textile and apparel manufacturing and in services. Poor productivity performance is largely responsible for poverty in Lesotho and the country's inadequate social development during the first two decades of the twenty-first century. Lying behind this economic record has been a marked deterioration in governance since 2012. In this context, the present report provides an outline of a comprehensive package of economic reforms that could improve social and human development in Lesotho. Improving agricultural productivity is the most important task facing policymakers, but there are opportunities to increase productivity in private sector-led and export-oriented manufacturing and tourism. Moreover, Lesotho should better leverage resources from water exports and diamond mining and create channels for the improved use of remittances to promote economic growth.

The report provides five specific objectives for government policy and contains suggestions for short-, medium- and long-term policy interventions that could meet the challenges relating to the country's socioeconomic development by unlocking opportunities to improve the livelihoods of the people of Lesotho. It observes that the National Strategic Development Plan II Strategic Focus 2023/24–2027/28 offers a route out of development distress and notes the significant opportunities to place Lesotho on a socioeconomic growth path that is consistent with the Sustainable Development Goals. There are opportunities for private sector led growth in agriculture, industry and services. This will expand export-oriented activities, create jobs and increase incomes as growth becomes self-sustaining. Improvement in agricultural productivity and growth of small-scale farming households is imperative as this will enhance the participation of more stakeholders in the wider economy. The Government should create a conducive business environment that encourages private sector entrepreneurship and facilitates the tapping into the entrepreneurial capabilities of all stakeholders. Clarity in the Government policy and regulatory environment to facilitate infrastructural investments in public goods, strategic basic services and social services will be required and will form the basis of a sustainable, private sector-led, inclusive, pro-poor, gender-responsive socioeconomic transformation in Lesotho that is consistent with the Sustainable Development Goals.

A. Context

The present report contains a multidimensional diagnostic evaluation of the national development context of Lesotho. Key trends in the social and economic development of the country over the past two decades are highlighted in order to identify areas of progress and opportunities, as well as the gaps and bottlenecks that Lesotho is facing in confronting and overcoming its socioeconomic development challenges. Most people in Lesotho, in rural areas in particular, work in crop and livestock production as small-scale farmers, but this livelihood has demonstrated mediocre improvements in productivity while being strongly affected by climate change and biodiversity loss.[1] The report shows that this productivity record is replicated in industry, and in particular textile and apparel manufacturing, as well as in services. Mediocre productivity is largely responsible for poverty in Lesotho and the country's inadequate social development during the first two decades of the twenty-first century. Lying behind this economic record is a marked deterioration in governance. In this context, the present report contains a critical set of strategic, policy and programmatic priorities for the Government and its potential partners, with a view to realizing the National Strategic Development Plan Strategic Focus 2023/24–2027/28 and the 2030 Agenda for Sustainable Development. By presenting an independent evaluation of the country's socioeconomic challenges and framing that evaluation within the objectives of the Government, the present report demonstrates the comparative advantage of the United Nations in aiding the Government in overcoming national development challenges. The report may also be used in determining the priorities of the United Nations in Lesotho for its next programming cycle.

The report is integral to the common country analysis of Lesotho, which is part of the process for developing the United Nations Sustainable Development Cooperation Framework for Lesotho (2024-2028). The common country analysis is an integrated, forward-looking and evidence-based analysis of the country context that is produced in order to accelerate efforts to achieve the Sustainable Development Goals. It is one of the steps mandated in the development of the Cooperation Framework and serves as an affirmation of the vision of the Secretary-General contained in his report entitled "Our Common Agenda", which is an agenda of action for the future of global cooperation designed to accelerate the implementation of existing agreements, including the 2030 Agenda, in the wake of a rapidly changing world. The analysis also gives direction for the role that the United Nations can play in supporting the Government of Lesotho in achieving its national development goals.

1 To provide a comparison, between 1920 and 2019, labour productivity growth in the United States of America ranged from a high of 2.85 per cent per year between 1948 and 1965 to a low of 0.82 per cent between 2010 and 2019 (Gordon, 2021). Labour productivity is defined by Gordon (2021) as the average of GDP and gross domestic income divided by hours of work in the total economy or, in other words, output per hour. This definition is not used in the present report owing to data limitations. In the present report, mediocre productivity growth is defined as being less than 0.75 per cent growth per year.

B. Challenges

1. Socioeconomic development in Lesotho

Over the past 20 years, Lesotho has had a mixed record in terms of rates of economic growth, poverty reduction and social development, all three of which have been negatively affected by the climate crisis, the COVID-19 pandemic and the ongoing conflict in Ukraine. Table 1 presents key economic and social development indicators for Lesotho between 2000 and 2021. It demonstrates that constant GDP per capita increased by only 47.7 per cent between 2000 and 2019, before the COVID-19 pandemic hit. This economic performance reflects the fact that the average annual rate of growth in constant GDP per capita slowed from 4 per cent in the period between 2000 and 2010 to less than 1 per cent between 2015 and 2019. In the former period, economic performance exceeded that of sub-Saharan Africa as a whole; in the latter period, economic performance was lower than that of sub-Saharan Africa (World Bank, 2021a). While the urban poverty rate declined between 2000 and 2017, the poverty rate in rural areas, where most people live, was unchanged over the 17-year period – a stinging indictment of the lack of development. Indeed, given that short-run economic growth is a function of demand-driven increases in consumption, the rural poverty rate provides an initial insight into the relatively weak development performance of Lesotho. Female-headed households are more likely to be poorer than male-headed households, and the share of those in poverty accounted for by female-headed households increased between 2002 and 2017 (World Bank, 2019a, figure 12).

As measured by the Gini coefficient, inequality fell between 2000 and 2015 by just over 15 per cent. Table 1 shows that both female and male literacy rates deteriorated between 2000 and 2021; the decline was by just under 4 per cent for females and just over 7 per cent for males. On a positive note, while on average women live significantly longer than men, both female and male life expectancies have increased, to 58 years for women and 52 years for men. The drop in the under-5 infant mortality rate between 2000 and 2020 is the most favourable of the social development indicators presented in table 1. Nonetheless, the first two decades of the twenty-first century demonstrated what can be called "distressed development" in Lesotho, in that social and economic performance did not produce significant improvements in the foundations of living standards, in rural areas in particular. This is exemplified by the fact that by 2015 Lesotho had met none of the Millennium Development Goal targets that had been set at the Millennium Summit of the United Nations in September 2000.

According to UNDP, the score of Lesotho on the human development index had improved up until the COVID-19 pandemic occurred, owing mainly to a 25 per cent improvement in expected and mean years of schooling and a 13 per cent improvement in life expectancy.[2] The country's score on the gender inequality index declined slightly between 2000 and 2021. Its score on the Global Gender Gap Index, which combines measures of economic participation and opportunity, educational attainment, health and survival, and political empowerment, improved slightly between 2006 and 2021, but the country's global ranking declined from 43rd to 87th.

2 An improvement in expected and mean years of schooling is compatible with a decline in literacy when the quality of education deteriorates.

Table 1: Growth, poverty and social development in Lesotho, 2000-2021

Indicator	2000	2005	2010	2015	2019	2020	2021
Constant GDP per capita in 2015 United States dollars	727.23	843.51	982.21	1113.87	1074.62	972.42	973.70
Average annual rate of growth of constant GDP per capita	3.65	3.88	4.56	1.99	-0.33	-9.51	0.13
Urban poverty rate[a]	41.5	..	39.6	28.5	..	..	..
Rural poverty rate[a]	60.5	..	61.2	60.7	..	..	..
Gini coefficient[b]	0.52	..	..	0.45	..	..	..
Female literacy rate[c]	92.05	..	84.86	84.93	..	..	88.83
Male literacy rate[c]	80	..	65.25	67.75	..	..	72.90
Female life expectancy	50.87	45.1	48.07	54.27	57.58	58.09	..
Male life expectancy	44.92	40.57	42.41	47.98	51.2	51.7	..
Under-5 mortality rate	106.9	116.1	96.4	94.6	83.2	89.5	..
Human development index	0.45	0.45	0.47	0.5	0.52	0.52	0.51
Gender inequality index	0.59	0.58	0.56	0.56	0.56	0.56	0.557
Women, Business and the Law Index	43.13	52.5	76.63	78.13	78.13	78.13	78.13
Global Gender Gap Index	..	0.68[d]	0.77	0.71	..	0.7	0.7
Notre Dame Global Adaptation Initiative Index	41.6	40.5	39.9	41.6	41.3	41.4	..
Governance effectiveness index	-0.1	-0.2	-0.4	-0.7	-0.9	-1	-0.9

Sources: *World Bank (n.d. (a)); Our World in Data (n.d.); UNDP (n.d.); World Bank (2019a); World Economic Forum (2022a); and University of Notre Dame (n.d.).*

Notes:

[a] *The values listed under 2010 and 2015 correspond to 2009 and 2014, respectively.*

[b] *The values listed under 2010 and 2015 correspond to 2002 and 2017, respectively.*

[c] *The values listed under 2000, 2010 and 2015 correspond to 2002, 2010 and 2017, respectively.*

[d] *The value listed under 2005 corresponds to 2006.*

An examination of the elements of the Global Gender Gap Index shows that Lesotho has:

- Relatively high maternal mortality and adolescent birth rates
- A significant gender gap in secondary education (for the limited number of those who can attend school)
- A low share of parliamentary seats held by women
- Significant gender gaps in labour force participation rates and wage rates

Clearly, gender inequality continues to be a constraint to improved social and economic performance and, as an expression of this, gender-based violence is rife both within and outside the home. Gender inequality is perhaps best exemplified by the HIV prevalence rate of Lesotho, which is one of the highest in the world – one in five adults live with HIV, and the country has more infections per 100,000 people than most other countries, including neighbouring countries. Women and young people, in particular adolescent girls and young women, the poor and those living in rural areas, are especially vulnerable and disproportionately affected by the health challenges associated with HIV and AIDS (Lesotho, 2022). For example, the HIV prevalence rate in 2021 for women 15 to 49 years of age, at 26.1 per cent, was more than 10 percentage points higher than that for men of the same age range (UNAIDS, 2021). This is the case even though the institutional environment for gender equality has improved, in particular in the domain of the improving legal recognition of women's equality, as demonstrated in the Women, Business and the Law Index, where Lesotho scored 78.1 out of 100, which is higher than the average in sub-Saharan Africa (World Bank, 2022). There are clear gender dimensions to a range of poverty and social development indicators in Lesotho.

The Notre Dame Global Adaptation Initiative Index measures the exposure, sensitivity and capacity of countries to adapt to the negative effects of climate change across the dimensions of food, water, heath, ecosystem services, human habitat and infrastructure. It also measures the ability of countries to leverage investments and convert them into adaptation actions in terms of economic, governance and social readiness. As can be seen in table 1, the score of Lesotho on this index deteriorated between 2000 and 2010. While the country's score improved between 2010 and 2020, by 2020 the capacity of Lesotho to adapt to climate change was much the same as it had been two decades earlier. However, as noted below, Lesotho is on track to meet Sustainable Development Goal 13 (Climate action).

Finally, table 1 shows that since 2000 the country's score on the governance effectiveness index has deteriorated markedly.[3] In this light, the socioeconomic development performance of Lesotho becomes more understandable: development requires good governance, and it is therefore difficult to mount an effective climate-responsive socioeconomic development effort when governance is deteriorating (Khan, 2007).

The poor performance elaborated in table 1 underlines the mammoth economic, social, environmental and governance challenges facing Lesotho. At its current pace, Lesotho is not capable of meeting the Sustainable Development Goals by 2030. Indeed, as of 2022, Lesotho was on track to achieve only 2 of the 17 Goals, namely, Goal 12 (Responsible consumption and production) and Goal 13 (Climate action). Progress towards meeting 9 of the 17 Goals is stagnating. In terms of Goal 16 (Peace, justice and strong institutions), the country is regressing (Sachs and others, 2022). Rising to the challenges of achieving the Goals and realizing the 2030 Agenda requires identifying the key drivers of the economy in Lesotho, as well as the key sources of livelihoods for the people of Lesotho and, placing these drivers and sources within the context of the climate change crisis that Lesotho is facing, introducing inclusive and transformative social and economic policies that provide opportunities for the people and that put Lesotho back on track towards achieving the Goals.

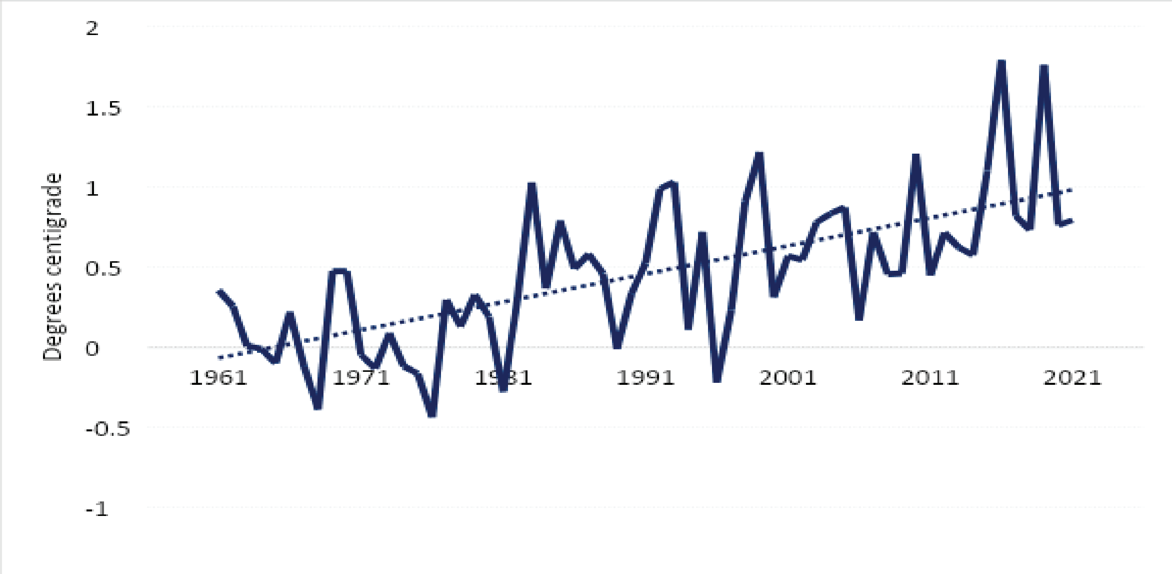
2. Climate change in Lesotho

The geography and location of Lesotho make the country susceptible to climatological patterns from both the Indian and Atlantic oceans, thus increasing vulnerability to both worsening patterns of climate variability and the long-term impact of climate change. Lesotho is witnessing an increase in temperatures, an increased frequency of drought, an increased variability in rainfall, increased rates of soil erosion, increased desertification and reduced soil fertility (World Bank, 2021b). Figure 1 shows that mean temperatures in Lesotho continued to increase between 1961 and 2021.[4]

3 The governance effectiveness index of the World Bank captures perceptions of the quality of public services, the quality of the civil service and the degree of a Government's independence from political pressures, the quality of policy formulation and implementation, and the credibility of a Government's commitment to such policies. Estimates can range from approximately -2.5 to 2.5.

4 The increase in temperature in Lesotho is only 40 per cent of the increase in the world's temperature (FAO, n.d. (a)). This is a function of comparing a small geographic space to an immensely bigger geographic space; the latter has a far greater range of variability.

Figure 1: Temperature change, Lesotho, 1961-2021 (Degrees centigrade)



Source: FAO (n.d. (a)).

Climate change makes the country's socioeconomic development more fragile. Although the country is water-abundant, the increased recurrence and variability associated with droughts and floods place pressure on essential water resources and indicate the need to improve water management to enhance the resilience of Lesotho against an increasingly unpredictable climate. Strategies to improve water management include an integrated catchment management strategy to manage water sources, wetlands and their ecologies, and rural and lowland water infrastructure projects to improve access to water for communities.

At the same time, climate change has contributed to worsening soil erosion, which has degraded the country's wetlands. Recent evidence shows that 30 per cent of the wetlands in Lesotho may be degraded, of which only 7 per cent is due to the overgrazing of livestock (De Simone and others, 2022). These climatic changes have undermined agricultural productivity growth in yields per unit of land. For many people, these production shortfalls have been accompanied by rising food prices, leaving many disadvantaged families food-insecure. Climate change has notable and specific impacts on the agricultural sector as a consequence of hailstorms, floods and the El Niño-induced drought that occurs approximately every four years (Kamara, Agho and Renzaho, 2019). These have important implications for crop and livestock production and can result in worsening poverty and deepening food insecurity in agriculture-dependent households. Thus, in 2019, one quarter of the population faced severe food insecurity because of a widespread drought (World Bank, 2021a). Moreover, climate change can also produce overgrazing, biodiversity loss, reduced soil fertility and soil erosion (Lesotho Meteorological Services, 2017). The data from the Notre Dame Global Adaptation Initiative Index provided in table 1 demonstrate that the country remains highly vulnerable to the effects of climate change (University of Notre Dame, n.d.). Thus, climate change has strong implications for economic activity and the livelihoods of the people of Lesotho.

C. Productivity performance of Lesotho

Figure 2 demonstrates the broad structure of the economy in Lesotho. Services[5] produce 43.7 per cent of total value added, and are hence the dominant source of value added[6] in the economy. At 35.5 per cent of GDP in 2020, industry value added[7] in Lesotho is the second greatest source of value added in the country; moreover, it is 34 per cent higher than the average for sub-Saharan Africa as a whole and 28 per cent higher than the average for all lower-middle-income countries. At less than 5 per cent of total GDP, agriculture[8] is the smallest source of value added in Lesotho.[9]

Figure 3 demonstrates the broad structure of employment in Lesotho.[10] About 55 per cent of males and 45 per cent of females actively participate in the labour force (Lesotho, Bureau of Statistics, 2021a). Of those who are outside the labour force, 26 per cent could potentially become active, of which 43 per cent are males and 57 per cent are females (Lesotho, Bureau of Statistics, 2021a). Many of those who could potentially become active are young people. Figure 3 illustrates that agriculture continues to be the most important source of employment, notwithstanding the fact that the share of total employment in agriculture has declined markedly over the past two decades. In this light, climate change will affect employment because of its impact on agricultural employment and production. In contrast, employment in services has grown rapidly and is poised to become more important than employment in agriculture as the sector continues to occupy a more dominant position in the economy and agriculture continues to decline. Industrial employment has remained relatively constant, at 13 per cent of total employment, over the past two decades.

Figures 2 and 3 together demonstrate that industry creates significant value added but is not nearly as significant as a source of employment, while agriculture creates a small share of value added but is an important source of employment. This in turn suggests that agriculture suffers from low productivity, while industry is the principal driver of the country's productivity. This is demonstrated in figure 4, which shows productivity measured by value added per worker in each of the three broad economic sectors for Lesotho between 2000 and 2019. However, figure 4 also clearly illustrates the key challenge to which Lesotho must rise – the productivity of value added per worker across industry, services and agriculture has not improved for two decades; indeed, in services it has witnessed a slight decline. Granted, industrial value added per worker did increase from 2000 to 2012; however, thereafter it declined, so that over the entire period it improved by only 12 per cent, or less than 1 per cent per year. Overall, gross value added per person in Lesotho between 2000 and 2020 in constant 2015 United States dollars increased from only $655 to $862 (World Bank, n.d. (a)).

5 Services valued added consists of value added in wholesale and retail trade (including hotels and restaurants), and in transport, government, financial, professional and personal services, such as education, health-care and real estate services. Also included are imputed bank service charges, import duties and any statistical discrepancies noted by national compilers, as well as discrepancies arising from rescaling.

6 Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs. It is calculated without making deductions for the depreciation of fabricated assets or the depletion or degradation of natural resources.

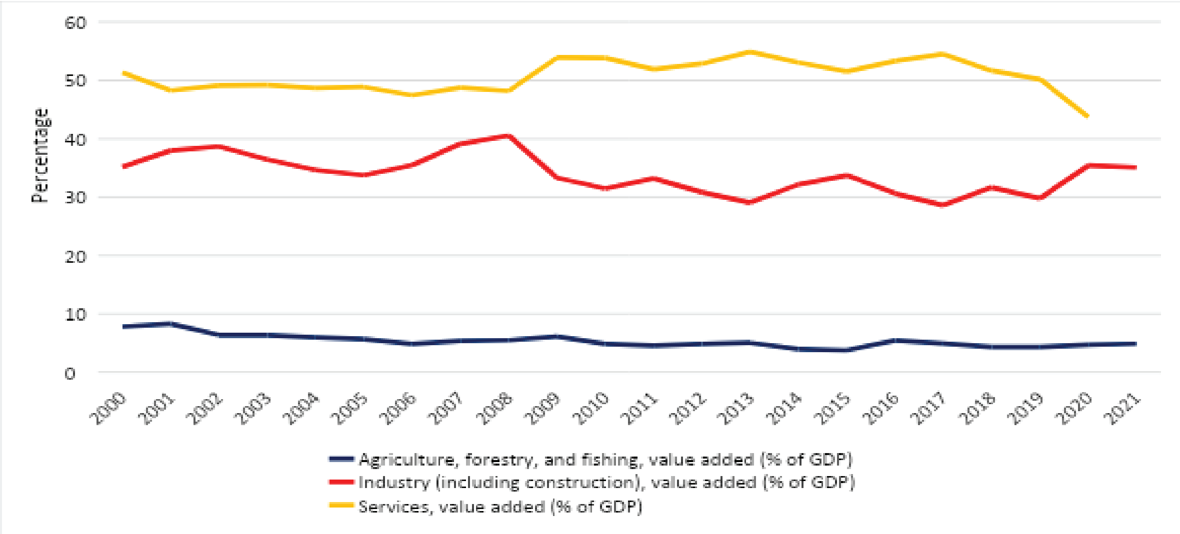
7 Industry value added comprises value added in the mining, manufacturing, construction, electricity, water and gas industries.

8 Agriculture value added comprises value added in the forestry, hunting and fishing industries, as well as the cultivation of crops and livestock production.

9 In contrast, in East Africa and Southern Africa, in 2020 services comprised 52 per cent of GDP, industry comprised 25.6 per cent of GDP and agriculture comprised 14.6 per cent of GDP. Thus, as a share of GDP, services and agriculture are significantly lower in Lesotho when compared with the average for the Southern African subregion, and industry is significantly higher.

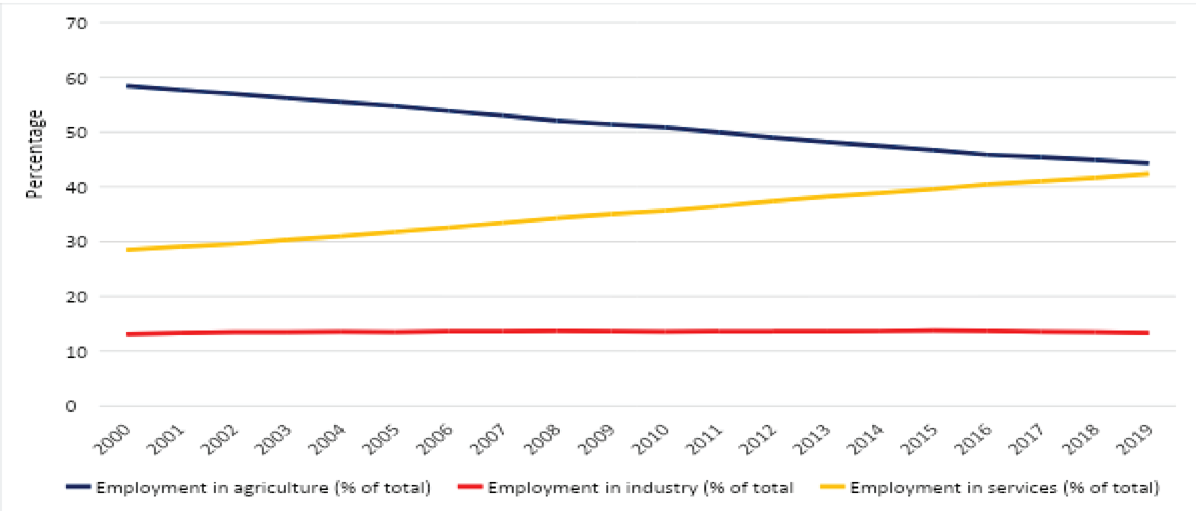
10 Unemployment is a fuzzy concept in largely agrarian economies such as Lesotho; employment is more meaningful and more reliable.

Figure 2: Structure of gross domestic product of Lesotho, 2000-2021 (Percentage)



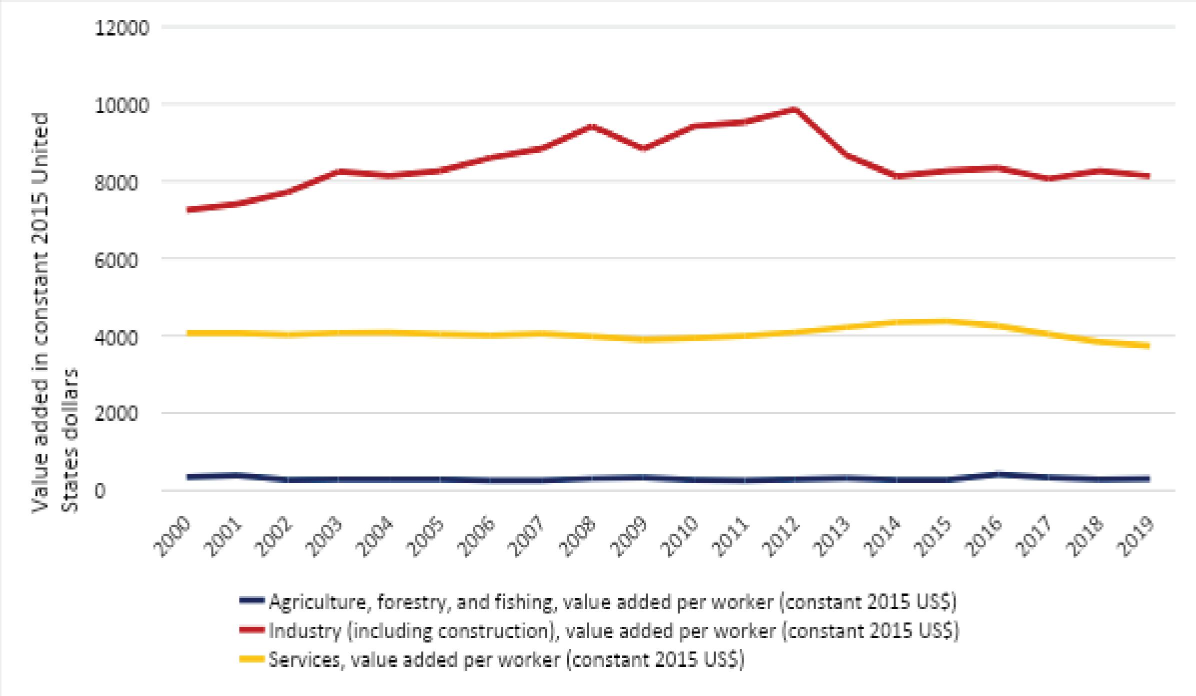
Source: World Bank (n.d. (a)).

Figure 3: Structure of employment in Lesotho, 2000-2019 (Percentage)



Source: World Bank (n.d. (a)).

Figure 4: Productivity per worker by economic sector, Lesotho, 2000-2019 (Value added in constant 2015 United States dollars)



Source: *World Bank (n.d. (a)).*

In the short run, economic growth and improvements in living standards are a consequence of increases in demand-driven consumption, and the country's development distress can therefore be explained in part by poverty. However, in the long run, economic growth and improvements in living standards are a consequence of supply-side improvements in production, which are in turn a function of the working population's use of technology to facilitate increases in productivity per worker and thus get more production from fewer total inputs. Productivity increases per worker are the critical driver of growth in real, inflation-adjusted wages and profits and hence in investment, economic growth and improving livelihoods.[11] Thus, notwithstanding deficiencies in consumption, the lack of productivity improvements per worker across the economy in Lesotho is the main explanation for the country's distressed development and is a key reason why rural poverty remains so persistently high and short-run economic growth so weak. Moreover, even though climate change affects the productivity of agriculture, productivity improvements per worker can provide the resources necessary to improve the readiness of Lesotho to tackle the effects of climate change. It is therefore necessary to dig deeper into each sector in order to uncover the reasons why Lesotho has not witnessed the productivity gains per worker necessary to drive economic growth, foster rural poverty reduction and improved private-sector performance, and address climate change.

11 Since 2008, there has been a declining trend in both the profit share of national income and the rate of profit in Lesotho (World Profitability Dashboard, n.d.).

D. Economic structure of Lesotho

1. Household structure and time use

The structural composition of employment in Lesotho shown in figure 3 indicates the character of cumulative employment patterns but fails to account for the ways in which household structure and intrahousehold gender relations shape and are shaped by employment. After all, as previously noted, there are clear gender dimensions to poverty and social development in Lesotho. The country has considerable diversity in household structures (UN-Women, 2020, annex III), but the most common type is the extended household, which comprises 49 per cent of households. Couples with children account for 11.6 per cent of all households. Just under 10 per cent of all households are one-parent households, more than 66 per cent of which are headed by single mothers. One-person households comprise just under 21 per cent of all households.

These distinctions are further complicated by polygamy, pervasive early marriage, divorce, widowhood and significant labour migration, including migration to South Africa, all of which have an impact on the understanding of female-headed households.

De facto female-headed households are found when men have migrated, usually in search of work.

Cumulatively, the diversity of household structures makes it clear that an understanding of work cannot be divorced from an understanding of unpaid care and domestic work. Work that is formally defined as "productive", meaning that it adds value on the farm or in the factory, interacts with and is shaped by the "reproductive" unpaid care and domestic work within the household and in the community, which build the human capabilities that underpin human capital formation and economic growth. The productive and reproductive dimensions of work, although mutually constitutive, are also in tension; many households face tough choices in deciding how much of their scarce labour resources to devote to one dimension or the other. Such decisions regarding household structure and the assignment of expected roles and responsibilities between women and men affect employment patterns and livelihoods.

However, investigating these interactions is limited by a lack of time-use surveys in Lesotho; the most recent available, nationally representative time-use survey was carried out as part of the Lesotho Household Budget Survey 2002/03 (International Household Survey Network, n.d.).[12] It contains what appears to be the only quantitative information on the relationship between "productive" work and "reproductive" unpaid care and domestic work that has been done in Lesotho. The survey is therefore of significant interest even if it cannot be considered to be definitive given the fact that the data are two decades old. Time-use data were obtained from respondents maintaining a time diary for one day, which contained pre-printed activities and pre-printed time intervals of 15 minutes for a 24-hour period. The key results are presented in table 2.

12 A thorough search of databases and research reports containing time-use data came up with nothing more recent for Lesotho. According to staff at the Bureau of Statistics of Lesotho, the labour force survey for 2023/24 will have a time-use module.

Table 2: Structure of daily time use in Lesotho, 2002/03 (Percentage)

Indicator	Men	Women
Working, employment and own business	17.3	13.9
Farming, livestock production and fishing	21.1	4.6
Collecting firewood and water	1.9	4.8
Cooking and domestic chores	12.2	32
Social activities	17.8	15.5
At school, watching television and reading	12.1	8.7
Travelling and shopping	10.1	8.3
Other (caring, etc.)	7.5	12.1
Total minutes per day	727	700

Source: *Lawson (2007).*

Table 2 demonstrates that men, on average, worked about half an hour more than women per day in 2002 and 2003. The differences in the gender division of time use are even more pronounced in crop and livestock production, where men were reported to be working five times more hours than women. In Lesotho, livestock farming is largely if not exclusively undertaken by men. Cooking and domestic work, firewood and water collection, and other caring activities were the responsibility of women, occupying about 49 per cent of their total working day, whereas men spent 21.5 per cent of their working day on those tasks. For women, the need to perform unpaid care and domestic work represented a significant constraint upon the use of their time. Indeed, at 224 minutes per day, women spent more time cooking and doing other domestic work than men did in crop and livestock production. The main unpaid care and domestic work of men consisted of maintaining the household's dwelling.[13]

In this regard, the responsibilities to perform unpaid care and domestic work resulted in women having significantly less time to engage in "productive" activities, such as farming, waged labour or enterprise development. Unpaid care and domestic work responsibilities structure women's "productive" activities and in turn have an impact on their poverty and low socioeconomic status, even as they build human capital. In spite of this phenomenon, Lawson (2007, table 1) suggests that both women and men between 25 and 44 years of age are time-poor.

In many households, the gender norms that require women to perform unpaid care and domestic work are upheld by some men through gender-based violence. The Government is clear on this: "Lesotho has one of the highest rates of rape and sexual violence in the world" (Lesotho, 2022), and 75 per cent of women and girls have experienced violence more than once in their lives. Child marriage contributes to the perpetuation of gender-based violence and is associated with lower educational attainment, lower levels of literacy and poverty.

Gender roles in Lesotho are first defined within the family, which serves to inculcate social norms. The most common family system in Lesotho is patrilineal and patriarchal, in which men have authority and women play a subordinate role, serving their husbands, working for their husbands and bearing children for their husbands. Thus, the husband is the head of the household and effectively enforces restrictive gender norms (Khau, 2021). Men control access to most of the resources and services used in performing "productive" activities: land, most tools and equipment, most livestock, and income and savings from market sales or waged work, among others. Although women perform some "productive" work, they are also responsible for most unpaid care and domestic work within the household, including preparing food; cleaning the home; doing laundry; performing childcare, elder care and home health care; providing informal education; and collecting water and firewood. To that end, women control "reproductive" resources, such as household utensils and kitchenware (Makoa, 1997; Harrison, Short

13 By way of a broad comparison, ILO (2018) found that, in Africa as a whole, women work 417 minutes a day on average and men work 350 minutes a day on average. Of this, 63 per cent of a woman's day is spent on unpaid care and domestic work, while 77 per cent of a man's day is spent on paid work.

and Tuoane-Nkhasi, 2014). Women's disproportionate responsibility for unpaid care and domestic work thus reflects normative ideals around gender-based social values. However, these normative ideals can be compromised by poverty, especially in the countryside, and the need for women to be economically active (Dyer, 2001).

The social expectation that women undertake unpaid care and domestic work affects their educational attainment and their labour supply decisions; the need to be flexibly available to undertake unpaid care and domestic work can have an impact on education, occupations and remuneration. This then helps to explain in part the gender gap in earnings and in leadership in Lesotho that has already been noted in the present report. At the same time, gender gaps in incomes may be explained in part by men having disproportionate control of any income generated by the marketing of crops alongside the expectation that men control women's waged income or income from petty trading, if there is any. There are thus likely to be gendered-based differences in both access to and use of income and other resources. Gender gaps in labour-force participation and earnings and access to incomes thus have an impact on expenditure and savings decisions, as well as household consumption. In this way, household structures and intrahousehold gender divisions of labour between "productive" and "reproductive" work have direct consequences for the macroeconomic performance of Lesotho. Finally, macroeconomic performance is also affected by gender-based violence: the direct economic cost of violence against women and girls was estimated to be 1.3 per cent of GDP in 2017, while the combined direct and indirect cost of violence against women and girls was estimated to be 5.5 per cent of GDP in 2017 (Commonwealth, 2020).

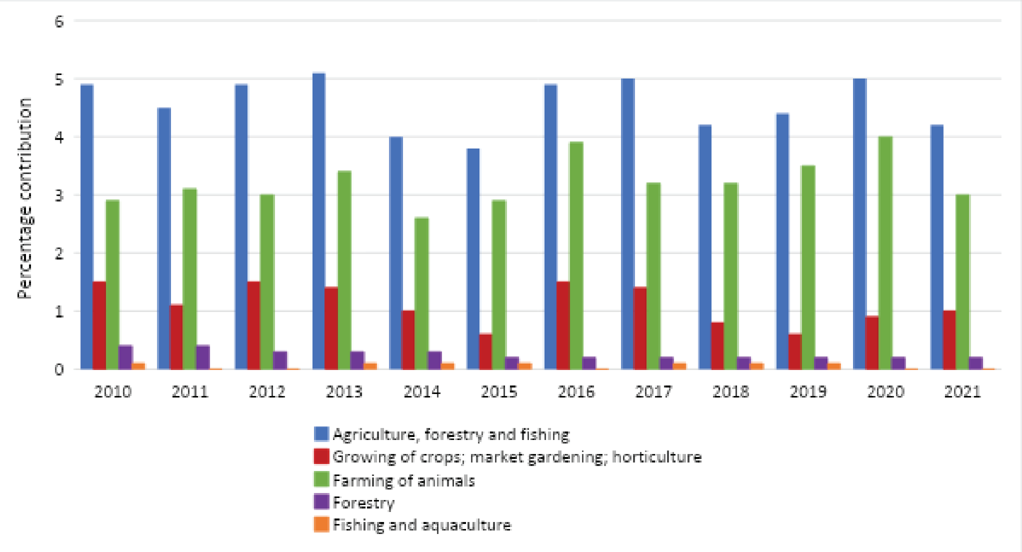
Productivity per worker and economic growth are thus clearly constrained by gender relations and the gender-based division of labour in Lesotho. The social expectation that women perform unpaid care and domestic work reduces the labour supply available to agriculture, affecting production and productivity. It has an impact on the employment patterns of women and men in industry and services, which also have implications for production and productivity. This social expectation affects educational attainment and human capital formation and therefore productivity. Thus, the distribution of unpaid care and domestic work affects long-term economic growth. Moreover, by affecting and differentiating the incomes and savings of women and men when they are not pooled within the household, this distribution of unpaid care and domestic work affects the domestic demand that drives short-run economic growth.

2. Agriculture

Labour-intensive tillage production practices are employed in agriculture in Lesotho. Such practices are affected by household structure and climate change and constrain productivity growth in terms of both yields per unit of land and per worker. Agriculture is the main economic activity for most people in Lesotho. Fifty-eight per cent of the population of Lesotho live in rural areas and 8 per cent in peri-urban areas (Lesotho, Bureau of Statistics, 2021a), but 71 per cent obtain their livelihoods in part through agriculture, which is why improving agricultural productivity is important in the country. However, given gendered differences in poverty and time use, it is not surprising that there are important gender-based differences in agricultural employment, with just under 50 per cent of all employed men working in agriculture and just over 40 per cent of all employed women working in agriculture (World Bank, n.d. (a)). Economic activity in the countryside is dominated by subsistence agriculture, that is, mostly traditional, small-scale, low-output, rain-fed cereal production and livestock rearing with extensive overgrazing. This serves to reinforce the importance of the farm economy in supporting livelihoods – only 188 farms in 2019/20 were defined by the Bureau of Statistics of Lesotho (n.d.) as being "commercial". Climate change and biodiversity loss have had and will continue to have a strong impact on rural livelihoods.

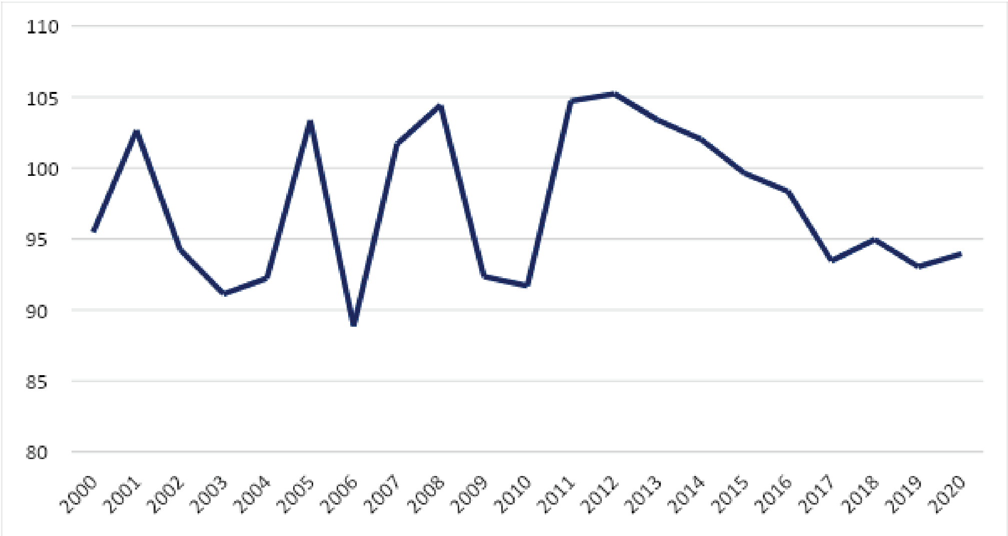
The country's farm economy has distinct characteristics. First, as shown in figure 5, it is dominated by livestock production, accounting for more than 60 per cent of agricultural output. Cattle, sheep, goats, horses and donkeys are the most common types of livestock, while poultry is the most important commercially oriented type of livestock. Large livestock provide milk, dung for fuel and fertilizer, and meat, and they can be used as draught animals. Processed livestock products, such as wool and mohair, are the country's most important agricultural exports. A recent study in south-western Lesotho suggested that a significant majority of rural men own livestock, while only one third of women do (Mokati, Ncube and Bahta, 2022). Moreover, men own large animals, while women own poultry. Thus, the subsector is largely male-dominated. Notwithstanding the importance of the livestock subsector, productivity as measured by a livestock production index has been stagnant for two decades. This is demonstrated in figure 6 – fitting a trend line to the observed values of the livestock production index would result in a near-horizontal curve and demonstrate mediocre productivity performance.

Figure 5: Contribution of agricultural subsectors to gross domestic product, 2010-2021 (Percentage contribution)



Source: *Lesotho, Bureau of Statistics (2020a and 2022).*

Figure 6: Livestock production index, Lesotho, 2000-2020

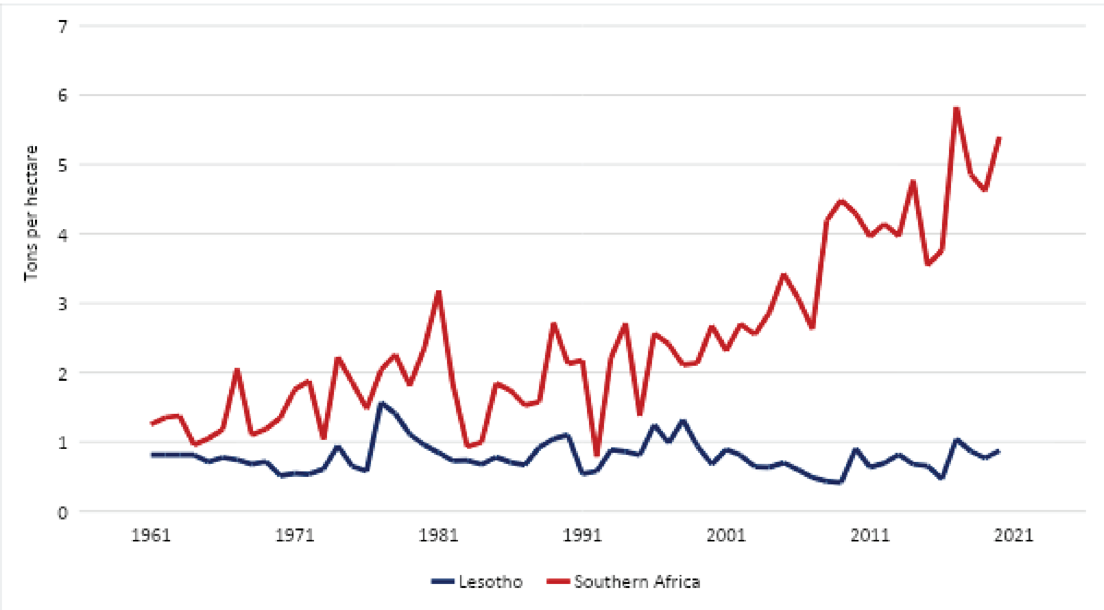


Source: *World Bank (n.d. (a)).*

Cattle are extremely important to the livestock subsector, for both economic and cultural reasons, and there are more than 700,000 cattle in Lesotho. Besides cattle, there are 2 million sheep and goats in the country, serving as an important source of protein. As previously noted, livestock also provides inputs for wool and mohair production.

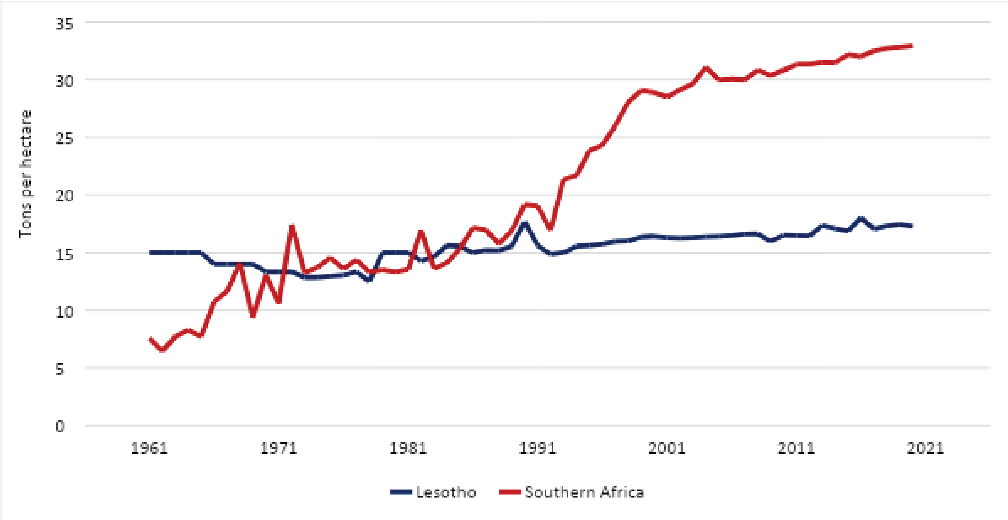
The second characteristic of the agricultural economy in Lesotho is the fact that the stagnant agricultural productivity displayed in figure 6 cannot be explained only by poor performance in the livestock subsector. The most important staple crops in Lesotho include maize, wheat, sorghum, peas and beans (Lesotho Bureau of Statistics, n.d.). Potatoes and vegetables such as cabbage and tomatoes are also of major importance (World Bank, 2019c). Figure 7 depicts data on maize yields per unit of land – a measure of crop productivity – in Lesotho between 1961 and 2019. The importance of maize cannot be overstated: in 2019/20, 49.1 per cent of maize production was consumed by the farming household and only 14.7 per cent was sold for cash (Lesotho, Bureau of Statistics, n.d.). Maize production is thus critical to food security in Lesotho. Figure 7 demonstrates that, between 1961 and 2019, maize productivity per hectare of land only marginally improved and, a trend line fitted to the data points over that period would show that productivity per hectare of land had actually declined**.** In contrast, in Southern Africa as a whole, maize yields increased by a factor of more than four. Yield declines per unit of land were also witnessed in sorghum, peas and beans between 1989 and 2019. Vegetable yields per unit of land started to improve only in the early 2000s and, in any event, increased by just over 30 per cent between 1961 and 2020. Figure 8 provides data on potato yields in Lesotho between 1961 and 2019 and demonstrates that, over the nearly 60-year period, productivity per hectare of land improved only marginally. Moreover, compared with the performance of the Southern African subregion as a whole, it has significantly deteriorated since 1990. Overall, crop productivity per unit of land in Lesotho has demonstrated unsatisfactory performance.

Figure 7: Maize yields, Lesotho, 1961-2021 (Tons per hectare)



Source: *Our World in Data (n.d.).*

Figure 8: Potato yields, Lesotho, 1961-2019 (Tons per hectare)



Source: Our World in Data (n.d.).

The fact that there have been only slight improvements in yields per unit of land explains the lack of improvement in food security in Lesotho. Indeed, in 2020, 28 per cent of those surveyed stated that they had gone without food "many times" or "always" (Afrobarometer, 2021).

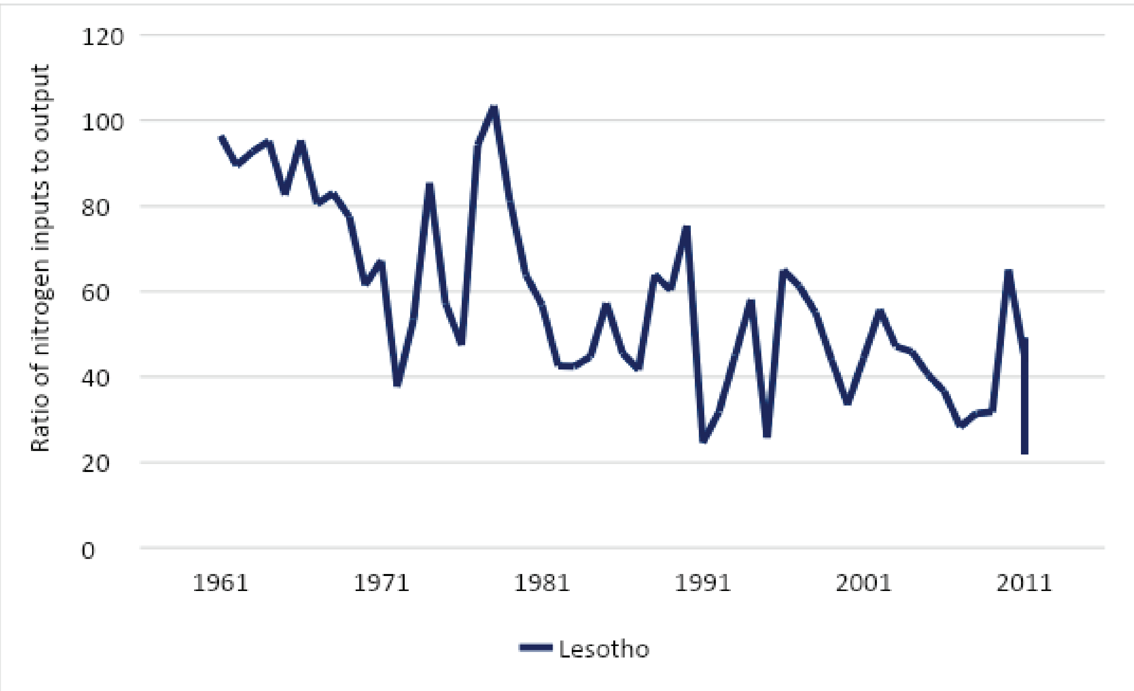
Given the evidence from the Eastern and Southern African subregions that suggests that there are gender-based differences in agricultural productivity per unit of land (UN-Women, 2019), it is possible that such gaps are also witnessed in Lesotho, although a lack of data precludes making definitive statements in that regard. Certainly, women's unpaid care and domestic work responsibilities would have an impact on the time that they would have available to work on the land, and, given that labour is the principal input into farm production, this might affect productivity. Moreover, there are likely to be gender-based differences in crop choices, which are driven by the social expectations reinforced by husbands that women have the responsibility to grow crops that can provide food for household consumption. For example, notwithstanding the fact that men make the principal household decisions over a range of issues, Mokati, Ncube and Bahta (2022) found that rural women were expected to produce, process and prepare food for the household, and they are thus both household managers and food providers. Gender-based differences in crop choices may also affect productivity. With gender-based differences in crop choices, there would also be differences in production processes, which are also gender-based and which might also affect productivity. Viewed cumulatively, it is possible that there are gender-based differences in agricultural productivity in Lesotho.

The agricultural sector in Lesotho faces numerous challenges, one of which is the constraint posed by limited access to land. Although arable land as a share of land area rose from 11 per cent in 2000 to 20 per cent in 2020, with only 0.2 hectares of arable land available per capita in 2018, land availability remains limited (World Bank, n.d. (a)). In this light, it is not surprising that, in 2009/10, over 60 per cent of rural households had land holdings that were smaller than 1.5 hectares (World Bank, 2019b) and that the average size of landholding per rural farm family was less than 1 hectare (World Bank, 2021a). This indicates the scale of the constraints posed by a lack of assets facing men and women farmers in Lesotho and the agricultural sector more generally. A combination of low access to land and low productivity per hectare of land exacerbates food insecurity.

Constitutionally, all land belongs to the King and is held in trust by either males or heads of households under communal land tenure arrangements overseen by local figures of authority ("chiefs"). Limited amounts of land are under private ownership, and the price of that land is far beyond the reach of small-scale farm households. Data from 2016 show that 56 per cent of households had registered land-use certificates for communal land and 34 per cent of households had unregistered land (Lesotho, Bureau of Statistics, 2018). This implies that a significant amount of communal land that is used for crop farming and livestock pasture is not registered. Moreover, notwithstanding the passage of the Land Administration Authority Act of 2010, 65 per cent of all holdings were held by men in 2010, indicating significant gender-based differences in access to holdings of land (FAO, n.d. (a)). The Constitution contributes to that inequality because of its explicit recognition of customary law and practices, which often deny women economic independence (Moshoeshoe, Nchake and Tiberti, 2021). Moreover, through recent research in the southern lowlands of Lesotho, it was found that women had limited rights to the control of productive assets, including land (Mokati, Ncube and Bahta, 2022). While the Act was designed to facilitate the formalization of land tenure and hence improve the security of tenure arrangements, it has not been widely followed, and concerns remain about a clause that allows the State to take over parcels of land that have not been cultivated for at least three years. Nonetheless, the Act has improved women's access to land leases. After the passage of the Act, the number of leases that were jointly allocated to wives and husbands or solely allocated to women increased by a factor of 12 between 2011 and 2015 compared with the preceding 29-year period (Fogelman, 2016).

In terms of farm inputs, self-provided seeds were the most common type of seed used on farms; only 28.5 per cent of farm households purchase seeds (Lesotho, Bureau of Statistics, 2021b). Manure is the most common type of fertilizer used on farms (Lesotho, Bureau of Statistics, n.d.); only 7.7 per cent of farm households purchase fertilizer (Lesotho, Bureau of Statistics, 2021b). However, the efficiency of nitrogen released from manure has been low. Figure 9 demonstrates that, from 2000 to 2013, only about 40 per cent of nitrogen inputs were fully converted into crops in Lesotho.

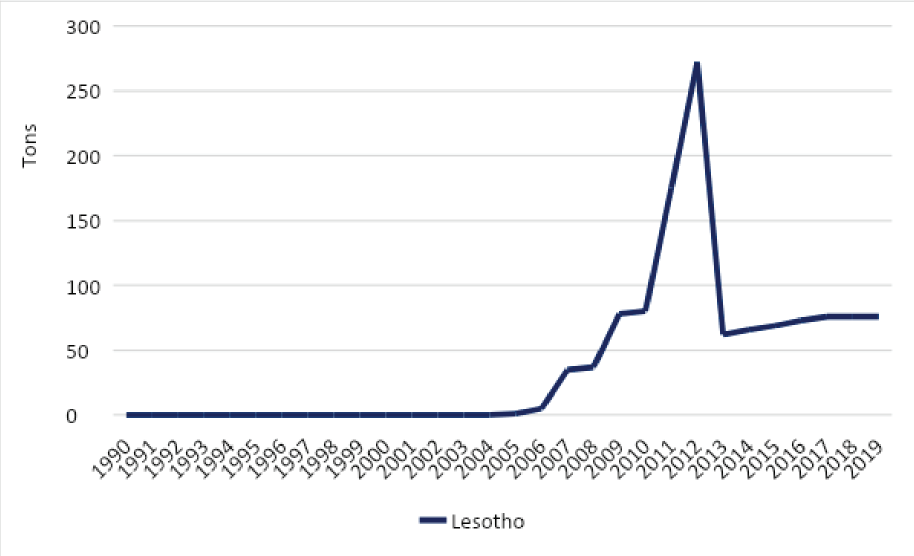
Figure 9: Nitrogen use efficiency, 1961-2011 (Ratio of nitrogen inputs to output)



Source: *Our World in Data (n.d.).*

Since 2005, pesticides have come to be used by many farmers in Lesotho but in limited quantities. This is demonstrated in figure 10.

Figure 10: Pesticide use per hectare of cropland, 1990-2019 (Tons)

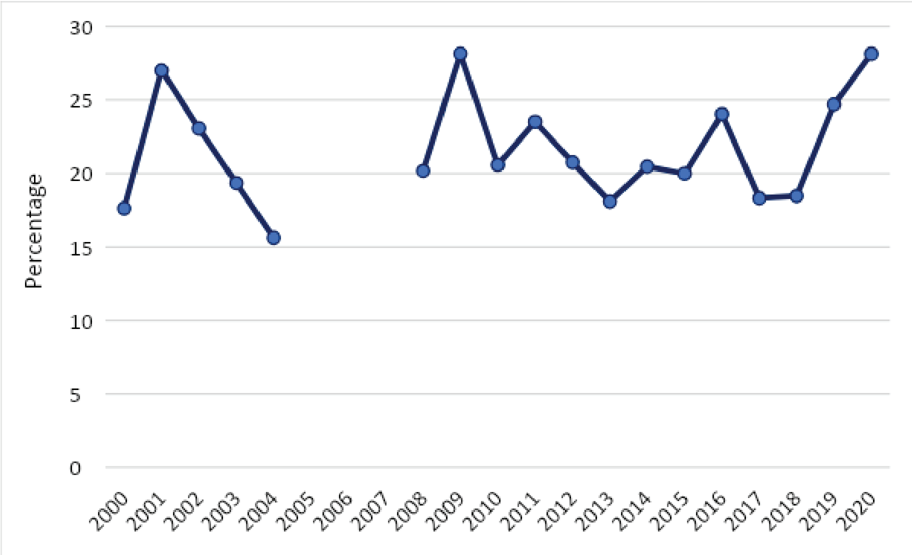


Source: *Our World in Data (n.d.).*

Only a small amount of agricultural land in Lesotho is irrigated (World Bank, n.d. (a)). Ploughs, hand hoes and ox-drawn planters are the most common implements. The use of farm machinery is low, and only 3.7 per cent of farm households pay for the use of a tractor (Lesotho, Bureau of Statistics, 2021b). Research from the southern lowlands indicates that, barring hand hoes, men owned most agricultural tools and equipment (Mokati, Ncube and Bahta, 2022). Family labour is the principal source of on-farm labour; only 7.2 per cent of farm households hire farm labourers (Lesotho, Bureau of Statistics, 2021b). In the light of gender-based differences in expectations around the performance of unpaid care and domestic work, rural employment, land access, and the ownership of tools and equipment, it is likely that there are gender-based differences in agricultural input utilization, which would affect production processes and agricultural productivity per unit of land. Unfortunately, there are no data available to confirm this.

Low agricultural productivity per unit of land may be attributed to cultivation practices that rely on labour-intensive tillage, the inadequate and improper use of fertilizers, a lack of irrigation and climate change. To these supply-side factors can be added a demand-side factor: the rural poverty reported in table 1 reduces the capacity of both women and men farmers to invest in agriculture by purchasing fertilizers, improved seed, and better tools and equipment. However, gender relations also probably result in low productivity in agriculture, as rural women are expected to grow and process food staples but have inadequate resources and limited time because of their unpaid care and domestic work responsibilities. This is in turn compounded by weak extension services, inadequate rural infrastructure and limited access to credit (World Bank, 2021a), each of which is also likely to have gender biases attached.

Figure 11: Food imports as a share of merchandise imports, Lesotho, 2000-2020 (Percentage)



Source: *World Bank (n.d. (a)).*

Note: *The gap between 2005 and 2007 represents missing data.*

The weak performance of the agricultural sector over the past 20 years has seen an increase in the share of food items in merchandise imports to 28 per cent in 2020, as is demonstrated in figure 11. Food exports have been less than food imports for 20 years, meaning that Lesotho is a net food importer. With the value of the loti pegged to the South African rand, this puts additional pressure on the Central Bank of Lesotho to maintain the peg. Wool and mohair exports are the principal non-food farm exports, with the former constituting 3 per cent of all exports in 2019 (IMF, 2022a, figure 2). Food prices are the largest single component contributing to inflation (Khamali, 2020) and, in 2010/11, food and non-alcoholic beverage purchases comprised 49 per cent of consumer expenditures (Damame, 2018). Indeed, about 50 per cent of total household food expenditure is on purchases of cereals (Prifti, Daidone and Miguelez, 2021). The agricultural sector's share of total public expenditure was only 3.3 per cent between 2010/11 and 2015/16 (World Bank, 2019c), which is not as significant as it could or should be. Cumulatively, in terms of government spending, inflation, the trade balance and the exchange rate, the performance of the agricultural sector is a macroeconomic constraint on the growth that is necessary to lift people out of poverty.

3. Industry

The industrial sector is important to the economy in Lesotho, but its productivity, in terms of value added per worker, has been declining since 2012. Three subsectors – water extraction, diamond mining, and textile and apparel manufacturing – constitute the bulk of the industrial sector in Lesotho. Textiles and diamonds constitute over 80 per cent of the total value of the country's exports. Some 85 per cent of all exports go to three countries, namely, Belgium, South Africa and the United States of America (IMF, 2022a). Each of the three subsectors is assessed in the present report.

Thirteen per cent of the people in Lesotho obtain their livelihood from industrial activities, as indicated in figure 3. However, there are gender-based differences in industrial employment. Beginning in 1999, male industrial employment began to increase from a base of 13 per cent to peak at 16 per cent of all male employment in 2016. Thereafter it declined, to stand at 14 per cent in 2019. By way of contrast, female employment in industry began to decline from a peak of 14 per cent in 2002, dropping to 12 per cent of all female employment in 2019 (World Bank, n.d. (a)). Thus, it is more common for men to be employed in industry than women, but the difference is surprisingly small, distinguishing Lesotho from other countries in the Southern African subregion.

Water is the country's largest natural resource, with year-round flows from natural springs fed by renewable groundwater reserves. The manner in which these reserves are recharged and cleaned through the natural system makes it physically, chemically and biologically clean. Through the Lesotho Highlands Water Project, dams, weirs and tunnels are used to transfer water from the mountains of Lesotho to the Gauteng area in South Africa while simultaneously providing Lesotho with dam-generated hydroelectric power (Ryan, 2015). The Project came about because parts of South Africa are water-scarce, while, as previously mentioned, water is the most abundant natural resource in Lesotho: total water consumption in Lesotho is about 2 m^3/s, while total water availability is about 150 m^3/s. The first phase of the Project was carried out between 1990 and 2004, while the second phase commenced in 2014 and has yet to be completed. Since the completion of the dam, weir and tunnel infrastructure for the first phase, in 2004, approximately 900 million m^3 of water has been exported annually to South Africa, while 72 MW of hydropower has been generated at the Muela Power Station (IMF, 2022a). The second phase is designed to increase the water supplied to South Africa by 50 per cent. In 2021, water exports were 8 per cent of all merchandise exports (Central Bank of Lesotho, 2022). Royalties from water exports contributed an average of 5 per cent of total government revenue between 2007/08 and 2021/22, growing at an average of 0.8 per cent per year over the same period (IMF, 2022a, table 1). However, between 2017/18 and 2021/22, water royalties declined to less than 3 per cent of gross domestic product (IMF, 2022a).

Although it is part of a highly capital-intensive subsector, the Lesotho Highlands Water Project has not directly led to significant employment creation since its inception. According to the Lesotho Highlands Development Authority (2021), which oversees the Project, the entire Authority had 388 employees as of March 2021. These workers are productive in terms of value added per worker, but there are not many of them and so they do not significantly contribute to sectoral productivity per worker. However, as the construction for the second phase of the Project picks up, construction employment and output should increase, and this may affect productivity per worker. At the same time, the completion of the first phase of the Project required the displacement of 3,400 households that, while being relocated, received little or no compensation for their displacement. Moreover, beyond direct displacement, two thirds of the population living in the areas affected by dam, weir and tunnel construction experienced a decline in food security because of a loss of farmland and soil erosion (Ryan, 2015). This has resulted in precarious living conditions for displaced communities, competition with host communities over access to natural resources and, at times, conflict.

The challenges facing the water subsector in Lesotho go beyond that of completing the second phase of the Lesotho Highlands Water Project. Water exports are determined by treaty and, when the second phase is completed, it is expected to generate royalties of close to 1 per cent of GDP beginning in the fiscal year 2027/28 (IMF, 2022b). While the prospect for water exports looks favourable, many households, and especially rural households, have a poor supply of water that is frequently unsanitary, meaning that there is significant water insecurity in Lesotho despite it being a water-rich country. A lack of potable water for sanitation is strongly correlated with poverty (World Bank, 2021a). Moreover, it is expected that domestic water demand will increase significantly in the coming decades. At the same time, climate change variability is increasing evapotranspiration rates, drying wetlands and natural springs, and decreasing per capita water availability. Then there is the issue of agriculture. Of the arable area that is potentially irrigable, only 2 per cent has been irrigated. Yet one of the most important ways by which agricultural productivity per unit of land could be improved is expanding access to timely and adequate quantities of irrigation water. Granted, there is an integrated catchment management plan that involves the capture and storage of water in reservoirs. Nevertheless, it remains the case that, for a water-rich country, there is a surprising lack of strategic attention paid to improving the management and distribution of water resources in ways that enhance the resilience of rural inhabitants when constructing their livelihoods. Clearly, this is an important challenge.

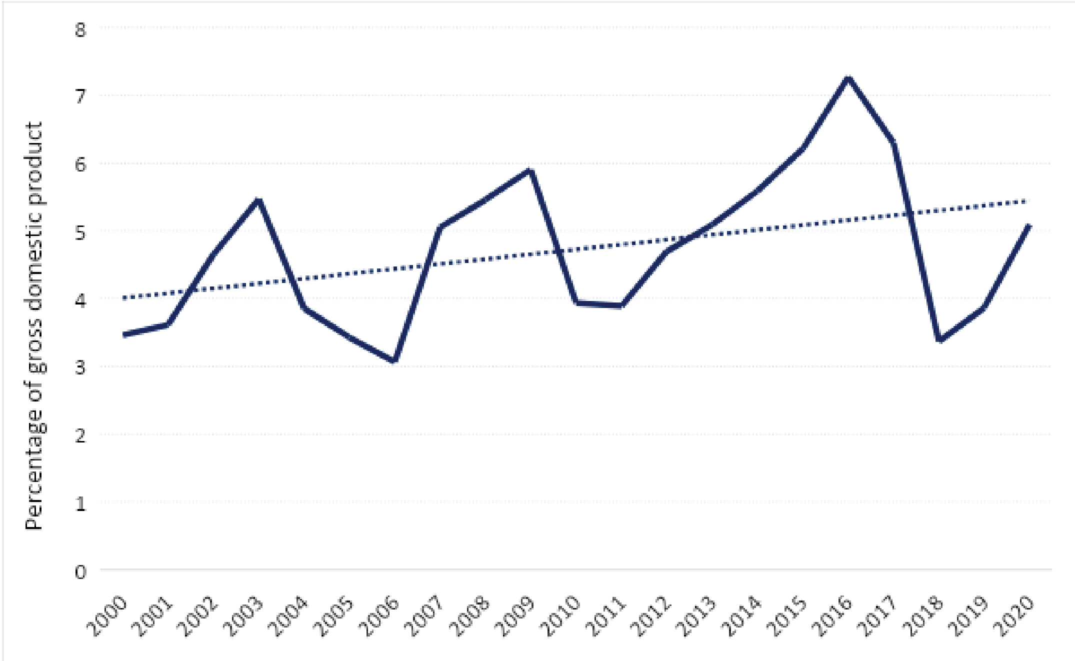
Large-scale diamond mining in Lesotho expanded rapidly in the early 2000s and has made an important contribution to the economy and to the growth of the private sector. It has, however, caused displacement from arable fields and pastures and has not created employment opportunities (Maluti Community Development Forum, 2021). Diamond mining is largely but not exclusively carried out by foreign private sector firms, with the Government having a minority stake in the equity of the foreign-invested enterprises. The share of the mining and quarrying subsector in real GDP has increased rapidly, from 0.9 per cent in 2004 to 4.5 per cent in 2017 (Central Bank of Lesotho, 2020, appendix III) as a result of increased production. This is in part a function of new private sector firms entering into the subsector and in part a function of favourable prices in 2015 and 2019 (World Bank, 2021a). However, because it is highly capital-intensive, the diamond mining industry contributes relatively little to employment. Even though diamond mining workers are among the best paid employees in the country (Lesotho, Bureau of Statistics, 2021a), and they are productive in terms of value added per worker, given that there are so few of them (estimated at solely 1,500 (Khoabane, 2020)),[14] they do not significantly contribute to national estimates of productivity per worker. The number of those employed in the informal and, until recently, illegal, artisanal and small-scale mining subsector is not known. It does appear, however, that, in several mining areas, when large-scale diamond mining emerged in the early 2000s, it displaced artisanal and small-scale mining, which undermined an important source of rural livelihoods, with consequences that persist in communities to the present (Makhetha, 2016).

The large-scale diamond mining industry has been an important source of export earnings for Lesotho (Central Bank of Lesotho, 2012). Thus, while diamond exports constituted 26 per cent of the total value of all exports in 2010, by 2019 just under 40 per cent of all exports were diamonds (IMF, 2022a). Royalties and dividends from diamond mining were equivalent to 29.6 per cent of mining value added in 2016/17, producing government revenue equivalent to 1.3 per cent of GDP in 2017/18 (World Bank, 2021a). Royalties from diamond exports are approximately 21 per cent of the Government's total non-tax revenue, and water and diamond royalties together account for about three quarters of total non-tax revenue (IMF, 2022a, figure 3).

However, it can be argued that the diamond mining subsector could contribute more to combating the country's development distress. The statutory royalty rate is 10 per cent, which is low compared with that in South Africa. Moreover, despite the fact that the rate can be negotiated on a case-by-case basis, in most instances, it ends up being less than the statutory rate. The corporate income tax rate paid by mining companies is lower than that paid by mining companies in comparable countries, while the capital structure of mining companies facilitates profit-shifting. Furthermore, corporate income tax can be reduced through the indefinite declaration of carry-forward losses (IMF, 2022a). Beyond this, the equity stake held by the Government in the country's foreign-invested private sector mining enterprises is less than that held by Governments in comparable countries (Khoabane, 2020). In sum, diamond mining could make a far stronger contribution to the Government's revenue base than it currently does, and there is a need to optimize domestic resource mobilization from the diamond mining subsector. Moreover, there is some potential to internalize more of the diamond value chain within Lesotho and thus capture more value added, as has been done in Botswana.

14 In the 2019 Labour Force Survey, it is stated that the numbers employed in mining and quarrying is far larger, that is, 24,227 people, of whom 83 per cent are in formal employment (Lesotho, Bureau of Statistics, 2021a). The reason for the discrepancy is not clear.

Figure 12: Natural resource rents, Lesotho, 2000-2020 (Percentage of gross domestic product)



Source: *World Bank (n.d. (a)).*

Rent can be defined as the difference between the price of a commodity and the average cost of producing or extracting it. Water and diamonds accrue rents because they are not produced but are rather natural resources that have a fixed supply. Natural resources in fixed supply command prices well in excess of their costs of extraction. Rents arising from natural resource extraction quantify the depletion of a country's stock of natural capital. It follows that such rents, if consumed in the present, come at the expense of future consumption. In this light, figure 12 depicts data on natural resource rents as a share of GDP between 2000 and 2020. The key point to take away from figure 12 is that the share of natural resource rents in the GDP of Lesotho is rising over time. However, such a pattern of extraction cannot be relied upon to fund future consumption; is not sustainable in the long run because natural resources such as water and diamonds become depleted. The exception to this principle is when natural resource rents are used to fund current sustainable investments that increase productivity per worker or that restore depleted natural resources. This has not been the case in Lesotho. Thus, an important component of the country's economic growth is predicated on unsustainable consumption patterns that depend on resource depletion.

Textile and apparel manufacturing is the third industrial subsector that needs to be considered in Lesotho. While the subsector has its origins in efforts to supply textiles and garments to sanctioned apartheid South Africa, it started to grow significantly only in the early 2000s. Owing in part to the African Growth and Opportunity Act of 2000 and its favourable rules-of-origin provisions, as well as its duty- and quota-free access to the market in the United States, private sector textile and apparel manufacturing was a strong driver of economic growth in the 2000s (World Bank, 2021a), and the subsector continues to be of great economic importance. In 2018, the manufacturing of textiles (including denim jeans, woven garments, knit garments and industrial workwear) and footwear together generated 12 per cent of GDP at constant prices (Central Bank of Lesotho, 2021) and, in 2021, the subsector accounted for 54 per cent of all merchandise exports (Central Bank of Lesotho, 2022). Between 2015 and 2019, the textile, apparel and footwear export subsector made the single largest contribution to the growth of the economy (IMF, 2022a). Nonetheless, it is widely perceived that the subsector "has been stagnating for some time" (IMF, 2022b, footnote 3). Thus, while it is the largest formal private sector employer, with about 54,000 workers at its peak in early 2003, the subsector has subsequently witnessed a decline, and when last estimated it employed just under 40,000 workers, of whom 80 per cent were women (World Bank, 2021a). Since 2000, textile and apparel manufacturing has had a major impact on female labour force participation among young poor rural women, who have yet to face the significant unpaid care and domestic work responsibilities associated with having a family. In this light, it is less surprising that manufacturing workers in Lesotho are poorly paid, with mean monthly earnings being only 14 per cent more than those in the agriculture, forestry and fishing sector (Lesotho, Bureau of Statistics, 2021a). The subsector is primarily foreign-owned, with private sector investors mainly from South Africa and Taiwan Province of China. The subsector has a range of formal- and informal-sector linkages to other economic activities in the private sector, such as the small packaging industry, road freight transporters, courier services, clearing agents, security, passenger transport, traders that sell food to workers, residential accommodations, water, and electrical and telecommunications utilities. In this way, textile and apparel manufacturing has made a significant contribution to the wider growth of the private sector. While these linkages are far from being as deep as what would be optimal, they nonetheless generate thousands of jobs (World Bank, 2021a). However, the primary activity carried out in the subsector is that of assembly, and most inputs have to be imported, resulting in the subsector producing only limited value added and consequently not increasing productivity per worker.

Although of major economic importance, the textile and apparel manufacturing subsector was not able to maintain strong growth during the 2010s, as it did during the previous decade. Other countries, most notably Ethiopia and Kenya, sought to take advantage of the African Growth and Opportunity Act of 2000 and, producing in much greater volumes, have posed significant competition to the private sector textile and apparel exporters of Lesotho, which witnessed declining export volumes to the United States. At the same time, the heavy reliance on imported inputs and the resulting time spent moving inputs from port to factory increased lead times for suppliers to finish their products at a time when the competition was offering shorter lead times in response to demand. Some private sector firms have been able to reposition themselves and increase exports to South Africa, but some foreign investors have withdrawn and shut their factories. The result has been corporate concentration within the textile and apparel sub-sector, where the four largest private sector firms employ more than half of all workers (World Bank, 2021a). At the same time, the subsector's favourable corporate income tax rate has been maintained, which, at 10 per cent, is some 60 per cent less than the formal corporate income tax rate of 25 per cent. While the corporate income tax regime may encourage some private sector firms to remain in operation in the country, it concurrently reduces government revenue from the subsector.

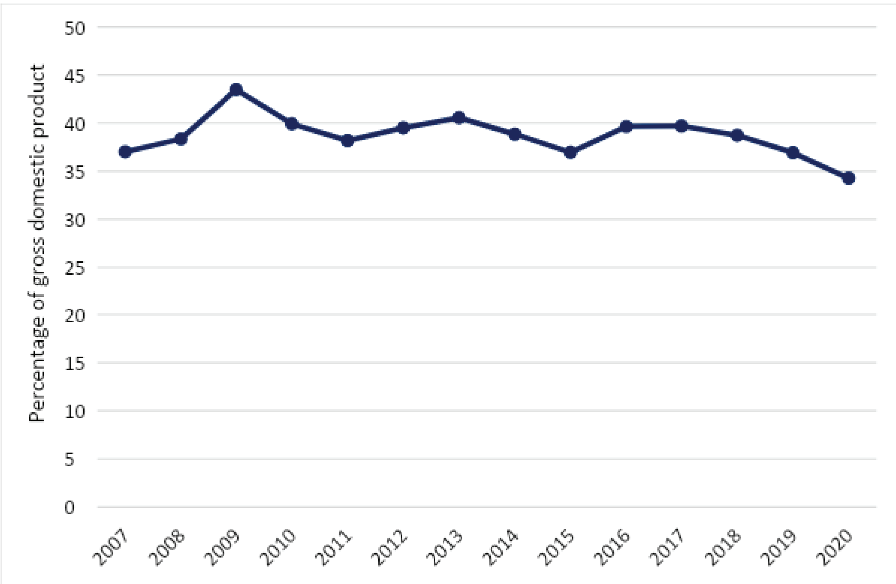
4. Services

Services in Lesotho consist of a range of activities, including wholesale and retail commerce, encompassing, for example, shops, hotels and restaurants; communications; financial services; professional services, such as education services and medical services; and government services. Many emerging digital technologies are also connected to the service sector. As seen in figures 2 and 3, services comprise more than 40 per cent of the GDP of Lesotho and represent more than 40 per cent of the country's employment; it is the largest economic sector. Thus, the stagnant productivity of the service sector in terms of value added per worker, as displayed in figure 4, undermines growth and social development in Lesotho.

Wholesale and retail commerce have large numbers of low productivity jobs in terms of value added per worker. Communications and professional services make a relatively small contribution to sectoral productivity because of the low numbers that are employed in those subsectors. Similarly, financial services make a relatively small contribution to economic activity; while workers in the subsector are productive in terms of value added, the numbers employed are quite low, limiting the impact on sectoral productivity. However, since 2015, there have been improvements in the financial sector because of growth in financial inclusion, in particular among the rural poor using mobile money. By 2021, the number of adults with access to more than one formal financial product had increased by 40 per cent over the figure for 2011 (IMF, 2022a). As a result, between 2015 and 2019, financial activity increased in real terms by more than 600 million maloti[15] (Lesotho, Bureau of Statistics, 2022a). Nonetheless, only about 10 per cent of households are able to borrow from financial institutions, and the share of micro-, small and medium-sized enterprises with access to credit is low compared with those in other countries in the Southern African Customs Union. Thus, the performance of Lesotho in some key dimensions of financial services, in particular in intermediating savings and investment in the country, could be improved.

Two service subsectors are particularly important in Lesotho: government and public sector services, and travel and tourism services. With regard to the former, IMF (2022b) describes Lesotho as having a "government-driven growth model". This is because public consumption and investment as a share of total consumption and investment increased between 2007 and 2020, while government spending overall as a share of GDP exceeded 50 per cent in 2021 (IMF, 2022b, figure 1). Figure 13 depicts data on general government consumption expenditure in Lesotho between 2007 and 2020. General government consumption expenditure includes all government recurrent expenditure, including the compensation of government employees. It also includes expenditure on national defence and security, although it excludes government military expenditure that is part of government capital formation. As such, general government consumption expenditure provides evidence relating to an important part of the Government's role in final demand in the economy. As shown in figure 13, general government consumption expenditure was consistently more than 35 per cent of GDP between 2007 and 2020. Public sector employee compensation was 18 per cent of GDP in 2020, the highest in sub-Saharan Africa, and it is rising. However, public employment per 1,000 workers was lower in Lesotho than in other countries in the subregion and beyond (World Bank, n.d. (b)). Thus, there was a wage premium for working in the public sector of over 60 per cent, the highest in the subregion. It is not possible to accurately determine the productivity of these workers because of issues in measuring productivity in the public sector.[16] At the same time, public sector capital expenditure was 13 per cent of GDP in 2020, the most in the subregion. Thus, comparatively well-paid public sector workers and public investment are key drivers of final demand, and economic growth, in Lesotho.

Figure 13: General government consumption expenditure, Lesotho, 2007-2020 (Percentage of gross domestic product)



Source: *World Bank (n.d. (a)).*

15 Equivalent to approximately $31 million.

16 There are no market transactions in the civil service, and activities often require immeasurable inputs from multiple individuals and organizations. Output need not be self-evident, as it does not take a physical form. Hence, estimating productivity is a challenge.

The World Bank (2021a) argues that this growth model is unsustainable because more than 30 per cent of government revenue comes from transfers received from the Southern African Customs Union, which collects customs and excise taxes for Botswana, Eswatini, Lesotho, Namibia and South Africa. Under the Southern African Customs Union, these countries share a common external tariff and a common excise tariff. Collected revenues are paid into the National Revenue Fund of South Africa and are then shared among members according to an established revenue-sharing formula. However, transfers from the Southern African Customs Union are both volatile and have been on the decline over the past 15 years (World Bank, 2021a). The size of these transfers and their volatility make fiscal policy strongly procyclical, thus aggravating boom-and-bust cycles because, when transfers are high, government spending ratchets up and is then not cut when transfers decline. To compensate for the procyclical character of these transfers, the Government borrows to fund its expenditure,[17] resulting in increased government debt as domestic and external borrowing grows to offset declines in those transfers. Government debt reached 64.7 per cent of GDP in late 2020, and accumulated domestic arrears reached 3.3 per cent of GDP in early 2020 (World Bank, 2021a). External debt, equivalent to 45 per cent of GDP, was 70 per cent of all debt, although 80 per cent of external debt was owed to multilateral lenders on concessional terms (IMF, 2022b); the Government is not in debt distress.

The Government relies excessively on revenue from transfers from the Southern African Customs Union, this fosters a cautious attitude towards domestic resource mobilization, the diversification of government revenue sources and increasing the intensity of domestic revenue generation. However, tax revenue, equivalent to 22 per cent of GDP, was stable over the period between 2011 and 2021 (World Bank, 2021a). Moreover, public sector employment as a share of all employment is only 9 per cent, which is comparatively low (World Bank, n.d. (b)); fewer than 70,000 people work in government and State-owned enterprises in Lesotho (Lesotho, Bureau of Statistics, 2021a). At the same time, while the public wage bill is quite high as a proportion of government expenditure, 30 per cent more women are employed in the public sector than men (Lesotho, Bureau of Statistics, 2021a); given the confinement of most women to economic activities that are poorly remunerated and the widespread prevalence of a gender gap in wages, public sector employment is one of the few activities open to women in which rewards can be commensurate with education and experience. Indeed, the gender pay gap operates in favour of professional women in the country's public sector (World Bank, n.d. (b)). Thus, the issue is not necessarily the size of the public sector wage bill but, rather, the revenue sources of the Government and how those sources might be both diversified and enhanced.

Beyond employment in public services, the other significant service subsector in Lesotho is tourism. While there are inconsistent estimates across data sources, according to the Travel and Tourism Development Index of the World Economic Forum (2022b), tourism makes an important contribution to the economy in Lesotho, with travel and tourism being responsible for over 7 per cent of GDP and 7 per cent of all jobs in 2019. However, tourism receipts per capita were only $18 (Lesotho, Ministry of Tourism, Environment and Culture, 2019), in large part because most spending on travel and tourism is domestic in origin. In 2019, international arrivals represented only 7 per cent of all tourist spending and contributed only 2 per cent to total exports (World Travel and Tourism Council, n.d.). Day trippers from South Africa were the source of 85 per cent of international arrivals in 2019 (World Travel and Tourism Council, n.d.). The vast bulk of tourism was for business – over 90 per cent (Ibid.), and those leisure tourists who do visit stay on average only 3.2 nights (Ministry of Tourism, Environment and Culture, 2019).

Although Lesotho has significant travel and tourism assets, the subsector is underdeveloped. International arrivals are constrained by high flight costs and inadequate airport infrastructure. Major assets are inaccessible to tourists because of poor to non-existent roads, poor facilities and a lack of maintenance. The country has only 143 registered private sector accommodation establishments, the bulk of which are clustered around key urban centres. Many local communities do not recognize the economic benefits that might arise from enhanced private sector travel and tourism facilities and experiences, while private sector travel and tourism entrepreneurs are constrained by a lack of access to finance,

17 To be clear, government borrowing does not fund government salaries.

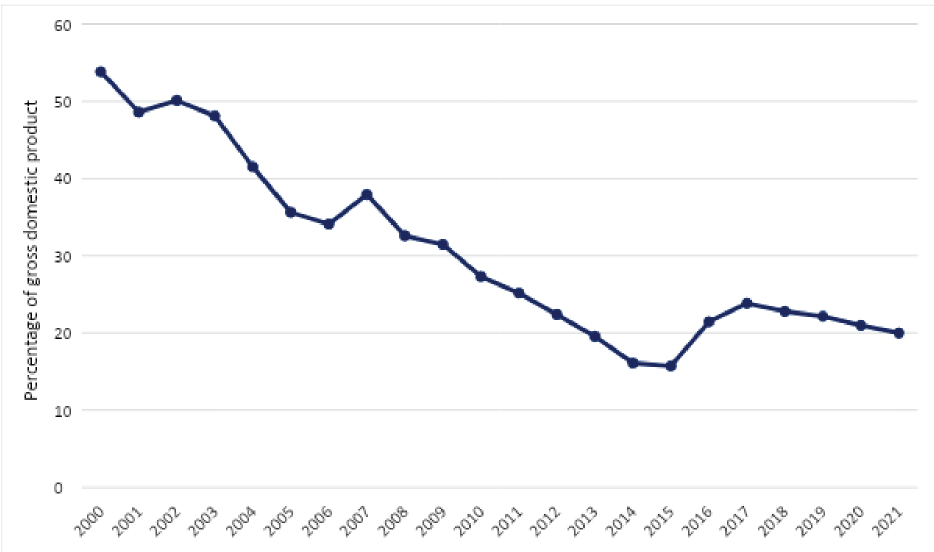
insecure land rights and a lack of skills development in tertiary education. Finally, the travel and tourism subsector has the potential to be a much more important employer, in particular of women and young people. There is thus a major need to improve tourism infrastructure, private sector business conditions and services.

5. Labour migration and remittances

Historically, international labour migration has been important to the economy in Lesotho, and labour exports have been a key component of employment patterns. With inadequate economic growth, rural poverty, a lack of formal job opportunities and poor pay for too many of the formal jobs that exist, many people are unable to find remunerative work in Lesotho. This is especially so for skilled workers, who are for the most part limited to employment by the Government. Therefore, many people migrate in search of work, primarily to South Africa. During the apartheid regime, most migrants were employed in the mining industry in South Africa. During the past two decades, the share of migrant labour in the formal mining subsector in South Africa has declined significantly, and many people from Lesotho who work in mining there currently do so in the informal artisanal and small-scale mining subsector. This has led to changes in the pattern of migration. There has been an increase in the number of women migrating from rural Lesotho to South Africa to work in factories or on farms, to engage in white-collar occupations or to do paid care and domestic work (Lesotho, Bureau of Statistics, 2016).

As a consequence of sizable labour migration, in the 1980s, remittances were twice the size of the GDP of Lesotho, when 120,000 people from Lesotho worked in South Africa. However, during the past two decades, remittances as a share of GDP have dropped, as illustrated in figure 14, in part because of retrenchment in the mining industry in South Africa. Nonetheless, since 2010, remittances have been over 20 per cent of GDP. This makes Lesotho one of the most remittance-dependent countries in the world.

Figure 14: Remittances as a share of gross domestic product, 2000-2021 (Percentage)



Source: *World Bank (n.d. (a)).*

At least 60 per cent of households receive monthly remittances from workers outside the country (Famine Early Warning Systems Network, 2022), and these remittances play an important part in the resilience of Lesotho in the face of shocks such as climate change (IOM and UNDP, 2022). Remittances are increasingly transferred through mobile money, which helps to reduce transfer costs and time and to improve access at both the sending and receiving ends. Rural households are especially reliant on remittance receipts, and such receipts have made a significant contribution to poverty reduction by sustaining the private consumption of poorer rural households. The decline in remittances in recent years has thus undermined attempts at addressing poverty and inequality (IMF, 2022a). At the same time, there has been significant migration of professionals to South Africa to take advantage of the greater economic opportunities there. This has not, however, offset the decline in remittances. Moreover, because of the costs attached to remittance transfers, a relatively small portion of remittances stay in the formal financial system, limiting the opportunities for remittances to be channelled into savings and investment. Thus, the ongoing importance of remittances demonstrated in figure 14 is a stark reminder of the country's development challenges.

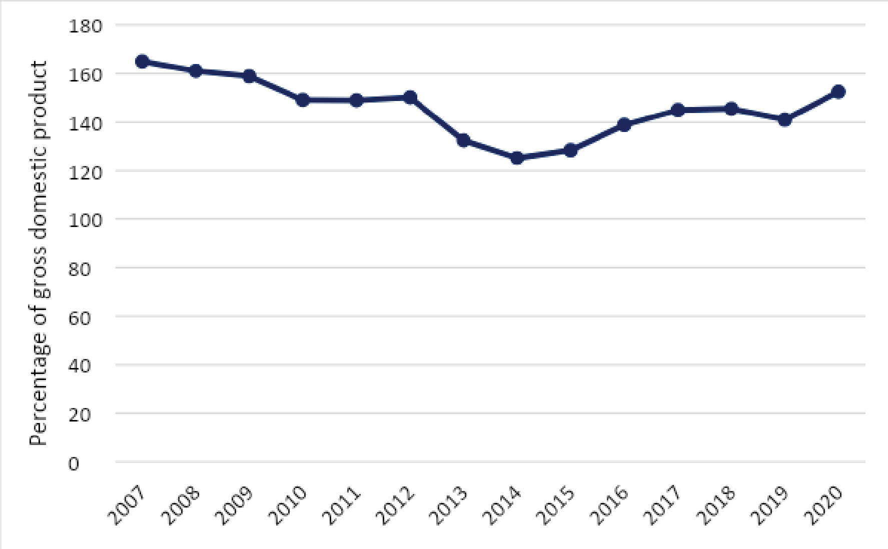
The decline in formal employment opportunities in mines in South Africa has resulted in an increasingly common pattern of migrants from Lesotho returning home or wishing to return home. Similarly, migrant workers in Lesotho invariably return home. Given the reality of such circular migration, there is a need to provide appropriate mechanisms that support the reintegration of migrants who return to Lesotho, including social protection measures. However, the Government's response to this has been limited, which is not surprising given that it has not been able to leverage the development opportunities provided by having a pool of labour migrants, including skilled labour migrants, in a neighbouring country.

6. Trade and foreign direct investment

Lesotho is an open and indeed trade-dependent country, completely surrounded by its major trading partner, South Africa, which accounts for more than 80 per cent of the country's consumer imports and nearly 30 per cent of its exports. Lesotho is a signatory to a number of bilateral and multilateral agreements governing trade and international economic relations. It is a member of the Southern African Customs Union and SADC. It is one of the four members of the Common Monetary Area and its currency is thus pegged at par with the South African rand. Lesotho therefore has to follow the monetary policy of South Africa. It has market access opportunities through the African Growth and Opportunity Act, economic partnership agreements and the recently implemented Agreement Establishing the African Continental Free Trade Area.

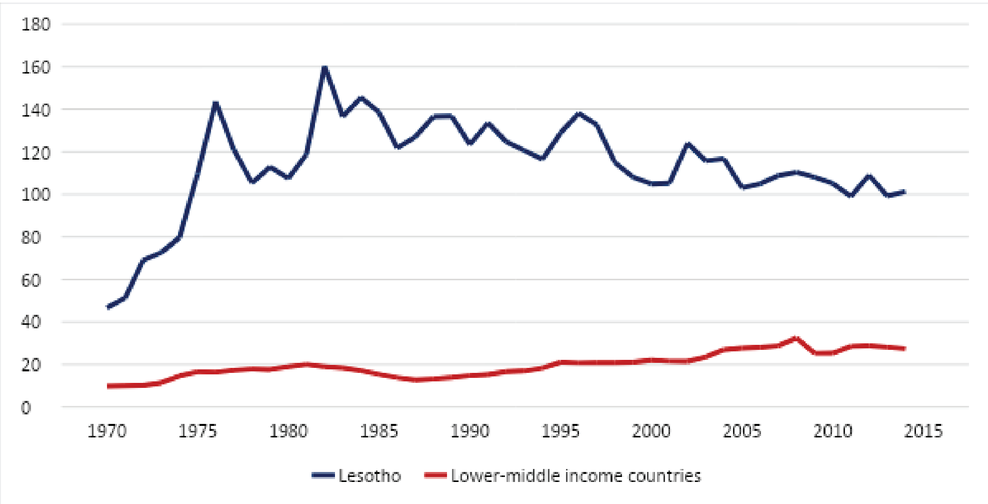
Figure 15 shows that, notwithstanding a small decline between 2012 and 2014, trade is, at more than 150 per cent of GDP in 2020, important to the economy in Lesotho. Figures 16 and 17 provide a breakdown of this openness to trade flows. Figure 16 depicts the value of merchandise imports into Lesotho between 1970 and 2014. It demonstrates that, since 2000, at more than 100 per cent of GDP, the country's imports were roughly equal to the sum of the domestic production of goods and services. Moreover, in the period 2007–2020, imports as a share of GDP were more than four times that of the average of lower-middle-income countries. Clearly, Lesotho is highly dependent on imports. It imports about 3,000 products (IMF, 2022a), consisting mainly of food, fuel, fabrics, machinery and building materials. The country's principal trading partners are Belgium; China; Hong Kong, China; the Republic of Korea; South Africa; Taiwan Province of China; and the United States. There are gender dimensions to the import sector of Lesotho; the country is a net food importer, but imported food preparation is, like all food preparation, largely done by women as part of their unpaid care and domestic work responsibilities. Imports needed for textile and apparel manufacturing are largely worked on by women employees.

Figure 15: Trade as a share of gross domestic product, 2007-2020 (Percentage)



Source: *Our World in Data (n.d.).*

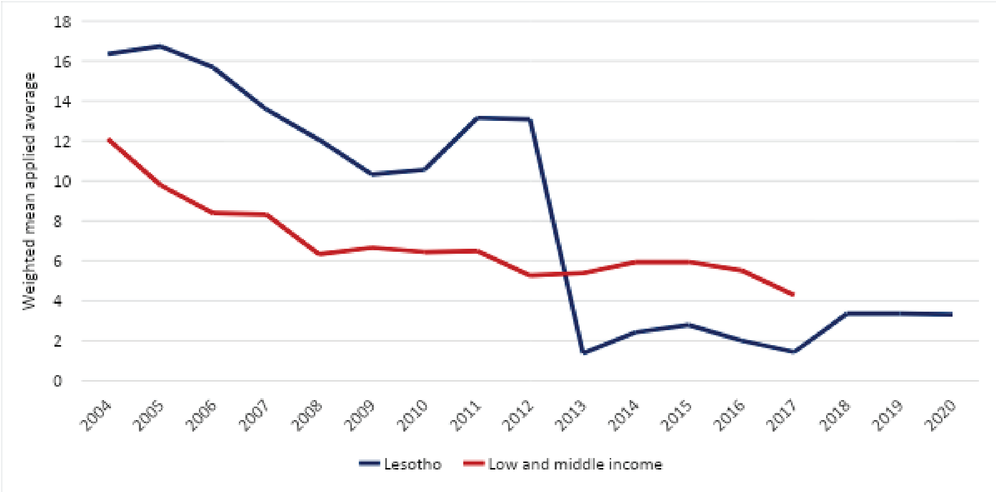
Figure 16: Value of imported goods as a share of gross domestic product, 1970-2014 (Percentage)



Source: *Our World in Data (n.d.).*

Figure 17 is aimed at explaining the dependence of Lesotho on imports. It provides the weighted mean tariff applied across all products between 2004 and 2020 and demonstrates that the country's tariffs have declined substantially since 2012 and that, since 2012, the country's weighted mean applied tariff across all products has been, at less than 4 per cent, low in both absolute and comparative terms. Thus, imports entering Lesotho are subject to relatively low tariffs.

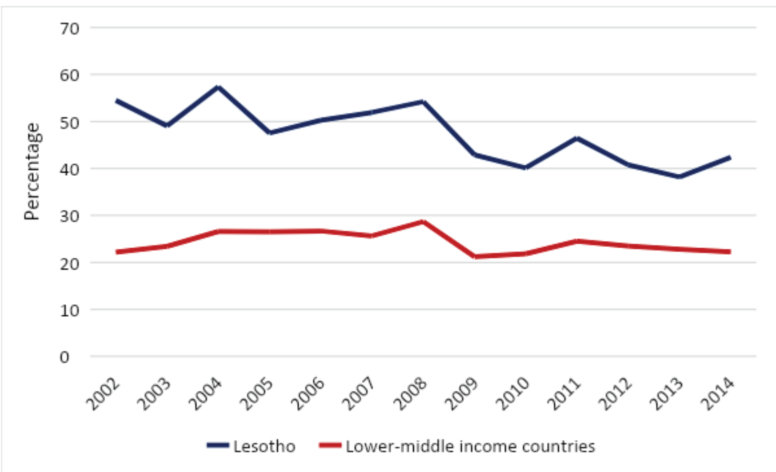
Figure 17: Weighted mean tariff applied across all products, 2004-2020 (Percentage)



Source: Our World in Data (n.d.).

Figure 18 shows the country's exports as a share of GDP between 2002 and 2014 and demonstrates that Lesotho ran a significant balance-of-trade deficit, in that exports as a share of GDP were, at about 40 per cent between 2010 and 2014, far lower than imports as a share of GDP. More recently, the trade balance has narrowed; since 2015, imports as a share of GDP have decreased and exports as a share of GDP have increased, meaning that the country's net exports have improved. Having said that, the trade balance remains in deficit and, prior to 2019, remained just under 30 per cent of GDP. At the same time, it must be noted that Lesotho is far more export-oriented than other lower-middle-income countries. While Lesotho exports about 300 types of products, the bulk of the country's exports are narrowly concentrated in textiles and apparel and diamonds, which are private sector-led industries, and water. Employment in diamond mining and water is male-dominated, while employment in textiles and apparel is female-dominated, and there are thus gender dimensions to the export sector. The agricultural sector, which is the most important sector in terms of employment, is not a significant exporter, although private sector raw wool and mohair exports to South Africa are increasing and are the most important agricultural export. Belgium, South Africa and the United States receive 85 per cent of exports from Lesotho (IMF, 2022a).

Figure 18: Value of exports as a share of gross domestic product, 2002-2014 (Percentage)

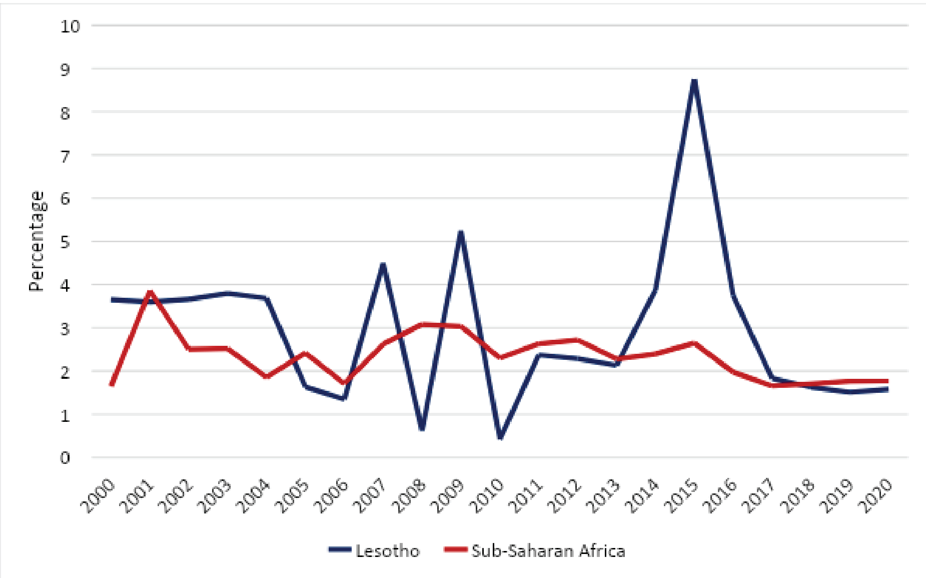


Source: Our World in Data (n.d.).

As previously noted, the export sector is dominated by private sector foreign-invested enterprises in both diamond mining and textiles and apparel. Employment in diamond mining is male-dominated while employment in textiles and apparel is female-dominated, and there are thus gender dimensions to employment arising from foreign investment. The banking subsector is also largely privately foreign-owned and is both well-capitalized and highly liquid (IMF, 2022a). The financial sector in general has reached more people in Lesotho over the course of the past two decades. While part of the reason for the increase in financial inclusion is an increase in the numbers of bank branches per 1,000 people, a far more important reason has been the proliferation of mobile money services. However, the financial sector has been less successful at shifting local savings into investment, in particular for micro-, small and medium-sized enterprises. It can be difficult for entrepreneurs with small businesses to gain access to the appropriate contacts in financial institutions to secure access to credit; moreover, the terms and conditions governing access to credit are bureaucratic and onerous, and the range of financial products available to such entrepreneurs is limited.

FDI in Lesotho remains low. Figure 19 depicts FDI as a share of GDP between 2000 and 2020. FDI represented less than 2 per cent of GDP between 2016 and 2020. Spikes in FDI before 2010 represent inward private sector investment in textiles and apparel, while the spike in inward investment in 2015 was in private sector diamond mining. The low shares of FDI in recent years can be explained in part by outflows from foreign-owned private commercial banks as investors sought both higher returns and a broader range of investment opportunities for their liquid assets (World Bank, 2021a). It can also be explained in part by limited export-oriented investment opportunities, given the undiversified character of the country's exports, as well as the undeveloped character of its domestic debt market.

Figure 19: Foreign direct investment as a share of gross domestic product, 2000-2020 (Percentage)

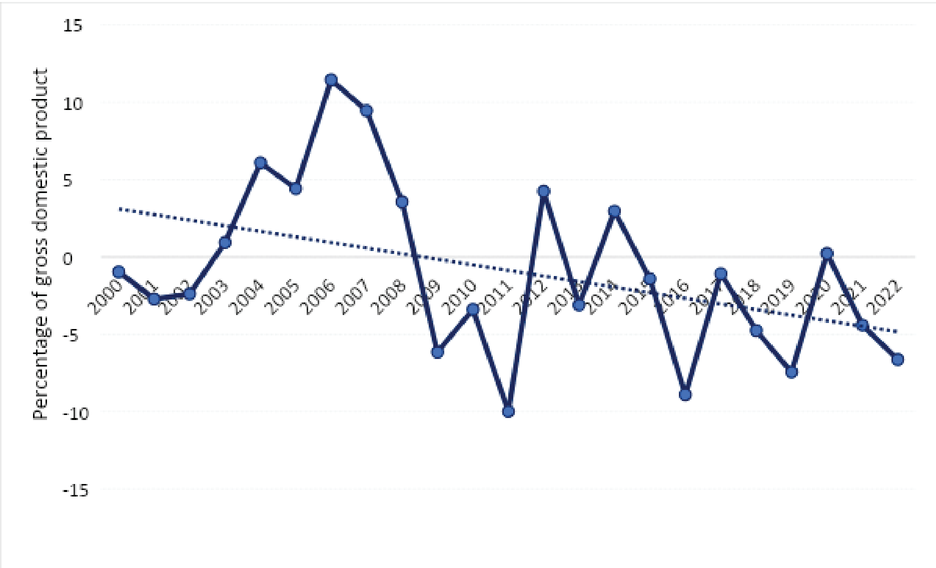


Source: *Our World in Data (n.d.).*

7. Fiscal policy, monetary policy and macroeconomic stability

Fiscal policy has already been discussed – the size of general government consumption spending and the Government's reliance on transfers from the Southern African Customs Union have resulted in increased government debt being used to finance current government spending. However, government capital expenditure in 2021 was, at 14 per cent of GDP, more than double that of other countries in the subregion or in sub-Saharan Africa as a whole (IMF, 2002b, figure 1). In addition to transfers from the Southern African Customs Union, tax revenues stood at about 20 per cent of GDP from 2010 to 2019. Some 45 per cent of tax revenue came from personal income tax and some 42 per cent of tax revenue came from value added tax (OECD, 2021). The overall budgetary balance is determined by subtracting policy-based lending and spending from revenue. Figure 20 depicts the overall budgetary position of Lesotho between 2000 and 2022, demonstrating that, while year-to-year the budgetary position demonstrates volatility, the overall trend has been one of consistent budget deficits since 2008/09 and that, as a share of GDP, the budget deficit is growing over time.

Figure 20: Budgetary position of Lesotho, 2000-2022 (Percentage of gross domestic product)



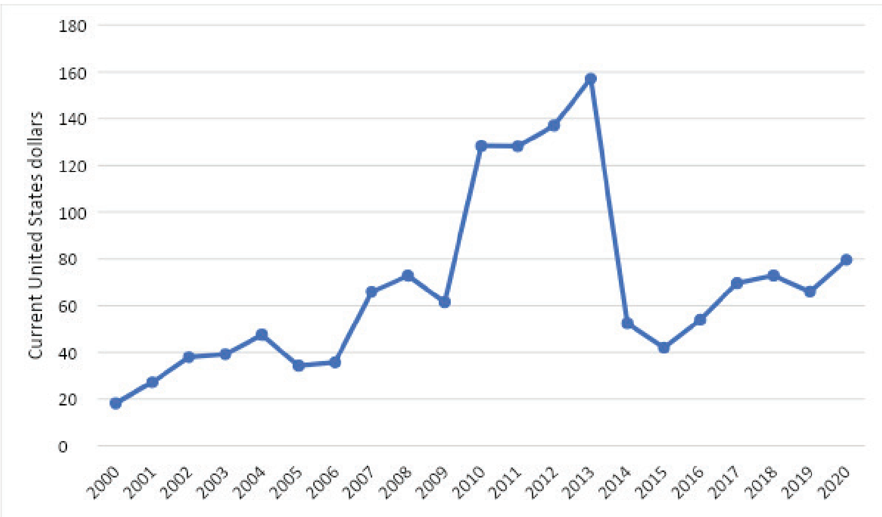
Source: World Bank (n.d. (a)).

Financing the budget deficit requires domestic and external borrowing. While domestic debt primarily takes the form of treasury bills and treasury bonds (World Bank, 2021a), external debt, equivalent to 44 per cent of GDP and 82 per cent of total debt (IMF, 2022b), is a key constraint facing the Government because it is denominated in foreign currency – primarily United States dollars – and because international interest rate variations affect the country's debt servicing. Granted, external debt to multilateral institutions tends to have concessional interest rates, and 80 per cent of the country's external debt is to multilateral lenders on concessional terms (IMF, 2022b). Although the country is not in debt distress, because so much of its debt is denominated in foreign currency, exchange rate variations affect the debt-to-GDP ratio. The loti is pegged to the South African rand, which means that interventions in the foreign exchange market are automatic. To sustain the peg, the Central Bank of Lesotho maintains a large and, in recent years, growing pool of reserve monetary instruments. The pegged exchange rate limits the autonomy of the Central Bank of Lesotho because domestic and foreign assets must yield the same return to investors. In particular, the pegged exchange rate limits the capacity of the Central Bank of Lesotho to adjust interest rates, which, in 2018/19, prior to the pandemic, stood at 4.3 per cent and thereafter declined (IMF, 2022b). For the peg to be maintained, the Central Bank of Lesotho must ensure that inflation rate in Lesotho is the same as that in South Africa.

The pegged exchange rate has gender dimensions that tend to be ignored in policy debates. These gender dimensions are complex and contradictory but reflect both the structure of households and the structure of the economy. For example, women in Lesotho have been employed in the export-oriented, private sector textile and apparel manufacturing subsector. If the pegged exchange rate resulted in an undervaluation of the loti, this would increase employment opportunities in those subsectors by making textiles and apparel less expensive on the global market; whereas the strengthening of the loti would have the opposite effect, thereby reducing women's waged employment. In this regard, it is worth noting that estimates of the real effective exchange rate suggest that the loti depreciated during the COVID-19 pandemic (IMF, 2022b), and that the South African rand, to which it is pegged, is severely undervalued (*The Economist*, 21 July 2022). By way of contrast, many employed women work in the informal non-agricultural service sector as petty traders and domestic workers. These services are non-tradable in the sense that the services themselves are not traded on global markets. A stronger loti would favour non-tradable activities over tradable ones and may support those forms of employment. Whereas if the loti were undervalued, then informal non-agricultural service sector employment would be lower than it could be. Yet another group of working women consists of those who take part in small-scale agricultural activities, who could see their livelihoods improved if the peg resulted in a weaker loti; imported agricultural goods would become more expensive, hence making them less competitive compared with agricultural goods produced locally. In these cases, a stronger loti would not be more desirable from a gender perspective. More generally, the cost to households of lower living standards arising from a relatively weaker loti may be more than offset if it increases the domestic production of goods for export and creates local jobs. This would occur because increased price competitiveness in export-oriented production results in an increase in employment opportunities and earnings, which has gender-differentiated effects.

The final piece of the macroeconomic picture of Lesotho is ODA. Figure 21 depicts net ODA per capita to Lesotho between 2000 and 2020, demonstrating that, notwithstanding the spike in net ODA between 2009 and 2013, there has been a trend increase in net ODA per capita flows into Lesotho over the past two decades. The largest donors to Lesotho in 2019/20 (in descending order by the amount donated) were the United States, the International Development Association of the World Bank, the Global Fund to Fight AIDS, Tuberculosis and Malaria, the European Union and the IMF Poverty Reduction and Growth Trust. Seventy-eight per cent of bilateral ODA in 2019/20 went to health-care-related and population-related policies and programmes (OECD, n.d.).

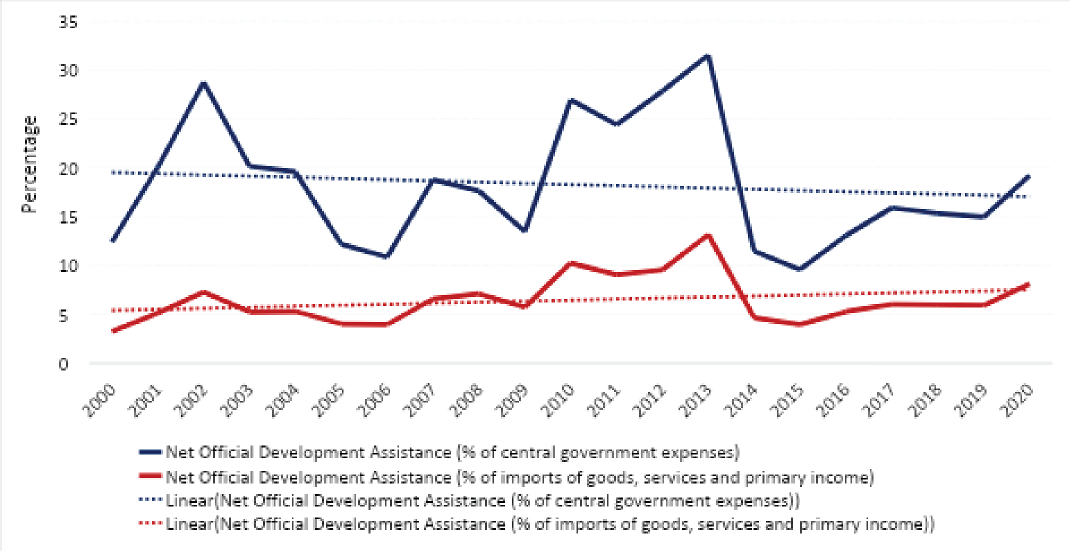
Figure 21: Net official development assistance per capita to Lesotho, 2000-2020 (United States dollars)



Source: *World Bank (n.d. (a)).*

Figure 22 depicts net ODA flows as a share of government spending and of imports between 2000 and 2020. It demonstrates that, as a share of government spending, net ODA has been declining gradually over time; in the context of increased net ODA flows per capita, this is a consequence of government spending rising more rapidly than net ODA inflows. Although net ODA as a share of imports has been gradually increasing over time, it is still at a low level, which means that ODA is far less important in financing imports than is debt.

Figure 22: Net official development assistance to Lesotho, 2000-2020 (Percentage)



Source: *World Bank (n.d. (a)).*

Although debt sustainability is supported by the volume of remittances from workers, the size of general government spending led to an increase in debt servicing as a share of exports in the period between 2010 and 2021 (World Bank, n.d. (a)). In these circumstances, a risk facing the country is that of a large negative shock to exports, which would bring about a deterioration in the external debt position. That such a shock is possible was demonstrated by the twin crises of the COVID-19 pandemic and the war in Ukraine. To offset the possibility of such a shock, it is vital that the country's debt servicing as a proportion of exports of goods and services shift to a downward trend, as this would reflect the Government's increasing ability to meet external creditor claims on the public sector by using revenue from exports. It is also important that the rate of growth of the economy be, in general, greater than the interest rates that the country faces, so as to shrink debt as a share of GDP. Moreover, attracting more private sector foreign direct investment will remain of great importance as it would enhance the level of investment, increase productive capacity, build the private sector and boost exports. Net ODA should continue to be used to promote sustainable investment in social development. Fiscal consolidation is also important if the country is to maintain its macroeconomic stability; this can be achieved by the rate of growth of the economy being greater than the rate of growth of government borrowing. Cumulatively, productivity-led increases in economic growth, driven by increases in value added per worker and increased exports, are key to both fiscal and macroeconomic stability.

8. Governance

It is widely acknowledged that the stagnant economic performance of Lesotho between 2012 and 2019 reflected a fragile political environment that contributed to a deterioration in domestic governance. This is depicted in table 1. Lesotho had elections in 2012, 2015, 2017 and 2022; four elections within 10 years represents a high rate of government turnover, which reflects political instability, as changes in Government imply changes in the Cabinet and in political decision-making. The fragile political environment is the result of both the low threshold of support needed for an individual to establish a political party and the fact that there is no minimum share of the vote that is required to be granted a seat in Parliament under the country's system of proportional representation; these factors serve to produce highly unstable coalitions. The result is "political entrepreneurship", as politicians seek to maximize their private gains from holding public office at the expense of others (McCaffrey and Salerno, 2011). Political entrepreneurship results in Lesotho having among the highest number of political parties relative to population of any country in the world, as politicians seek election to get close to the Government so that private rents can be extracted from it. The result is the politicization of parts of the civil service, the judiciary and the security services. This also produces fiscal laxity and outright financial mismanagement and an inability to construct an enabling environment for the private sector. Political entrepreneurship also explains the intense competition for control of the Government, which in turn has led to violence. Governance challenges are reflected in the country's ranking in the Ibrahim Index of African Governance, which, while close to the average score for Africa, is significantly below than that of the best performers (Mo Ibrahim Foundation, n.d.). Similarly, in the Africa Country Policy and Institutional Assessment of the World Bank (n.d. (c)), the relative position of Lesotho has not changed for a decade; while it is broadly in line with continental averages, it is well below the positions of the best-performing countries. Finally, governance challenges are also demonstrated in the country's score on the Corruption Perceptions Index of Transparency International: it deteriorated from 45 in 2012 to 38 in 2021, and its ranking slipped from 64th of 176 countries in 2012 to 96th of 180 countries in 2021 (Transparency International, n.d.). This deterioration reflects both political entrepreneurship and deliberate public financial mismanagement. In view of these governance challenges, it comes as little surprise that, since 2012, no Government has lasted more than three years, and voters in Lesotho are strongly disillusioned, as evidenced by voter turnout.

Considering this political instability and fragile governance, SADC supported the start of a governance reform process in 2019, which resulted in the creation of the National Reforms Authority in 2020. The Authority was given the responsibilities of managing, leading and coordinating a reform process that was to increase the efficiency of the Government, professionalize the civil service, strengthen the position of independent institutions such as the Central Bank of Lesotho and the Lesotho Revenue Authority and, in so doing, lay the foundation for improved economic performance. However, these proposed reforms challenged the privileges of political entrepreneurs and so they have stalled. In this light, it is hoped that the election of the Revolution for Prosperity party, and especially its strong parliamentary representation, will reenergize the governance reform agenda and foster macroeconomic stability through fiscal consolidation (which would be a significant improvement in the business environment for the private sector) and through productivity-led economic growth that is driven by increases in value added per worker. The 20-point programme for the first 100 days of the Government, as outlined by the Prime Minister at his inauguration in October 2022, was focused on proceeding with strong governance reforms (Matekane, 2022).

9. Social protection

As referred to above, Lesotho has a disappointing human development record. Granted, there have been improvements in the under-5 infant mortality rate and in life expectancy, which have been the result of the provision of low-cost, critical health services to populations at risk. Yet life expectancy remains low, and many deaths are largely preventable. Public health systems are weak, in particular in rural areas. Poverty remains unacceptably high. Both female and male literacy deteriorated between 2000 and 2015, and there are significant gender gaps in secondary education for those who are able to go to school. Indeed, it has been estimated that the economic cost of children being out of school in Lesotho equates to 7.2 per cent of GDP (Thomas and Burnett, 2013, table 5). Lesotho has relatively high maternal mortality and adolescent birth rates and one of the highest HIV prevalence rates in the world. In this light, in 2014, the country's first National Social Protection Strategy was introduced (World Bank, 2021c). While employment was emphasized in the Strategy as the route by which to enhance social protection, a series of programmatic interventions providing financial support to selected vulnerable groups across the life cycle was also supported. At 6.4 per cent of GDP and 14.3 per cent of total government spending, social protection expenditure is high by subregional standards (World Bank, 2021c), although, prior to the COVID-19 pandemic, social protection spending had been in decline in real terms. However, much of this expenditure does not reach those most in need; for example, tertiary education bursaries do not reach the poorest, and one quarter of the approximately 84,000 people in receipt of the retirement pension are thought to be either ineligible for it or fictitious (World Bank, 2021c). Each of these programmes accounts for more than 4 per cent of total government spending, or just under 61 per cent of all government spending on social protection. It is clear that these resources could be used more effectively and that reform is needed.

E. Crises and the economy in Lesotho

Since 2020, Lesotho, like other countries, has endured two large external shocks to the economy: the COVID-19 pandemic and the war in Ukraine. Following the first reported case of COVID-19 in March 2020, Lesotho went into a nationwide lockdown. With workers unable to work because of containment measures, various subsectors such as mining, textile and apparel manufacturing, and construction were heavily affected. Demand for diamonds fell dramatically as high-net-worth individuals were unable to spend their money, while, on the supply side, diamond value chains became clogged and mines were forced to close. Disrupted value chains meant that inputs for textiles and apparel became unavailable, and there were thus significant losses in textile and apparel manufacturing. The collapse in exports was worsened by border closures, which resulted in cuts to food and energy imports, and the prices of both significantly increased as the consumer price index rose. Shortages and price increases were particularly notable in the more remote, mountainous parts of the country. The Bureau of Statistics of Lesotho (2020) has estimated that 65 per cent of households had at least one member who stopped working because of regulatory restrictions introduced because of the pandemic. The resulting decline in individual and household real incomes generated declines in household consumption, including of essential foodstuffs such as meat, tubers and grain (Lesotho, Bureau of Statistics, 2020). These declines were not offset by government spending on pandemic-related social assistance, which was equivalent to 0.7 per cent of GDP in a three-month period in 2020 (IMF, 2022b). Even as government spending increased because of the pandemic, government revenue dropped as transfers from the Southern African Customs Union and tax receipts declined, and the budget deficit grew. The integration of the economy in Lesotho with that in South Africa also contributed to pandemic-induced macroeconomic instability, as the lockdown in South Africa resulted in a collapse in remittances and significant restrictions on informal cross-border trade.

As a result of the severe macroeconomic contraction brought on by the COVID-19 pandemic, the country's GDP for 2020 fell by 9.5 per cent (World Bank, n.d. (a)). As a consequence, an estimated 62,000 people slipped back into poverty, from which they had, in all likelihood, only recently emerged (World Bank, 2021a). The vast majority of those who slipped back into poverty lived in the countryside and earned a livelihood from small-scale crop and livestock production. The pandemic also had a negative impact on the country's social development indicators and made the demands required to meet the Sustainable Development Goals far more stringent. In particular, disruptions in essential health and education services stalled any progress that had been made in human capital development and poverty alleviation. Moreover, the crisis was clearly gender-differentiated: occupational segregation meant that it was primarily young women employed in textile and apparel manufacturing who were closed out of the factories in which they worked; petty trading by women traders was also stifled and, in many instances, domestic workers lost their jobs. Thus, women were disproportionately employed in the activities hardest hit by the pandemic, leading IMF (2022a) to label the impact of the pandemic in Lesotho a "she-cession". Moreover, the weak health-care system, in particular in rural parts of the country, meant that women's unpaid care and domestic work increased because of the need to provide home-based health care. School closures affected both girls and boys, but the prevalence of child marriage made it more likely that girls would not return to school. It also affected unpaid care and domestic work, as informal education replaced formal education. All of these gender-differentiated aspects reinforced the orthodox social norms and values that assign girls and women specific responsibilities. Moreover, increased gender-based violence more stringently regulated women's behaviour and further reinforced orthodox social norms and values (IMF, 2022a).

Recovering from the economic and social consequences of the COVID-19 pandemic required a return to economic growth, which in turn required recovery in the external demand for exports from Lesotho, a stronger application of budgetary discipline, the re-establishment of a more stable macroeconomic policy environment and better governance. Unfortunately, however, in February 2022, Lesotho, like much of the rest of the world, was hit by a second external shock: the war in Ukraine. For many African countries, which have been heavily dependent on imports of cereals, energy and fertilizer from Ukraine and the Russian Federation, the war has significantly raised prices and reduced availability of those commodities. As a net food importer, with cereal imports originating largely in South Africa, Lesotho has been significantly affected by the impact of international food prices on food affordability. International food prices began to rise in July 2020 as a result of the pandemic but accelerated significantly in February 2022. While international food prices began declining from historic peaks in March 2022, food prices in 2022 overall remained 14 per cent higher than they were in 2021 (FAO, n.d. (b)). This affected inflation, the government budget, household incomes and household consumption, a situation that has been exacerbated by the poor domestic harvest in 2022 that resulted from flooding in January and February of that year. In 2022, domestic maize production was only one third of the country's average annual production compared with the period 2017–2021 (FAO, 2022). All of this came on top of the pandemic-related shock to household incomes, which had just started to modestly recover. In addition to food costs, energy costs have risen during the course of the war; while, by October 2022, energy costs were lower than they had been in February 2022, for much of the period between February and August 2022, higher energy prices acted as a further external shock to the economy in Lesotho, with implications for macroeconomic stability. Inflation increased during 2022 to stand at 8 per cent in December, disposable incomes eroded and a decline in consumer spending dampened domestic demand. Finally, in terms of fertilizer, increases in global fertilizer prices made it more difficult for Lesotho to secure fertilizer supplies, resulting in significant price increases within the country. Granted, farmers in Lesotho use only small quantities of fertilizer, but, for those who do, increased scarcity would have affected production, productivity per unit of land and, hence, incomes in rural farming communities.

At present, a third shock is unfolding with implications for Lesotho: a non-transitory increase in global inflation rates. This has a bearing on the country because of the importance of external debt to the financing of government spending and imports. As a result of the increase in global inflation rates, central banks around the world have been increasing interest rates. Although a significant share of the external debt of Lesotho has concessional interest rates, debt servicing costs will increase as a result of increased global interest rates. Moreover, uncertainty among private sector investors resulting from rising interest rates in developed market economies may have an effect on asset prices in South Africa as a "flight to safety" takes place. This could result in capital outflows from South Africa, putting pressure on the rand and, as a result, the loti because of the exchange rate peg.

The cumulative consequences of the external shocks that the economy in Lesotho has been facing since 2020 reinforce the case that the country's debt servicing as a proportion of exports of goods and services should be shifted to a downward trend, that the rate of growth of the economy should be, in general, greater than the interest rates that the country faces, and that the rate of growth of the economy should be greater than the rate of growth of government borrowing. Meeting these three goals requires significant increases in value added per worker, a fourth goal. Yet only by putting Lesotho on the path of sustainable economic growth can the development distress that the country has been facing over the past two decades be turned into opportunities to facilitate improvements in social development, thereby creating the conditions needed to rise to the challenge of achieving the Sustainable Development Goals.

F. Existing development policy framework

The development policy framework of Lesotho is based on the National Strategic Development Plan II Strategic Focus 2023/24–2027/28 (Lesotho, Ministry of Development Planning, n.d.), which is designed to extend the National Strategic Development Plan II 2018/19–2022/23 (Lesotho, Ministry of Development Planning, 2018) and enable the country to achieve the Sustainable Development Goals, the Regional Indicative Strategic Development Plan of SADC, the Global Compact for Safe, Orderly and Regular Migration, and the goals of Agenda 2063: The Africa We Want, of the African Union.

As part of the Strategic Focus 2023/24–2027/28, Lesotho seeks to achieve sustainable pro-poor inclusive growth as the basis for poverty reduction. Four priority areas have been identified: growth progression, social transformation, infrastructure development, and good governance and accountability. Through growth progression, the Government seeks to achieve inclusive, sustainable and equitable growth and create private sector-led employment for the people of Lesotho by focusing on four areas of activity: a food security agricultural revolution, an industrialization revolution, an extractive industries revolution and a development finance revolution. Each of these priority areas in turn has an exhaustive list of investment areas and priorities. Cross-cutting themes identified in the Strategic Focus 2023/24–2027/28 include the environment and climate change, young people, gender, emerging sectors such as digital technology, and renewable energy.

The Strategic Focus 2023/24–2027/28 is predicated on the need for significant and wide-ranging public sector management reforms that would increase the effectiveness, efficiency and accountability of the Government. These reforms in turn require reforms in public financial management to improve public sector financial management and accountability, enhance fiscal discipline and improve operational efficiency by ensuring greater certainty regarding resource flows and by minimizing the occurrence of fraud. In effect, public sector management reforms are the foundation upon which the Strategic Focus 2023/24–2027/28 is based.

Clearly, the Strategic Focus 2023/24–2027/28 has an ambitious agenda. Nonetheless, the diagnostic evaluation contained in the present report is consistent with the key policy areas identified in the Strategic Focus 2023/24–2027/28, although the lens of productivity growth is used in the present report as the most important means by which to judge the relevance of the key priority areas. Thus, fostering a food security-centred agricultural revolution requires technology- and innovation-based increases in yields per unit of land and value added per worker in small-scale agriculture as a precondition for the internally driven organic growth that would eventually result in the private sector-led, export-oriented commercialization of agriculture. Promoting an industrialization revolution requires technology and innovation-based increases in value added per worker in private sector-led, export-oriented textile and apparel manufacturing, which requires investment. Bringing about growth in tourism and creative industries requires technology- and innovation-based increases in value added per worker in the subsector as a precondition for expanding investment in an export-oriented private, sector-led travel and tourism industry. Technology and innovation-based productivity increases per worker require the significant strengthening of human capabilities and human capital formation through improvements to education. Such improvements require a social and economic infrastructure that supports the capacity of the private sector to use technology to innovate and increase productivity per worker. Finally, technology- and innovation-based increases in value added per worker require the simultaneous strengthening of human capital formation and the enhancement of social and economic infrastructure, which, in turn, required the strengthening of national governance and accountability systems. Only a responsive Government can ensure that economic activity, human capital formation, and social and economic infrastructure are both pro-poor and gender-responsive.

Beyond the potential offered through the framework of the Strategic Focus 2023/24–2027/28, Lesotho is well-placed to address the gender dimensions of its development challenges and opportunities. Aligned with the cross-cutting the principles of the Strategic Focus 2023/24–2027/28 is the Gender and Development Policy 2018–2030 (Lesotho, 2020). The policy contains the following 12 priority areas:

- Gender and constitutional and legal rights
- Gender and governance
- Gender and education and training
- Gender and productive resources, and employment and economic empowerment
- Gender and climate change, sustainable development and disaster risk management
- Gender and food and nutrition security
- Gender-based violence
- Gender and health
- Gender and HIV/AIDS
- Gender and peacebuilding
- Gender and media, information and communications
- Gender and water and sanitation

Many of these 12 priority areas speak directly to the challenges identified in the present report; they need to be addressed from a gender perspective to transcend the development distress of Lesotho by boosting productivity per worker and seizing the opportunities available to the country.

G. Policies to accelerate progress towards the achievement of the Sustainable Development Goals

Notwithstanding a decade of stagnation and two successive external shocks, as well as the ongoing challenges of climate change, the small open economy of Lesotho offers tremendous opportunities for the country to leverage its competitive advantages, enhance the social outcomes of its development policies and shift towards a socioeconomic growth path that is consistent with achieving the Sustainable Development Goals. Moreover, the outcome of the election in 2022 has put in place a Government that is committed to seizing the opportunities afforded to Lesotho, as is demonstrated in the Strategic Focus 2023/24–2027/28. In order for Lesotho to be considered on a path of socioeconomic transformation, the following five objectives, which are consistent with the Goals, must be met:

(a). Value added per worker is increased in key economic sectors;
(b). The rate of economic growth is greater than the rate of growth of government borrowing;
(c). The rate of economic growth is greater than the international interest rates faced by the country;
(d). Debt servicing as a proportion of goods and services exports enters a sustained period of decline;
(e). The rate of growth of the share of gross national income accruing to those in the bottom 60 per cent of the income distribution is greater than the rate of growth of the share of gross national income accruing to those in the upper 40 per cent of the income distribution.

It is imperative that the benefits of the export-led socioeconomic growth strategy be widely shared among all in Lesotho. This means that growth must be inclusive, pro-poor and gender-responsive, as captured in point (e) above.

Accomplishing these five objectives requires a focus on overcoming the current constraints to the country's socioeconomic transformation, as identified in the present report. The section below contains a broad policy agenda to address the opportunities that exist despite these constraints. The significant impact that the COVID-19 pandemic has had on Lesotho and the effect that the war in Ukraine currently is having on the country are taken into consideration. It is necessary to isolate the immediate policy actions that can generate short-term results with significant benefits in order to stimulate internal demand while speeding up progress towards achieving the Sustainable Development Goals. The identification of such low-hanging fruit can meet some of the aspirations of key stakeholders and interest groups from the government, the private sector and civil society, and in so doing facilitate the emergence of a broad-based, pro-development coalition across Lesotho. That coalition can, in turn, foster growth in domestic demand, accelerate economic recovery and build social resilience, thereby bringing about democratic, participatory, prosperous, climate-responsive, socially equitable and inclusive development in Lesotho.

1. Addressing climate change and biodiversity loss

Climate change and biodiversity loss have a huge impact on agricultural production and the rural livelihoods of the majority of people in the country. Climate-induced declines in agricultural production lead to a reduction in household incomes and a lack of food and limit the ability to procure inputs for the next season. There is also a negative impact on livestock holdings.

At the same time, rural women and men in Lesotho interact differently with, and are therefore affected differently by, the environment, natural resources and climate change. For women, the expectation that they will both undertake unpaid care and domestic work and provide staple crops for their household has an impact on the terms and conditions under which women encounter climate change in their rural work. Moreover, it should not be assumed that women and men share the same knowledge and experience of the natural environment, natural resources and their management; indeed, even the limited evidence that there are gender-differentiated farm assets and activities would suggest that women and men have different experiences with and knowledge of the natural environment. As a result, ongoing processes of climate change are likely to have a different impact on men and women farmers, who then may adopt differential coping and adaptation strategies in response.

As a result of differences in the knowledge, ownership and control of resources, in particular of land and other assets, men are more likely to be able to adapt to the risks emerging from climate variability and associated natural disasters than women. Thus, women's limited time, limited explicit and implicit rights arising from institutional and social norms, and limited access to resources can increase their vulnerability to climate change. In terms of coping and adaptation strategies, these too can be gender-specific. Owing to unequal bargaining power within households, men are more likely to influence the coping and adaptation strategies adopted within farming households, while, in those rural households that are female-headed, fewer assets and lower production and incomes would affect coping and adaptation strategies. In terms of livestock, as a consequence of climate change, men may have to go further away to look for pasture for their livestock. Women, on the other hand, may have to walk longer distances for water and firewood, limiting their time for agricultural and food production. Indeed, it might be suggested that climate change could more generally increase women's unpaid care and domestic work burdens beyond that of collecting water and fetching firewood because of the impact that climate change can have on intrahousehold morbidity, possible losses of income-earning opportunities (which in turn affects young people's access to education) and intrahousehold food security.

These gender gaps in the agricultural sector mean that climatic variability is likely to disproportionately increase the challenges faced by women and other marginalized farmers. In this regard, access to time-saving, climate-responsive and ecologically appropriate agricultural technologies and tools is essential to close gender gaps and, at the same time, to ensure the sustainable use of soil and land (through minimizing nutrient loss by increasing the recycling of biomass waste and thus enhancing the natural resources that underpin agricultural productivity). Moreover, this is consistent with Sustainable Development Goal 13, on taking urgent action to combat climate change and its impact, for the achievement of which the Government has agreed to take ownership and establish a framework.

2. Transforming the agricultural sector

Lesotho needs to implement strategies geared towards promoting private sector-led sustainable transformation, along with growth and diversification in the agricultural sector (the latter being the backbone of the livelihoods of the majority of people in the country). It is important to stress that increases in efficiency and a cutting of costs in the sector can come about only in a policy environment that is conducive to small-scale farmers, both men and women, being able to increase their production of agricultural surplus sustainably, thereby fostering an internally driven process of organic growth in more commercial modes of farming that respond to growth in domestic demand. Increasing household incomes can lay a foundation for economic growth and socioeconomic transformation; yet it should not be assumed that the benefits of increases in income flow to women and young people. The high price of land is a challenge to fostering an internally driven process of organic growth. These challenges can be met by promoting and adopting improved indigenous seed technologies, increasing the use and effectiveness of manure, and promoting the wider use of agroecological methods and technologies so that sustainable agricultural practices are accessible to the majority of men and women farmers. This in turn will allow women and men farmers to consider whether their crop mix is appropriate given the agroecological conditions of the landscape in which they are farming and, in the context of a changing climate and biodiversity loss, the technological opportunities that are available to them. This requires a careful consideration of the economic and environmental costs and benefits over time of seeking to increase the use of chemical fertilizers and pesticides. Indeed, the rising cost of chemical fertilizers and pesticides means that any internally driven agricultural productivity growth in yields per unit of land and value added per worker should capitalize on existing farmer knowledge and experience in coping with climate change and biodiversity loss. In this way, resilience in the agricultural sector is facilitated. Moreover, this needs to be done in ways in which the unique agroecological zones of Lesotho are recognized in order to determine potential ways to mitigate the impact of climate change and biodiversity loss on rural farming livelihoods. Finally, there is the issue of sequencing. Lessons can be learned from the development experience in East Asia, the most important of which is that facilitating growth in yields per unit of land and value added per worker, as well as market opportunities in the rural economy, is, for a largely agrarian society, the foundation for stimulating domestic demand and fostering socioeconomic transformation. This in turn means that the transformation of the agricultural sector should take precedence (Studwell, 2014).

This means that, while the introduction of new agricultural value chains and new agricultural technologies and the commercialization of farming and small private sector agri-enterprises through policies consistent with those contained in the Strategic Focus 2023/24–2027/28 (such as those to further commercialize the livestock sector by upgrading wool production) are admirable, the key role of the Government should be to create a system that builds linkages between the public and private sectors. Its role should be to provide a policy and regulatory environment conducive to fostering opportunities for increases in agricultural yields per unit of land and value added per worker, increasing household incomes among small-scale farmers (both women and men), and creating the environment within which the private sector can expand. This in turn requires facilitating investment in the critical public goods infrastructure in rural Lesotho that enhances the capacity of men and women farmers to take advantage of their productivity increases by selling a higher proportion of what they produce. In this case, road, water and energy infrastructure is critical in building the private sector. Appropriate management systems must be developed so that the operation, maintenance and sustainability of such infrastructure is ensured. In this light, a review of current transfers to farmers, such as agricultural input subsidies, is needed. It is critical to the transformation of the sector that all transfers to farmers enhance productivity in terms of yields and value added per worker. This is consistent with the call for the use of "smart" subsidies, as is proposed in the instrument-based national agricultural investment plan. "Smart" subsidies are demand-driven rather than supply-driven, with mechanisms built in to reduce and eventually phase them out as agricultural incomes increase. As part of this approach, better targeted, "smarter" subsidies could be provided to farmers involved in crop and livestock production, to other private sector value chain players and to private sector agri-enterprises. Additionally, agricultural subsidies could be transformed into cash transfers, which would have broad benefits and could have an impact on the amount of unpaid care and domestic work performed by women.

Once a process to improve internally driven agricultural productivity (in terms of yields per unit of land and value added per worker) is set in motion, opportunities for rural private sector diversification and investment in agro-industry, including crop farming, aquaculture, livestock farming and horticulture, as well as in agro-processing, will become evident. Seizing these opportunities will further transform the agricultural sector, improve job creation, build the private sector and generate significant increases in incomes and livelihoods in rural farming communities. At the national level, these opportunities can be supported through the successful implementation of the comprehensive national agricultural policy and the instrument-based national agricultural investment plan, which are currently under review by Parliament. Through the implementation of the policy and the plan, the Government is seeking to ensure sustainable growth in the agricultural sector, decent jobs, and food and nutrition security for the people. The implementation of the policy and the plan should result facilitate private sector investment in agriculture and the development of private sector agricultural value chains, including green value chains, which are integrated into regional value chains, as envisaged in the SADC Industrialization Strategy and Roadmap 2015–2063. To achieve these objectives, the critical role of the Government is to create an enabling environment that supports the private sector in providing various goods and services at each stage of the agricultural value chain, from production and processing to distribution and marketing. The Government is currently developing a horticulture policy that will specifically support the development and sustainability of various private sector agricultural value chains in horticulture, including for the production of fruits and vegetables. An extensive monitoring and evaluation strategy is essential for the policy objectives to be successfully translated into actual investment.

3. Seizing opportunities in export-oriented manufacturing

Lesotho has a far higher share of manufacturing value added in GDP than other countries in the Southern African subregion, even though the current manufacturing export base is narrow, highly concentrated and less competitive, being built primarily but not exclusively around the private sector manufacturing of textiles and apparel for export to the United States under the African Growth and Opportunity Act. At the same time, global value chains in the textile and apparel subsector are being transformed in the wake of the COVID-19 pandemic and the war in Ukraine. In particular, value chains are contracting as global private sector companies seek to source production closer to markets and foster value chains that have the resilience that is now deemed to be of paramount importance. These structural changes to the global textile and apparel subsector present opportunities in Lesotho: investments may increase and jobs may be created by leveraging the country's geographical proximity to other SADC countries through expanding exports of textiles and apparel to those countries and beyond as part of the efforts of the African Union to promote continental economic integration. This would increase formal employment opportunities, build the private sector and boost domestic demand. In this regard, reducing barriers to trade with South Africa would decrease the costs of inputs and logistics while making exports from Lesotho more affordable for the South African market and beyond. Moreover, Lesotho should leverage the economic partnership agreement between SADC and the European Union; the European Union is a much larger market than the United States and has historic ties to the subregion. Focusing on the European Union and SADC might attract back private sector foreign investors that had entered Lesotho to take advantage of the African Growth and Opportunity Act, but then had exited in the light of the uncertainty surrounding its renewal. Scope exists for Lesotho to capture more of the value added in textile and apparel exports and, in so doing, enhance the productivity of value added per worker. Lesotho currently imports raw cotton, which is then processed into yarn and fiber, part of which is used as inputs in producing textiles and apparel. However, a significant share of the processed cotton is then re-exported. Facilitating the domestic utilization of what are currently cotton re-exports in an expanding private sector textile and apparel subsector would present the opportunity for a larger share of the value added to be captured in Lesotho and for domestic demand to be stimulated.

Nonetheless, there is a strong need to leverage the country's existing manufacturing capabilities by creating a policy environment that fosters a more diversified, competitive and less concentrated manufacturing sector that is private sector-led and export-oriented. Such policy strategies could include incentives that support an outward-looking orientation. For example, in East Asia, corporate tax policy was used to promote exports (Studwell, 2014). Just as with textiles and apparel, Lesotho should take advantage of its existing market access within the Southern African Customs Union and SADC to diversify into a broader range of manufactures, industries and markets and thus expand its export sector. Seizing opportunities to add value to existing products by facilitating the private sector development of local value chains is critical to enhancing the resilience, diversity and competitiveness of the existing manufacturing base in Lesotho. Moreover, it builds the basis for better integrating the country's private sector into subregional value chains and for boosting exports in regional and international markets. There is also a need to build up new export capabilities. The country's experience in generic pharmaceutical production, along with the introduction of medicinal cannabis cultivation for export, provides an example of how the foundations of a new, private sector-led export-oriented pharmaceutical subsector might begin to be established in Lesotho.

The need for a conducive policy, regulatory and business environment is imperative for the expansion and diversification of the private sector-led export-oriented manufacturing sector in Lesotho. There is also a need to develop the requisite private sector skills to seize local opportunities and develop mechanisms that identify opportunities for local entrepreneurs. The recently adopted National Trade Policy and the National Export Strategy, both of which are aligned with the Strategic Focus 2023/24–2027/28, should be leveraged to seize the opportunities afforded through the Agreement Establishing the African Continental Free Trade Area and its Protocol relating to the Free Movement of Persons, Residence and Establishment. Private sector companies, including those seeking access to international markets, may use the facilities and services of the Lesotho Standards Institution for testing, certifying and inspecting products to improve the quality and competitiveness of products made in Lesotho. The Government can also play a role in facilitating the development of channels through which private sector companies could have access to and coordinate aid for trade and trade financing, including agriculture financing and value-chain financing. This is especially important for improving the access and competitiveness of private sector "agripreneurs" and small and medium-size enterprises entering export markets, where women entrepreneurs have the potential to play a significant role, given their current place in informal cross-border trade. This in turn means that there is a need to develop and implement an integrated border management system that is sensitive to the needs of women. Beyond establishing the policy and regulatory environment, the Government needs to improve public goods infrastructure, in particular transportation and digital infrastructure. However, improved digital infrastructure has, as a prerequisite, the need for digital literacy and skills. There is, in sum, a host of opportunities for the country's private sector-led export-oriented manufacturing sector that builds upon existing capacities. The Government must enable the private sector to take advantage of these opportunities.

4. Developing the tourism industry

The Lesotho Tourism Development Corporation is mandated by the Government to facilitate the growth of the subsector. However, tourism growth needs to be internally driven, "organic" and private sector-led. There is a need to increase international arrivals by leveraging tourism assets, based on a network approach to tourism, for day-trippers from South Africa, other parts of the subregion and beyond in order to lengthen their stays. There is also a need to take advantage of diasporic populations, who can play a unique and important role in opening markets for new tourism destinations. Moreover, tourists from the diaspora are more likely than other international travellers to have or make connections to the local economy, which could open up the potential for the development of markets for goods produced in and associated with the culture and society of Lesotho. Moshoeshoe I International Airport has the potential to become one of the more strategic airports in Africa, given its altitude, location and potential for expansion, but these advantages can be built upon only if there is a strongly competitive landing fee structure, the capacity to offer highly competitive aircraft maintenance and a focus on cargo aircraft in addition to passenger aircraft. The skills needed to build this competitive advantage are in short supply and must be fostered for these opportunities to be seized.

Regarding the regionally and internationally oriented travel and tourism subsector of Lesotho and based on the experience of other countries, the Government needs to target three specific market segments: luxury travellers, upper-middle-class travellers from emerging markets, and backpackers. It is important to rehabilitate and improve both the capacity and infrastructure of the tourism subsector;

doing so would require the careful implementation, monitoring and evaluation of the Tourism Development Policy, together with associated strategic documents,[18] taking into consideration the dynamics that external shocks, such as the COVID-19 pandemic and the war in Ukraine, have introduced into the subsector. This is necessary in order to promote potential opportunities for private sector investment that would support domestic tourism as a starting point for sustainable tourism development, especially by micro-, small and medium-sized enterprises. Such enterprises have the potential to build local economic linkages, the results of which would be not only an increase in tourism services but also, and just as important, significant job creation, thus improving incomes and livelihoods, in particular for women and young people. This means that an enabling environment that supports opportunities for increased investment in appropriate infrastructure and facilities by the private sector, in particular in rural parts of the country, is required to promote the travel and tourism subsector and enhance inclusive growth and development. The role of public investors in facilitating the expansion of the travel and tourism subsector is to provide the public goods infrastructure necessary to ease capacity constraints in the subsector; this would include making improvements to the international airport and the road network.

At the same time, however, it is important not to forget the domestic tourism services market; the pandemic made it apparent that promoting local tourism is an important avenue by which to foster opportunities to increase tourism services in the country for both local and international visitors. What is needed is to increase the local share of users of leisure travel and tourism services.

5. Developing the water subsector

While there are ongoing efforts to facilitate the completion of the second phase of the Lesotho Highlands Water Project, water is still a critical sector for economic and social development in Lesotho. In this regard, for small-scale farmers, both men and women, access to reliable, timely and adequate quantities of water for irrigation is the best means by which an internally driven process of agricultural productivity growth in yields and value added per worker can be engendered; after land and labour, water is the leading input in promoting productivity growth. Moreover, while water harvesting is a useful means of providing more secure access to water, a country with water resources as abundant as Lesotho would profit immeasurably from developing and implementing a labour-intensive irrigation infrastructure programme that is built on the country's existing water export infrastructure, especially in more remote areas of the country. Cumulatively, the agricultural sector can foster an internally driven, organic-growth process towards more commercial modes of entrepreneurial farming that develop the private sector by increasing productivity per unit of land and per worker.

At the same time, labour-intensive investment in public goods infrastructure in the water sector should significantly expand access to clean water, especially in remote areas. Improving water and sanitation facilities is not only good for the health of the people and for social development – it also reduces women's unpaid care and domestic work related to fetching water and providing household members with health care.

Water development projects offer two further opportunities. First, there are opportunities to expand aquaculture. With the increasing global demand for fish, the expansion of the market for aquaculture is inevitable. Currently, exports of trout and salmon from Lesotho enter Japan free of duties and quotas, and Lesotho has geographic advantages to export to South Africa. Fish farming has the potential to become a lucrative private sector income-generating activity that supplies subregional and global mar-

18 The Lesotho Tourism Policy provides an overarching policy framework. The associated strategic documents are: the Tourism Sector Diagnostic, which is aimed at ensuring that a clear understanding of the actual situation on the ground forms the basis of the planning process; the Tourism Act 2002, which provides the legal framework for the implementation of tourism policies; and the Lesotho Tourism Development Master Plan (2018-2038), which provides guidance to foster tourism development in Lesotho.

kets, especially if investment opportunities to expand and diversify the subsector are grasped. Second, private sector water bottling for niche markets has the potential to create a premium product for global markets that significantly enhances local value added.[19] Moreover, water bottling has the potential to have a positive impact on public health and to create jobs, but investment in the industry would be required.

6. Developing the diamond subsector

Currently, Lesotho exports rough diamonds for processing and, as a result, much of the value addition takes place outside the country. In order to increase the share of value added that is captured within the country, it is necessary to create circumstances in the business environment that are favourable to greater local private sector processing of rough diamonds, which would require the development of the requisite skills and capabilities. At the same time, implementing local content requirements for both the suppliers of inputs to the mining sector and the processors of rough diamonds would create opportunities along the diamond value chain for the private sector, including local micro-, small and medium-sized enterprises and foreign investors working with local private sector partners. There may be scope to facilitate this process by adopting a subregional approach to learning within the subsector, for example, by exploring the diamond value chain in Botswana and how it captures more value added locally.

7. Increasing benefits from labour migration

The economic potential of labour migration remains underutilized in Lesotho. Recruitment agencies need to be formalized in order to increase the security and earnings of would-be migrants. Bilateral labour agreements and institutional arrangements need to be established with countries in which migrants from Lesotho are employed in order to ensure safe, regular migration channels; this could in principle include provisions to facilitate labour migration within future trade agreements that Lesotho might negotiate. A bilateral agreement with South Africa would be especially important in this regard.

There are also opportunities to facilitate direct investment by the diaspora into the economy in Lesotho. Diaspora members can leverage their experience outside Lesotho to work with new companies in Lesotho to facilitate the emergence, development and financing of commercially viable activities across various private sector value chains. Agriculture, industry and services can all benefit from the experience of diaspora members. Alternatively, they could work with the companies that employ them to facilitate investment in various private sector value chains in agriculture, industry and services. In either instance, the diaspora could foster increases in exports from, and investment and entrepreneurship in, Lesotho. Diaspora members could also facilitate investment by other local or foreign private sector companies in Lesotho by providing or enabling access to ancillary services such as selecting the right firms for business partnerships, mentoring entrepreneurs, hiring executives and formulating corporate strategies that are locally appropriate.

In order to optimize the benefits from labour migration to Lesotho, mechanisms need to be created to improve the remittance of money from the diaspora to Lesotho, especially to reduce the cost thereof. Mechanisms need to be developed also to facilitate diaspora direct investment back into Lesotho. To this end, there is the need to develop dynamic regulatory policies that facilitate improvement in and the strengthening of international financial transfer mechanisms, and especially the development of digital finance solutions to fast-track financial flows from the diaspora back into Lesotho.

19 The global success of Fiji Water demonstrates the potential.

8. Initiating changes in the government sector

Although fiscal consolidation is important, fiscal retrenchment is not a feasible policy option for Lesotho. In Lesotho, austerity measures would place a unique burden on women, who would face the triple threat of losing access to services, having fewer opportunities to gain access to decent work in government, and being forced to take on the rising burden of unpaid care and domestic work that results from austerity measures. Rather, there is a need to re-orient strategic basic services and social services to create social protection floors predicated on the use of cash transfers, which can play a far more significant role in reducing poverty and inequality and in fostering more sustainable livelihoods among poor people.

Financing strategic basic services and social services requires improving and intensifying domestic resource mobilization, consolidating the Government's fiscal position and reducing reliance on debt financing. This is particularly important considering the declines in transfers from the Southern African Customs Union. Optimizing the royalty and corporate income tax regime in the diamond mining subsector is an obvious way of capturing new revenue sources, while the corporate income tax regime for private sector export-oriented manufacturers needs to be evaluated in the light of both comparable countries and the Government's revenue position. At the same time, tackling tax evasion is important for the Government. Creating mechanisms through which remittances are invested in infrastructure would reduce the Government's reliance on its fiscal capacity to fund public goods infrastructure and contribute to fiscal consolidation. Creating a more favourable private sector investment climate and creating incentives for domestic and foreign private sector investment in export-oriented activities would also improve the fiscal position. Maintaining or indeed enhancing access to concessional financing from donors would also be an obvious benefit, and the most significant way to enhance such access would be to demonstrate a successful programme of structural and microeconomic reform predicated on macroeconomic stability. In fact, it is possible that innovative mechanisms for financing by donors, such as carbon offsets and loss-and-damage facilities, which seek to address the challenge of climate change, might be made available to the Government. At the same time, however, it is vital that the rate of growth of the economy be greater than the rate of growth of government borrowing in order to transition to a more sustainable debt management regime.

9. Improving the education system

It is clear that an overall improvement in social protection systems is needed in Lesotho. Nonetheless, the economic cost of inadequate educational opportunities is high in the country (Thomas and Burnett, 2013). Indeed, a child born in Lesotho in 2020 would be only 40 per cent as productive when fully grown as one who had enjoyed complete education and full health (World Bank, 2020). Basic services in Lesotho must improve if the productivity of workers is to improve, as increases in human capital foster the increases in value added per worker that drive long-run economic growth. To this end, there is a pressing need to improve the quality of basic education service delivery and student retention as a precondition for improving human capital formation, financial literacy, labour market skills, productivity and economic growth. There is also a need to address gender imbalances in education. This in turn requires improving the quality of teaching, the quality of the teaching environment, curricular reform and a strengthening of institutional capacity in the education sector. Student retention is a function of poverty, in particular in the countryside. Therefore, while measures to increase yields and value added per worker in the agricultural sector will have an impact on student retention in the medium- to long-term, it may be necessary in the short- to medium-term to consider the role of cash transfers in a more effectively targeted social protection system so as to create the conditions whereby girls and boys remain in school.

H. Conclusion and recommendations

Lesotho has gone through at least a decade of development distress, whose impact has been worsened by the external shocks brought about by the COVID-19 pandemic, the war in Ukraine and climate change. The principal task facing the Government is to stabilize the economy as a precondition of a return to sustainable economic growth. Ensuring that growth, however, requires increasing the value added per worker engaged in farming, in factories, in tourism and other services, and in the Government.

The National Strategic Development Plan II Strategic Focus 2023/24–2027/28 offers a route out of development distress. Rising to the challenges that Lesotho faces is a major task. Yet there are also significant opportunities to place Lesotho on a socioeconomic growth path that is consistent with the Sustainable Development Goals. In agriculture, industry and services, there are clear opportunities for private sector-led investment in expanding export-oriented activities that create jobs and increase incomes as growth becomes self-sustaining. A precondition for doing so is to improve the agricultural productivity and growth of small-scale farming households, thereby enhancing their participation in the wider economy. However, it is important to recognize that, while the Government can manage this process by creating a business environment that encourages private sector entrepreneurship, it cannot be its driver. This process requires tapping into the entrepreneurial capabilities of people in all areas of the economy, starting in farming and agriculture. Supporting that growth requires the Government to provide a clear policy and regulatory environment and to facilitate infrastructural investments in public goods, strategic basic services and social services. This can be the basis of a sustainable, private sector-led, inclusive, pro-poor, gender-responsive socioeconomic transformation in Lesotho that is consistent with the Goals.

Rising to the challenge of seizing socioeconomic development opportunities in Lesotho requires implementing the following recommendations, which are classified into short-, medium- and long-term policy interventions.

1. Short-term policy interventions (2023–2025)

- The Government should aggressively support the National Reforms Authority in institutionalizing governance reforms that can foster improved economic performance.
- Private sector farmer organizations should be established by the Ministry of Agriculture, Food Security and Nutrition, with the support of the Ministry of Finance and Development Planning, to promote best practices in agriculture in order to advance an internally driven process of "organic growth" in more commercial modes of entrepreneurial farming.
- Through public-private partnerships, the Ministry of Agriculture, Food Security and Nutrition should create the conditions under which the capacity and governance of farmer organizations are enhanced.
- The Ministry of Agriculture, Food Security and Nutrition should facilitate the sustainable upscaling of small-scale production, thereby creating the conditions under which existing value chains can be upgraded and new value chains can be developed by the farming private sector.
- Improvements in the policy and regulatory framework in the agricultural sector should be fostered: by the Ministry of Agriculture, Food Security and Nutrition (through the Department of Planning and Policy Analysis) to ensure the finalization and implementation of the comprehensive national agricultural policy and the instrument-based national agricultural investment plan;

and by the Ministry of Agriculture, Food Security and Nutrition to undertake a comprehensive review to enhance coordination and consistency across policies and regulations in the sector.

- The Lesotho National Development Corporation should work jointly with the Ministry of Agriculture, Food Security and Nutrition to facilitate private sector investment in aquaculture and water bottling.
- The Ministry of Gender, Youth, Sports, Arts, Culture and Social Development, in collaboration with development partners such as ILO, UNDP, UNICEF, the United Nations Educational, Scientific and Cultural Organization and the World Food Programme, should re-orient strategic basic services and social services to create social protection floors based on the use of cash transfers.
- The Government should strengthen mechanisms to address gender-related discrimination in all spheres of the economy and society, including in the domestic environment.

2. Medium-term policy interventions (2026–2027)

- The Ministry of Finance and Development Planning should foster fiscal consolidation by ensuring that the rate of growth of the economy is greater than the rate of growth of government borrowing, that the rate of growth of the economy is greater than the international interest rates the country faces, and that debt servicing as a proportion of goods and services exports enters a sustained period of decline.
- The Ministry of Finance and Development Planning should create internal oversight mechanisms to ensure that policy and regulatory proposals and budgetary support across the Government result in: sectoral and subsectoral increases in value added per worker in key economic activities; and the rate of growth of the share of gross national income accruing to those in the bottom 60 per cent of the income distribution being greater than the rate of growth of the share of gross national income accruing to those in the upper 40 per cent of the income distribution.
- The Ministry of Finance and Development Planning should facilitate improvements in agricultural public goods infrastructure, in particular with respect to energy, water and roads, especially in rural areas.
- The Ministry of Finance and Development Planning should work with the Lesotho Tourism Development Corporation to facilitate improvements in public goods infrastructure, including energy, airport and road infrastructure, which could lead to the increased use of tourism assets.
- The Ministry of Finance and Development Planning, the Ministry of Agriculture, Food Security and Nutrition, the Ministry of Trade, Industry, Business Development and Tourism and the Basotho Enterprises Development Corporation should facilitate the provision by the private sector of improved access to inputs and finance for small-scale farmers and micro-, small and medium-sized agricultural businesses, in particular for women farmers.
- The Ministry of Finance and Development Planning and the Ministry of Agriculture, Food Security and Nutrition should facilitate private sector investment in post-harvest facilities.
- The Ministry of Finance and Development Planning and the Ministry of Agriculture, Food Security and Nutrition should facilitate improvements in the provision by the private sector of information and communications technology in rural areas in order to support the development of e-extension services and the consolidation of emerging agricultural value chains.

- The Ministry of Trade, Industry, Business Development and Tourism and the Ministry of Finance and Development Planning should reframe government economic incentives so as to capture more value added locally across the widest possible range of economic activities.
- The Ministry of Trade, Industry, Business Development and Tourism, the Lesotho National Development Corporation and the Basotho Enterprises Development Corporation should work with the Ministry of Finance and Development Planning to establish economic mechanisms that would support the geographic diversification of textile and apparel manufacturing exports.
- The Ministry of Trade, Industry, Business Development and Tourism, the Lesotho National Development Corporation and the Basotho Enterprises Development Corporation should facilitate the emergence of new export capabilities, including the expanded production of generic pharmaceuticals and/or the introduction of medicinal cannabis cultivation.
- The Ministry of Finance and Development Planning should review regulatory and institutional mechanisms in order to increase investment by the diaspora in the private sector in Lesotho.
- The Ministry of Finance and Development Planning should establish an institutional mechanism with development partners to maintain and enhance access to concessional financing from donors.
- The Ministry of Education and Training should facilitate improvements in the quality of education through curricular reforms, enhancements in the teaching environment and strengthened institutional capacity in the education sector.
- The Government should accelerate the process of developing national strategies relating to the Agreement Establishing the African Continental Free Trade Area in order to expand the market for locally produced goods and services to other parts of Africa, and support capacity-building to improve product competitiveness.

Long-term policy interventions (beginning in 2028)

- The Lesotho Tourism Development Corporation should work with the Ministry of Finance and Development Planning to promote private sector investment in the rehabilitation of existing, and the development of new, tourism capacity.
- In collaboration with the Ministry of Trade, Industry, Business Development and Tourism, the Ministry of Mining should facilitate an increase in the amount of value added locally among private sector diamond processors by fostering the development of local skills and capacity to process and refine diamonds, by implementing local content requirements for private sector input suppliers and diamond processors, and by facilitating private sector investment in the infrastructure needed to facilitate diamond processing.
- The Ministry of Finance and Development Planning should establish internal government mechanisms to better coordinate ODA and other sources of external financing and domestic resource mobilization.
- The Ministry of Finance and Development Planning should create mechanisms through which remittances are channeled into infrastructural investment.

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