LESOTHO
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LESOTHO

- **The economy is on a recovery trajectory with 2016 GDP growth estimated at 3.1%, largely driven by a booming tertiary sector and mining investment, while the outlook is for higher growth in 2017 and 2018.**
- **In spite of the boost in economic growth, high unemployment and inequality have intensified poverty to 56.2% of the population, calling for a more aggressive response to realise more inclusive development outcomes.**
- **The existing policy linking entrepreneurship and industrialisation, a key instrument to create jobs, could be supported by a multitude of factors including technological entrepreneurship that is central to the whole process of meaningful structural transformation.**

Overview

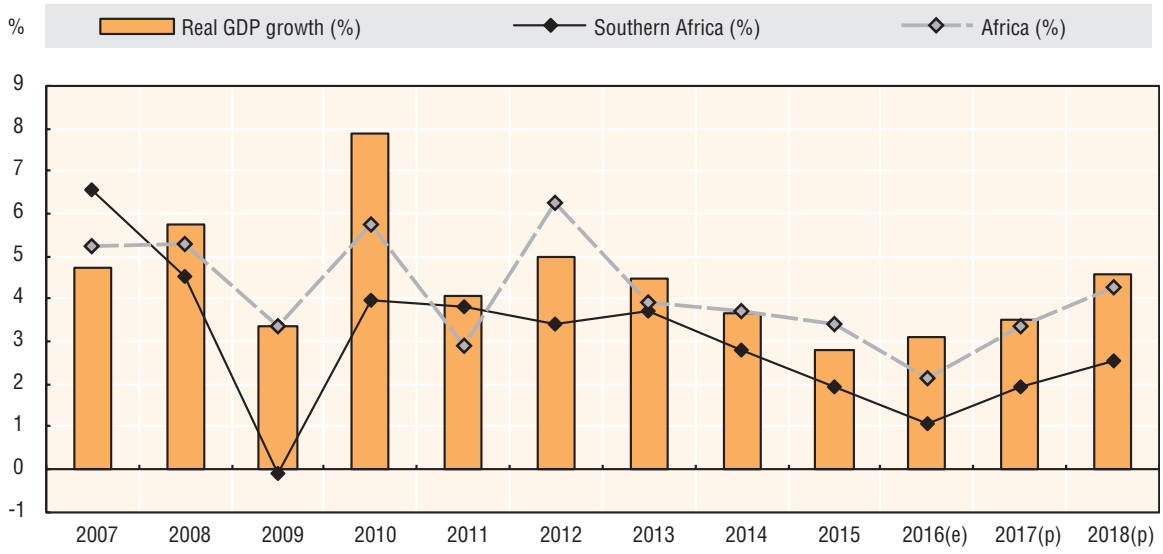
Lesotho's gross domestic product (GDP) growth, at 3.1% in 2016 relative to 2.8% in the past year, is showing signs of recovery as a result of the booming tertiary sector, ongoing investment in mining and steady growth in the electricity and water sector. In the medium term, growth is expected to further improve to 3.5% and 4.6% in 2017 and 2018, respectively.

However, poverty, inequality, and unemployment remain major development challenges facing Lesotho in spite of high literacy rates and high investment in social sectors over the years. The national poverty head count ratio, at purchasing power parity (PPP) USD 1.25 a day, has increased and currently stands at close to 56.2%. Rural areas harbour the majority of the poor. Over 50% of the population remains unemployed and inequality, as measured by a GINI coefficient of 0.5, is considered unacceptably high.

The participation of the private sector and building entrepreneurship meant to spur industrialisation has been enshrined in the country's National Strategic Development Plan (2012-2017). Its objective is to transform the skills development institutions and to improve the skills and innovation base of the economy. In spite of the existing policy link between entrepreneurship and the industrialisation framework, enhancing this relationship is still challenged by a multitude of factors. These factors include among others: skills' mismatch; lack of skills transfer by foreign entrepreneurs for fears of domestic entrepreneurs imitating their products; lack of entrepreneurship skills to diversify products; low technological entrepreneurship that is central to the whole process of meaningful structural transformation; and the lack of opportunities fostered through access to finance, information flows and infrastructure.

This AEO report highlights the need to aggressively tackle unemployment, poverty and inequality through the adoption of more inclusive growth policies. It also proposes that the government's National Strategic Development Plan (NSDP) framework, which seeks to enhance the skills base, technology adoption and foundation for innovation, may provide incentives to lead companies to strengthen chain linkages with local, emerging entrepreneurs to bolster supply. It also proposes more dialogue with existing entrepreneurs on how to enhance skills development and transfer between foreign and local entrepreneurs.

Figure 1. **Real GDP growth**



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. **Macroeconomic indicators**

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	2.8	3.1	3.5	4.6
Real GDP per capital growth	1.6	1.9	2.4	3.5
CPI inflation	3.1	6.6	6.7	6.0
Budget balance % GDP	0.6	-3.1	-8.6	-13.1
Current account % GDP	-9.8	-14.8	-14.6	-15.4

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

Lesotho's GDP is estimated to have modestly increased by 10.7% to 3.1% in 2016 after being subdued in 2015. Real GDP growth is expected to reach 3.5% in 2017 and 4.6% in 2018. In 2016, real GDP growth was largely driven by the tertiary sector (growth, 4.5%). The tertiary sector registered growth of 4.5%, underpinned by expansion in wholesale and retail trade, restaurants and hotels, transport and communications, financial intermediation, real estate and business services, public administration, education, health and social work, and community, social and personal services. The primary sector, comprising mining and agriculture, also supported growth in 2016 with a growth rate of 0.2%. Growth in this sector stemmed from the mining and quarrying sub-sector, which registered growth of 9.6%. This sub-sector is projected to grow by 25.7% in 2017 and 7.0% in 2018. The operation of Storm mountain diamonds and the completion of the Lighobong mining plant, coupled with beneficiation, underlie projected sub-sector growth. The secondary sector (growth, 0.9%) supported growth through manufacturing, which grew by 0.6%. The activities in this sub-sector benefited from the depreciating exchange rate and the new entrants in the industry from Swaziland after its removal from the African Growth and Opportunity Act (AGOA). Notwithstanding the above, GDP growth was constrained by the continuation of a recession in agriculture sub-sector owing to prolonged dry El Niño conditions. In the medium term (2017-18), growth will largely be driven by expansion in mining and quarrying, agriculture, tertiary sector and secondary sector. In the secondary sector, the outlook is based on modest growth in manufacturing and a strong

recovery in building and construction to support Phase II of the Lesotho highland water project in 2018. There are strong prospects in mining as Letseng and Kao diamond mines operate at full production capacity. Agriculture is expected to recover (with growth at 5.1%) owing to prospects for improved rainfall.

In terms of contribution to GDP, the tertiary sector's share in GDP has continued to dominate at over 55.4% in 2015. Enhanced provision of health services to the remote areas, and growth of post and telecommunications (with an expanding mobile money network) largely underlie steady dominance of the tertiary sector. The primary sector, comprising agriculture, mining and quarrying, has an estimated 23.6% contribution to GDP. The primary sector is dominated by agriculture. The share of the primary sector has continued to dwindle largely due to the challenges in agriculture compounded by the unfavourable weather conditions. Crop and animal diseases have constrained production. The secondary sector accounts for the rest of GDP (23.6%). This sector comprises manufacturing, electricity and water, and building and construction. The share of the secondary sector continues to depend largely on the performance of food manufacturing that is underpinned by increasing demand for food products in the economy.

Table 2. **GDP by sector (percentage of GDP at current prices)**

	2011	2015
Agriculture, forestry, fishing and hunting	5.8	5.7
of which fishing	0.0	0.1
Mining and quarrying	9.0	8.4
of which oil	...	...
Manufacturing	13.2	10.7
Electricity, gas and water	5.9	6.5
Construction	6.4	6.4
Wholesale and retail trade; Repair of vehicles; Household goods; Restaurants and hotels	13.3	15.2
of which hotels and restaurants	1.6	1.3
Transport, storage and communication	6.0	6.9
Finance, real estate and business services	13.6	13.5
Public administration and defence	13.2	13.9
Other services	13.5	12.8
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

Lesotho's fiscal deficit was estimated at 3.1% of GDP in 2016 following a surplus of 0.6% in 2015. The movements in the fiscal position largely reflect lower Southern African Customs Union (SACU) receipts and a drop in domestic tax revenues. Based on the negative primary balance, which reflects the current fiscal effort, fiscal policy was expansionary in 2016. Government spending, dominated by wages and salaries (22.8% of GDP), remains high in spite of a 0.5% reduction in government employees. The benefit stemming from the reduction in the number of civil servants was offset by a 5% increase in wages and salaries. Recurrent spending, at 48.5% of GDP, has continued to dominate total spending, which is undesirable. Capital spending, at 14.2% of GDP in 2016, remains low and often constrained by slow implementation capacity.

The overestimate in SACU receipt projection for the 2014/15 fiscal year had to be counterbalanced by negative adjustments in 2016/17, which constrained the revenue position. Additionally, projected weak economic performance in the customs union also contributed to lower SACU receipts. To support public spending and thus growth in the medium term, a strong

fiscal response is necessary. This may include drawing down on the long accumulated gross international reserves (in excess of six months of imports) to support spending until reform measures are in place. Unless SACU receipts dramatically recover in response to local currency depreciation and proposed reforms to hike excise taxes materialise, the fiscal outlook remains restrained.

Notwithstanding the budgetary constraints and slow progress in the social sector indicators, namely health, education and social services, there were modest allocations to these sectors in the 2016/17 national budget. These allocations were: education and training (13.7%); health and social welfare (12.7%); water (6.1%); public works and transport (7.1%); finance and development planning (12.2%); and energy and meteorology (2.3%).

Table 3. **Public finances (percentage of GDP at current prices)**

	2008/09	2013/14	2014/15	2015/16	2016/17(e)	2017/18(p)	2018/19(p)
Total revenue and grants	**62.3**	**65.6**	**60.4**	**60.4**	**59.6**	**60.7**	**60.4**
Tax revenue	54.5	52.8	51.0	52.9	50.4	50.4	49.7
Grants	2.5	8.5	4.8	2.1	3.7	4.7	5.2
Total expenditure and net lending (a)	**60.5**	**60.7**	**62.9**	**59.8**	**62.7**	**69.3**	**73.5**
Current expenditure	47.8	43.7	47.4	45.7	48.5	54.2	58.1
Excluding interest	45.2	42.9	46.5	44.8	47.3	50.5	51.9
Wages and salaries	16.1	18.7	20.9	21.6	22.8	22.6	21.7
Interest	2.7	0.8	0.9	0.9	1.2	3.7	6.3
Capital expenditure	12.8	17.0	15.5	14.1	14.2	15.1	15.4
Primary balance	**4.4**	**5.8**	**-1.6**	**1.6**	**-1.9**	**-4.9**	**-6.8**
Overall balance	**1.8**	**4.9**	**-2.5**	**0.6**	**-3.1**	**-8.6**	**-13.1**

Note: a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

Lesotho is operating a conventional pegged exchange rate regime and the Lesotho currency, the loti (LSL), is at parity with the South African rand. In this respect, the country has no independent monetary policy. Consequently, the South African repo rate has important effects (interest rates, inflation and growth) on the Common Market Area (CMA) countries including Lesotho. However, in December 2015, the central bank of Lesotho introduced a bank rate, which was meant to serve as a reference rate and an anchor to other domestic interest rates. This is a policy rate, which assists the Central Bank to attain its ultimate objective of price stability. It complements other monetary instruments, namely the treasury bills and the required reserve ratio. The country's 2016 monetary policy was generally expansionary in tandem with the increase in the South African repo rate and in response to lower inflationary environment in 2015. The objective was to address the low credit growth momentum as real GDP growth tumbled in 2015. Consequently, in 2016, money supply continued to grow at an average rate of 7.0%, underpinned largely by private sector credit, and its influence is expected to continue in the medium-term. This is in tandem with expected growth in wholesale and retail trade, transport and communication, as well as construction activities alluded to in the previous section on growth. In 2016, annual consumer price inflation registered 6.6% and has continued to reflect a depreciating local currency against foreign ones and an upsurge in food inflation resulting from constrained food production owing to El Niño and unfavourable weather conditions.

Economic co-operation, regional integration and trade

Lesotho has run up a current account deficit for the last four years, up to 2016, and there are no signs that the deficit will shrink in the medium term. In 2016, the current account deficit was estimated at 14.8% of GDP and it is projected to hit 14.6% in 2017. In line with conventional wisdom,

the current account deficit appears to be a macroeconomic phenomenon, reflecting Lesotho's low propensities to save. It also signals macroeconomic imbalances, which can have negative effect on growth. However, it actually reflects dynamic economic activity and investment taking place in the country and hence doesn't represent a more serious problem of overheating. In 2016, the deterioration in current account balance was underpinned by the poor performance of net factor incomes and current transfers as well as increased import absorption owing to construction of the Lighobong mining plant. This came about in spite of exports growing faster compared to imports. In 2016, imports of goods and service registered 9.0% growth while exports grew by 16.0%. In the medium term (2017-18), the current account is projected to deteriorate further, largely driven by what is considered a permanent decline in exports and factor incomes. Exports are expected to drop to an average growth of 4.0% annually and the imports are expected to grow at an average rate of 9.0% annually in the medium term. The continued reduction in the number of Basotho migrant mine and other workers in South Africa is expected to stem remittances. Consequently, net receipts of income from abroad is expected to drop in the medium term, despite the United States decision to pull out of AGOA parallel arrangements under the Trans Pacific Partnership (TPP). The current account is expected to be financed from net capital and financial flows (16.5% of GDP annually). Closing the current account financing gap would also require a drawdown on the foreign reserves inevitably reducing the reserves in months of imports cover to 3.9 from as high as 6.4 in 2015.

In terms of regional integration and co-operation, Lesotho remained committed to participating in regional economic activities of the SACU, and Southern African Development Community (SADC). Lesotho is a member of the SACU team, which participated in tripartite negotiations with the East African Community, and the Common Market for Eastern and Southern Africa. It is also part of the SADC Economic Partnership Agreement (EPA) with the European Union (EU). The agreement guarantees free access to the EU. Under asymmetric liberalisation, SADC EPA might not respond with the same level of openness.

Table 4. **Current account (percentage of GDP at current prices)**

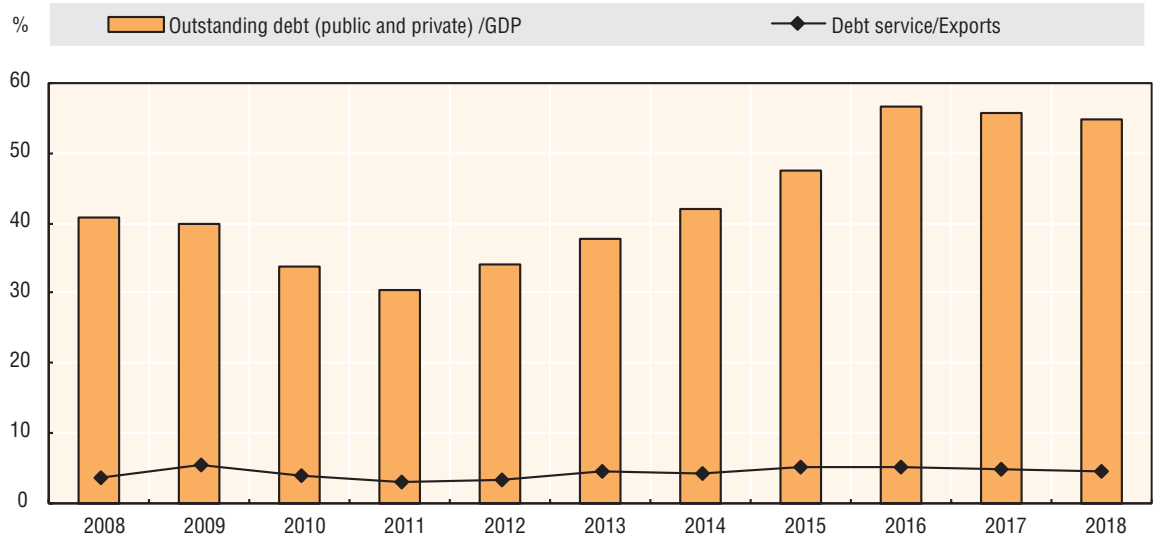
	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
Trade balance	-45.3	-46.4	-47.3	-44.4	-41.9	-42.9	-45.1
Exports of goods (f.o.b.)	49.4	38.2	37.9	42.7	50.8	49.5	48.4
Imports of goods (f.o.b.)	94.7	84.6	85.2	87.1	92.7	92.4	93.4
Services	-17.7	-13.1	-14.0	-11.3	-11.6	-11.5	-8.2
Factor income	36.0	15.7	14.4	14.9	14.0	12.6	12.4
Current transfers	41.5	35.9	36.2	31.0	24.7	27.2	25.4
Current account balance	**14.6**	**-7.9**	**-10.6**	**-9.8**	**-14.8**	**-14.6**	**-15.4**

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

Lesotho's public sector debt increased to 55.8% of GDP in 2016 from 53.4% at end-2015, driven mainly by significant depreciation of the loti against foreign currencies, in which debt is denominated. The main vehicle currencies comprise Special Drawing Rights, the euro, and the United States dollar. The bulk of the total public debt (90.1%) is external and dominated by multilateral creditors (72.1%). In spite of the increase, public debt remains sustainable and the risks of debt distress are still moderate. The domestic debt component remains small at about 9.9% of GDP and largely comprising treasury bills and bonds intended to develop the financial markets. To contain public debt levels and to continuously communicate its implications on annual budget ceilings, the authorities have strengthened the department in charge of debt.

Figure 2. **Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)**



Source: IMF (WEO & Article IV).

Economic and political governance

Private sector

The business climate in Lesotho has improved, dropping to 100 out of 190 countries in 2016 from 112 in 2015 according to World Bank report *Doing Business 2017*. Underlying this ranking is an increase in getting credit, underpinned by the past financial reforms that introduced new financial instruments such as mobile money, among others. These have also benefited from increased coverage of Internet services following construction of 3G and 4G sites. Notwithstanding the above developments, various indicators showed some decline, including construction permits, getting electricity, registering property, protecting minority investors, enforcing contracts, resolving insolvency and paying taxes. Additionally, according to 2016-17 global competitiveness reports, the top five obstacles to operating business in Lesotho are access to financing, corruption, inadequate infrastructure, insufficient capacity to innovate and inefficient government bureaucracy. Consequently, Lesotho's competitiveness ranking has dropped as indicated by the increase in the ranking to 120 out of 138 countries from 113 out of 140 countries. Nonetheless, the authorities are committed to promoting private investment and attracting foreign direct investment (FDI). The policy instrument guiding FDI is the updated Companies Act of 2011, as well as various sector-specific pieces of legislation. These cover mining, tourism, and the industrial sector, with a particular focus on textile manufacturing. The agricultural sector has witnessed some structural reforms involving removal of price subsidies and import controls on maize and wheat produce in favour of market-determined prices. The Agricultural Marketing Act continues to control the importation of bread, legumes, sugar, eggs, meat, dairy products, fruit and vegetables. In spite of the reforms, Lesotho's private sector remains small contributing about 15% to GDP. It is largely constrained by the aforesaid factors as well as limited broadband Internet, low firm level technology and limited market size. There are, however, a number of ongoing initiatives to accelerate private sector growth. These include increasing the pace of implementation of the Companies Act as well as the Land Act through established procedures

of land administration, full utilisation of the credit reference bureau for improving asset quality, and the commercial courts for business arbitration.

Financial sector

In terms of financial indicators, the financial sector remains stable, although its overall score of 7.24 in Basel index report (2016) makes it a high-risk country. However, the country's rating has been affected by the fact that it is not yet using a new assessment approach adopted by other countries. The banking sector continues to be limited to four commercial banks, three of which are South African owned. According to the 2016 IMF article IV report, the commercial banks are adequately capitalised, profitable and liquid. Personal loans continue to claim the largest share of commercial bank assets, which is high risk given the country's vulnerability to contagion effects from South Africa. The dwindling remittances from Basotho workers in South Africa could deleteriously affect the quality of personal loans. The ratio of non-performing assets to total assets is a modest 4.4, while the ratio of reserves (to losses) to total loans are also low at 3.8. Liquid assets to total deposits were estimated at 92% in 2016 compared to 86% in 2014. Private sector credit growth was 14.2% in 2016 and is set to grow at 14.2% in the medium term. This is largely in tandem with projected economic growth (tertiary sector) and growth in household business investment.

The Credit Reporting Regulation of 2013, passed pursuant to the relevant section of the Credit-Reporting Act of 2011, and the Financial Lease Regulation of 2013 were key for entities dealing in financial leasing. Although Lesotho is a small country with a population of just over 2 million people, the proportion of bank assets to GDP (51.95%) shows a relatively healthy financial sector in terms of market depth. In support of the financial sector, the government collaborates with the United Nations Capital Development Fund (UNCDF) and International Fund for Agricultural Development (IFAD) to establish Support Financial Inclusion in Lesotho (SUFIL) and Rural Financial Intermediation Programme (RUFIP).

However, until June 2016, the financial sector was not well diversified since the country did not have a stock market. The presence of the financial sector strategy (FSDS) has been instrumental for enhancing this sector's strength. There is now a limited life FSDS secretariat mandated to update the status of the strategy's various projects. The new National Payments System Act 2014 has played an important role in increasing the central bank's oversight over commercial banks, ensuring safety, security, and the stability of the financial system. Consequently, the money transfer and foreign exchange regulations as well as credit reporting regulations have also been promulgated. This has led to the licencing of a money transfer operator and credit bureau institutions.

Innovations in terms of instruments have included upgrading the Lesotho wire Straight Through Processing, which settles cross border payments. Notably, IMF Article IV 2016 highlights the effort made by the central bank of Lesotho in building capacity for supervision and financial stability reporting. There is an effort to broaden the use of credit reference bureau, establish a collateral registry, and strengthen commercial courts to settle credit matters. Further, the government engages the South African parent banks of the subsidiary banks operating in Lesotho to participate in monitoring the Lesotho branches.

Public sector management, institutions and reforms

Despite the current challenging fiscal situation, Lesotho is committed to continuing its Public Financial Management (PFM) reform programme to support long-term sustainable development. The PFM reform agenda runs concurrently and also strives to ensure achievement of the goals of the NSDP and Vision 2020. During 2016, it continued the Financial Management Information System (IFMIS) Upgrade Project and the Electronic Funds Transfer (EFT) and Information Technology audits (see the Public Financial Management Reform Secretariat Annual Report 2015/16).

However, challenges remain, such as the need for a coherent information and communication technology function in the Ministry of Finance that could be achieved by merging the IFMIS ICT unit with the Management Information Systems (MIS) unit and filling the vacant positions in the Cash Management Unit as well as the IFMIS team. Sound local government is critical for the country's development. To enable the Ministry of Finance to come out with its policy stance on fiscal decentralisation, a Task Team on Decentralisation is being formed to provide advice to the authorities. A Memorandum of Understanding (MoU) between the Internal Audit Department and the Office of the Auditor General on how to collaborate to put in place an effective audit function that will help improve the quality and use of public resources is needed. The monitoring and evaluation of State Owned Enterprises (SOEs) is progressing, with a view to assessing their performance against the strategic objectives at their establishment and government's fiscal exposure to contingent liabilities created. A concrete action plan is expected during 2016/17. Staff shortages, prolonged acting appointments in departments and indistinctness of roles between implementation and co-ordination are some of the factors constraining PFM reforms in the past.

High recurrent expenditures are crowding out capital spending, which has also been affected by poor project implementation. This trend, coupled with the significant deterioration in SACU revenues, has persuaded the government to come out with a fiscal strategy over the next three years aimed at maintaining long-term fiscal sustainability (see finance external circular notice No 15 of 2016, Ministry of Finance).

Natural resource management and environment

Lesotho is susceptible to climate change and environmental hazards such as floods and droughts. In 2015-16, the country faced an El Niño induced worst drought with a massive impact on crop production and food security. It led to malnutrition, water scarcity and migration, affecting public health, rural employment, and incomes and livelihoods. The government declared a drought emergency on 22 December 2015 and developed a response plan and appealed for international support. Lesotho experienced a reduction of 69% in crop production in 2016 compared to 2015. Two consecutive poor agricultural seasons left 709 394 people (40% of the total population) food-insecure, with 70% of the population requiring lifesaving interventions. The 2016 Vulnerability Assessment report estimated a gap of 50 799 metric tonnes of food or USD 32 924 117 to address the humanitarian crisis. The Government of Lesotho made a drought emergency humanitarian appeal for USD 38 million with the government committing USD 10 million and the Humanitarian Country Team (HCT) mobilising USD 37 million.

Lesotho is challenged by severe land degradation, traditional agronomic practices and overgrazing coupled with the impact of climate and socio-economic issues to sustainable production, nutrition and food security. The country has therefore adopted natural resources and sustainable land management practices through a number of sector specific policies pursuant to the aspirations of the NSDP. The Lesotho Energy Policy 2015 envisions that energy shall be universally accessible and affordable in a sustainable manner, with minimal negative impact on the environment and sets goals to reduce, in particular, fuel wood and fossil fuel usage in national energy consumption. The policy also provides for mitigation of climate change through energy efficiency and the promotion of renewable energy. The National Rangelands Management Policy 2013 seeks to guide range and natural resources management in the Kingdom. Lesotho also formally committed itself to a process of developing a new National Climate Change Policy and Sustainable Energy Policy. The Strategic Plan for the Ministry of Energy and Meteorology (2015/16 to 2020/21) projects key strategic intentions in both climate change mitigation and adaptation that will include national energy initiatives.

Lesotho's energy sector initiatives focused on increasing energy access in remote areas through the development of private sector led off-grids and energy trading centres. A National Resilience Framework is being developed. Lesotho faces many challenges in the area of environmental

stability. With forest coverage of 1.6% as of 2015, the country fell short of its target of 5% forest coverage. The country's heavy reliance on wood and biomass, poor agricultural practices and livestock overgrazing and poor land management practices cause sedimentation and affect river ecosystems, while also exacerbating air and water pollution.

Lesotho has made substantial progress in the past decade on improved water and sanitation: 50.9% of Basotho households accessed improved sanitation facilities in 2015 with 77% of rural residents and 95% of urban residents having access to an improved water source. Lesotho has made progress, but did not achieve MDG 7 on environmental sustainability.

Political context

Throughout 2016, Lesotho continued to experience political instability and uncertainty in the context of an unstable ruling coalition elected in 2015 after the collapse of the previous government. The implementation of accountability and reform measures recommended by SADC in 2015 and 2016, viewed as critical for the short- and long-term stabilisation and development of the country, remained pending in spite of a concerted push by the regional economic community. As 2016 came to a close, the sense of uncertainty was further heightened following a split within the Prime Minister's Democratic Congress party, the largest in the seven-party ruling coalition. The developments closely mirrored the events in 2014, which precipitated the collapse of the previous three-party coalition government after only two years in power leading to early elections in February 2015 – brokered by the regional Southern African Development Community (SADC) to avoid a deeper crisis. Following the split in the leading coalition partner, and the subsequent success of a no confidence vote against the Prime Minister, the country is heading for an immediate change in government leadership with a possibility of holding new elections during 2017. In spite of this looming change, the risk of policy reversals is minimal since Lesotho is a member of Common Market Area, SACU, and SADC which require the country to comply with existing regional policies. Additionally, the National Strategic Development Plan which has been extended to 2018 benefited from all political stakeholders.

Social context and human development

Building human resources

While Lesotho has strived to build human resources to foster development, the widespread poverty and inequality, high HIV/AIDS prevalence and other health challenges, and the education and skills mismatch have all constrained progress. With a Human Development Index score of 0.497, Lesotho is characterised by low human development, ranked 161 out of 187 countries. In comparative terms, its index score is far below the sub-Saharan average of 0.518. Despite the low ranking, the expected years of schooling (11.1 years) is far above the sub-Saharan average and is linked to the historically generous investment in education. Lesotho has made significant progress in terms of education, training and literacy programmes and this is in part a result of improved education policy that is underpinned by participatory approaches, service delivery and good governance. Primary enrolment is over 79.6%, and the completion rates are close to 70% (as of 2016). Additionally, a strong commitment to free primary education has contributed positively to the efforts to attain the second SDG. However, there are strong concerns that Lesotho has focused heavily on getting the numbers into school, while paying little attention to the quality of education. Other positive interventions include introducing the School Meals Programme. The government provides school meals to two-thirds of the schools in the country, while World food programme (WFP) covers the remaining one-third, exclusively located in remote mountainous regions.

The country's literacy rates have increased to 90% from 86% in 2012, according to the latest available data (2016). Youth literacy trends for Lesotho are close to 85% (UNSD data, 2015).

Nonetheless, the country still faces a challenge of skills mismatch in line with the analysis of Desjardins and Rubenson (2011). According to the study, the demand characteristic that embodies skills tends to be more important than the supply characteristics, which focus on education qualification. This also implies that the relevancy of skills depend on the demand for them. In Lesotho, skills mismatch is reflected in the high unemployment rates (close to 50% of the population is unemployed). There are also indications of high turnover of the Basotho skilled workers to neighbouring South Africa. This means addressing issues related to skills attraction, maintenance and or retention should continue to constitute part of the government education and support programme. Since 2013, the government has implemented various measures to address the challenge of primary and secondary education access and quality. These include developing early learning standards, a review of the basic education curriculum and assessment, and localising ordinary levels. The government also introduced a Child Friendly Schools (CFS) Initiative and a National School Feeding Policy. In addition, the completed USD 20 million GPE-supported FTI-III Project has been important in a similar direction. It was complemented by: supplying over 1 million new textbooks, teachers' guides, and assessment materials based on a new and simplified curriculum focused on early grade reading and math; by conducting a pilot assessment of early grade literacy and numeracy, which served as a baseline for later evaluations of learning quality; and by establishing and supporting 140 pre-primary reception classes.

The government spends over 23.04% of its budget on education and training (2016/17 budget speech). Key challenges for the education sector comprise the acute shortage of adequate classrooms. The provision of new classrooms had been constrained by both resources and implementation capacity. The provision of classrooms is constrained by the terrain and the climate. As reported by one of the World Bank projects, the logistics of undertaking civil works in remote rural areas such as mountain tops proved to be highly challenging. Consequently, less than half of the classrooms meet the required standards. Other issues relate to poor retention rates at primary and junior secondary levels, the fee policies, and lack of secondary schools in remote rural areas contributing to lower demand and access for education among the poorest families.

In the health sector, Lesotho has significantly reduced its child mortality rates, a proxy for a nation's level of development, owing to improvements in child nutrition and increase in immunisation against measles. Under-5 mortality rate declined from 113 per 1 000 live births in 2005 to 85 per 1 000 live births in 2016 according to latest available information. Still short, however, of the goal of reducing by two-thirds the under-five mortality rate (37 per 1 000 live births). Over the same period, Infant mortality rate also declined from 81 per 1 000 live births in to 59 per 1 000 live births but missed the target of 27 per 1 000 live births. Substantial progress was made in immunisation against measles for one-year-olds with 90% achievement (as of 2016). The HIV/AIDS infection rate among adults in Lesotho is 23%, the second highest in the world despite an increase in awareness and use of condoms. More efforts are required to ensure ART coverage and adherence as well as prevention of new infections. There is also a noted reversal on the progress made on treatment of TB, with increased incidences, linked to HIV and AIDS.

Poverty reduction, social protection and labour

Despite concerted efforts by the country, poverty, inequality and unemployment are major challenges hampering growth and human capital development. Notwithstanding the real GDP growth of around 3.5% in years since 2013, poverty has remained static at around 57%, reflecting non-inclusive growth. Poverty is more prevalent in the rural areas with the bulk of the population depending on agriculture as the main source of livelihood. Owing to the worst drought faced by the country in 2015-16, rural poverty will have gone up further. The inequality in income distribution is also reflected in the Gini coefficient of 0.54%. Besides drought and climate events, factors such

as food insecurity, malnutrition, unemployment, HIV/AIDS and other health challenges, and the loss of jobs by Basothos returning from South African mines, have all compounded the situation.

Lesotho has a large social protection programme to reduce the risk of poverty among marginalised groups and to strengthen the resilience of children, the disabled, destitute families and communities. The country spends about USD 197 million a year or around 9.0% of GDP (about 15% of the overall budget) on social transfers, well above that of 1-2% in many developing countries. The major milestones in the country's efforts to promote inclusive growth and tackle the poverty and vulnerability of the population are the creation of a dedicated Ministry of Social Development (MOSD) and the development of social protection policies, strategies and programmes. The ministry has developed a Social Development Policy and corresponding strategies such as the Social Protection Strategy and Child Protection Strategy to guide and support implementation and co-ordination of social protection interventions in Lesotho. As part of the Social Protection Strategy, various programmes such as Public Assistance, Child Grants Programme and OVC Bursary are implemented. Lesotho has also developed an Integrated Social Safety Net that includes: establishing and populating one single national registry known as the National Information System for Social Assistance (NISSA); development and implementation of a targeting mechanism, which is community-based targeting combined with Proxy Means Test; and Case Management as a means to address new entrance, complaints and grievances. The Community Development Model is intended to facilitate and create an opportunity for the poor to graduate out of poverty and sustain their livelihood and contribute to the economic mainstream.

Unemployment, especially youth unemployment (33% according to latest available data), continues to be a major challenge. Youth represent about 37.5% of Lesotho's population. The government has set a target of creating 10 000 jobs per annum over the National Strategic Development Plan period, especially in the private sector. Programmes and policies such as small business development and changes in minerals and mining policy, as well as trade policy, seek to create jobs. For private sector development and to facilitate investment, several reforms relating to business development, facilitation and credit evaluation have been undertaken that should also support youth development and empowerment. The country has initiated the process of Review and Development of Lesotho National Youth Policy 2016.

Gender equality

While Lesotho has made noticeable progress in promoting gender equality and women's empowerment, much more remains to be done. Currently more girls than boys attend secondary and tertiary education, while at the primary level girls' enrolment has seen a marginal decline. The challenge facing Lesotho now is to address the lower enrolment rates of boys than girls, especially in the secondary and tertiary education. Lesotho has succeeded in meeting its target of achieving 50% share of women in non-agricultural wage employment. Female participation in the labour market stands at 59.0%, compared to 73.5% for men.

Women's participation in political activities is stagnant at present and needs focus. From 28% in 2014, the total representation of women in parliament in Lesotho declined to 25% in 2015. Lesotho's parliament has passed numerous pieces of legislation to promote the rights of women.

The 2016 Gender Inequality Index (GII) for Lesotho was 0.541, reflecting gender-based inequalities in three dimensions: reproductive health, empowerment and the labour market. It places the country at 124 among 188 countries in 2014. The Gender Development Index (GDI), defined as a ratio of female to male HDI, was 0.973 in 2014, reflecting a lower female HDI value (0.482) than that of men (0.505). Lesotho is reviewing its 2003 Gender and Development policy to address the gaps and challenges noted during its implementation and to address emerging gender concerns by developing the 2015-25 Gender and Development Policy.

Thematic analysis: Entrepreneurship and industrialisation in Lesotho

The role entrepreneurship plays in promoting economic development in general and industrialisation in particular has long been a subject of study and policy analysis in many countries including Lesotho. As recent studies have argued, what is required is a clear industrial policy that addresses the market failures constraining entrepreneurs from innovating and creating more jobs and investment in low carbon industrialisation.[1] This underlines the importance of partnership between the private sector and the government not only in policy making but also in project financing. In Lesotho, there is a harmonious relationship between the private sector represented by the private sector foundation, the chamber of commerce, and non-government organisations. It has energised dialogue on critical policy discussions, in particular those affecting the private sector. The participation of the private sector, and building entrepreneurship, is enshrined in the Lesotho National Strategic Development Plan (2012-17) through the objective of the transformation of skills development institutions and improvement of skills and innovation base. In pursuance of this objective, it underscores the important role of micro, small and medium enterprises (MSMEs) in the development process. In this endeavour, the Basotho Enterprise Development Corporation (BEDCO) has been established and mandated with providing business development services, entrepreneurial training and some specialised technical skills training to MSMEs. The MSMEs policy has also been produced as a framework and strategy to guide the development of MSMEs and building their productive capacities. The largest share of entrepreneurship in small-scale manufacturing is found in textiles (sewing and knitting), followed by woodwork, and then leatherwork.

In spite of the existing policy link between entrepreneurship and industrialisation framework, enhancing this relationship is still challenged by a multitude of factors. These comprise: i) skills' mismatch between labour market demands and what the education system supplies; ii) challenges of exclusive FDI-led entrepreneurship taking advantage of trade concessions; iii) lack of skills transfer sometimes due to fear by foreign entrepreneurs that their products would be imitated by domestic entrepreneurs (markets share protection); iv) limited spill-over effects; v) lack of entrepreneurship skills that would have diversified products and turned Lesotho's agriculture into a viable commercially driven sector; vi) low technological entrepreneurship that is central to the whole process of meaningful structural transformation; and vii) lack of opportunities fostered through access to finance, information flows and a variety of economic activities, including infrastructure, and technology information services, that have constrained economic agents from taking entrepreneurial action.

Notwithstanding the above challenges, opportunities exist for fostering entrepreneurship for industrialisation. In Lesotho, a fairly good environment exists for entrepreneurship to invest in human-capital formation given that the historical evidence has revealed that industrial catching up calls for having in place a highly skilled labour force. It is the highly talented and skilled labour force that enables the process of imitation and innovation. In the past, the country operated purely public schools, which produced labour with skills mismatch. The result was that supply did not correspond to demand. In order to address this failure, the government has in its national strategic development plan underlined the need to produce skills in demand by the private sector. This has necessitated the participation of the private sector in the process of identifying and producing these skills, in particular, identifying the critical skills highly demanded by the economy. For example, the African Development Bank group sponsored a study on textile value chains that revealed that skill deficiencies, particularly at management and supervisory level, as well as limited and ineffective industry-specific training facilities, constitute a critical constraint to harnessing this value chain.

Within the NSDP framework of enhancing the skills base, technology adoption and foundation for innovation, the recommended remedy to the above challenges includes the need for government to provide incentives for lead companies to strengthen chain linkages

with local entrepreneurs (emerging) to bolster supply. This would complement company level competitiveness through development of systemic programmes. This is in addition to the need to increase productivity, skills development and transfer between foreign and local entrepreneurs. These recommendations are crucial, in particular, for all clothing exporters in Lesotho. Without a major productivity improvement and upgrading programme for entrepreneurs that includes more value addition, the industry will not be able to compete globally.

Specific policies to further local company development and linkages to the local economy are required to extend the impact of the clothing industry beyond its immediate employment creation effect. Currently, the local entrepreneurs are participating in the lower level processes of Cut, Make and Trim plants. Provided financial constraints can be overcome, the local entrepreneurs would play a more important role by upgrading to full package suppliers, using new machinery and production processes. Apart from textiles, the development of entrepreneurship would require promotion of investment in agro-industry and development of agri-business to increase value-addition and market integration. Access to markets (buyers and suppliers) often impedes entrepreneurship development, in particular local ones. This calls for the Lesotho industry associations to offer support by providing information on market requirements and potential buyers and suppliers. This is in addition to assisting potential local entrepreneurs to procure funding for trade fairs. It is noteworthy that the Lesotho National Development Corporation and government established Partial Credit Guarantee Schemes in 2012 meant to ease access to finance for MSMEs. Finally, public procurement policies to encourage governments to buy from locally owned companies could initiate demand and enhance local content.

Note

1. Mayer 2010 and Naude 2010b.