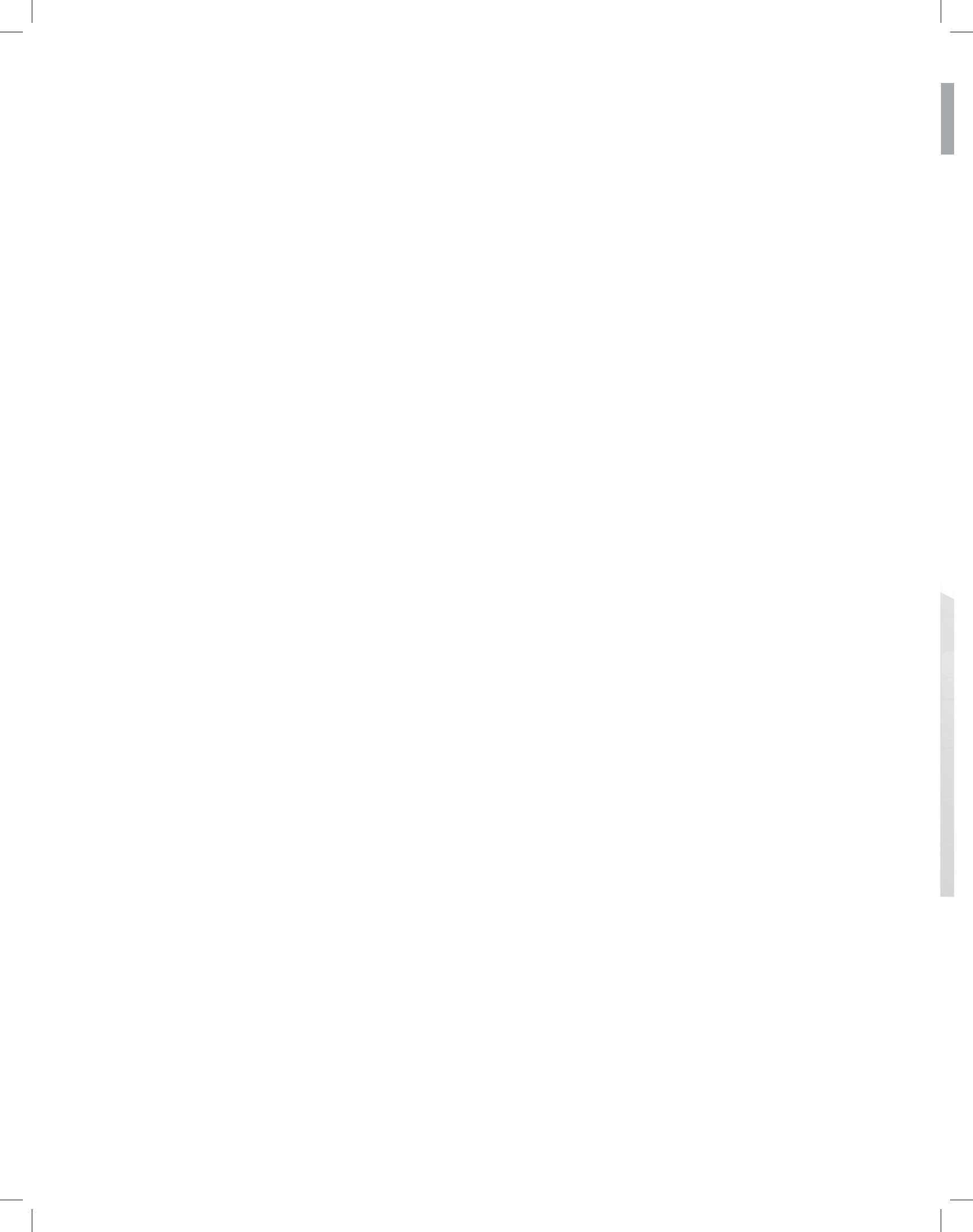


LESOTHO





LESOTHO



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Note

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LESOTHO AT A GLANCE

| General information | | Rankings | |
|----------------------|------------------|--|----------------|
| Subregion | Southern Africa | Human development index (United Nations Development Programme) | 161/188 (2014) |
| Official language(s) | Sesotho, English | Gender inequality index (African Union Commission) | 124/155 (2014) |
| Currency | Lesotho Loti | Ibrahim index of African governance (Mo Ibrahim Foundation) | 10/54 (2014) |
| Capital city | Maseru | Ease of doing business index (World Bank) | 110/189 (2015) |
| REC membership(s) | SADC | Corruption perceptions index (Transparency International) | 61/168 (2015) |



ECONOMIC GROWTH

In Lesotho, increases of 12.3 per cent in public spending in 2014 constituted the main driving force behind demand growth, with government projects benefiting in particular the construction, transport, communications and health sectors.



FISCAL POLICY

The main allocation of public spending is recurrent expenditure, including the civil service wage bill, which cannot be sustained in the medium and long term (estimated at 22.7 per cent of gross domestic product (GDP) and 37.5 per cent of total expenditure in 2014/2015).



MONETARY POLICY

In 2014 the inflation rate was 3.6 per cent, a fall of 1.5 percentage points from the 2013 value of 5.1 per cent. The main reason for this downward movement was a significant decrease of 14.5 per cent in the price of fuel (mainly gasoline and diesel), following a drop in the global price of oil.



CURRENT ACCOUNT

For the last five years the current account balance, driven by the high trade deficit, has remained negative and relatively stable. In 2012, South Africa was the origin of 88.9 per cent of the total import value, and it was a major destination for exports from Lesotho, accounting for 47.3 per cent of the country's total exports. Thanks to implementation of the African Growth and Opportunity Act, the United States was the second largest export destination (43.9 per cent) in 2012.



CAPITAL AND FINANCIAL ACCOUNTS

Despite a high deficit recorded in 2010, the financial account balance in Lesotho has been positive since 2011, reaching US\$ 231 million in 2014. Because of the depreciation of the local currency, inflows of foreign direct investment dropped to US\$ 46.4 million in 2014 from US\$ 60.9 million in 2011. It is estimated that foreign direct investment will increase between 2014 and 2016 at an annual average of 1.0 per cent of GDP. Much of this expected investment will be channelled into clothing and textiles.



DEMOGRAPHY

The population of Lesotho grew by 2.7 per cent between 2000 and 2014, to reach an estimated population of 1.92 million inhabitants. The rate of urbanization was 26.6 per cent in 2014, compared to 20 per cent in 2000.



POVERTY

The share of the population living below the national poverty line increased from 49.2 per cent in 1993 to 57.1 per cent in 2010. The 2010 Gini coefficient of 53.8 represented an improvement from the 1993 level of 57.9, but is still indicative of persistent and large inequalities among the population.



EMPLOYMENT

In 2011, it was estimated that 51.5 per cent of men and 28.1 per cent of women actively participated in the labour force. In all, 39 per cent of this working population was engaged in precarious employment.



HEALTH

In 2014, men lived on average 42.5 years and women 45.6 years. Over 26.0 per cent of women aged 15-49 were HIV positive, compared to 18.0 per cent of men. The doctor-patient ratio is higher than 1 to 10,000, which is largely above the World Health Organization recommendation of 1 to 1,500.



EDUCATION

The adult literacy rate was 87.4 per cent in 2011. The net enrolment rate was 76.6 per cent for primary education and 37.7 per cent for secondary education in 2014.



GENDER SCORECARD OF THE AFRICAN UNION COMMISSION

Lesotho has gone beyond parity in secondary school enrolment, with gross enrolment ratios of 62.3 per cent for girls and 44.5 per cent for boys. Women account for 26.7 per cent of members of parliament. The labour force participation rate for women is 70.7 per cent, compared to 86.5 per cent for men. There is room for improvement regarding equal access to land, as illustrated by a score of 4 out of 10 on the African Gender Scorecard.



The economy of Lesotho continued to experience moderate growth of 3.6 per cent in 2014 (Bureau of Statistics, 2015a) due to the global economic recovery and increased external demand. The recent positive growth figures are driven by agriculture, mining and large-scale construction projects, as well as the health, financial intermediation, transport and communications sectors. On the fiscal side, Lesotho's budget is to a large extent financed by Southern African Customs Union (SACU) transfers, whose volatility remains an obstacle to planning fiscal consolidation. With the national currency pegged to the South African rand, the country has little scope for monetary policy. The developments in construction and trade preferences are boosting foreign direct investment (FDI); however, the net external demand remains strongly negative due to increasing imports, mainly from South Africa.

At the same time, persistent poverty, with 57.1 per cent of population living below the poverty line (Bureau of Statistics, 2015c), and a deep urban-rural divide are serious social issues for the State, which has made little progress in alleviating poverty. The labour market is characterized by a large share of low quality jobs; and unemployment, at over 25 per cent (Bureau of Statistics, 2008), is rife, in particular among youths, university graduates and women.

Health care remains poor, with very limited access for people in remote areas, and the country has an HIV/AIDS prevalence rate of 23 per cent (Bureau of Statistics, 2015c), one of the world's highest. Meanwhile, the progress of Lesotho in providing universal primary education has been remarkable, which is also reflected in high literacy rates of nearly 90 per cent (Bureau of Statistics, 2013). The emphasis recently placed on bridging the gender gap is also commendable.

In Lesotho, the water subsector has so far played a significant role in transforming the economy, increasing investment through initiatives such as the Lesotho Highlands Water Project, and creating positive linkages to other sectors and employment. At the same time, maintaining positive spillovers, profiting from the full potential of the sector and ensuring access to that rich resource still pose a major challenge. Policymakers should therefore focus their attention on good governance of the sector, supporting developments in other sectors such as tourism and mobilizing resources to increase access to water for the Basotho people.

2

NATIONAL AND SUBREGIONAL CONTEXT

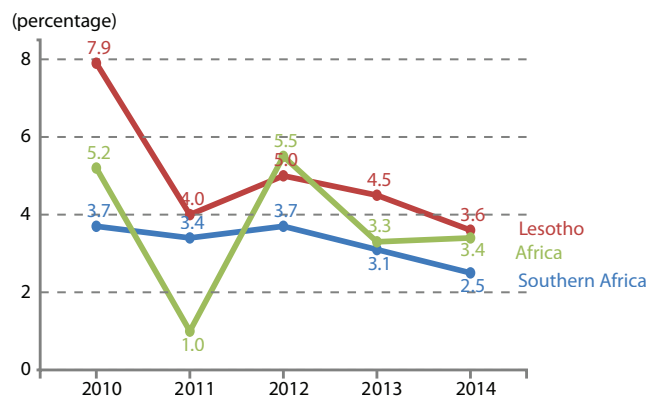
Over the past five years Lesotho has surpassed the regional and subregional trends in terms of its economic standing. As presented in figure 1, the country's real GDP growth was an average 5 per cent over the period 2010-2014, compared to 3.3 per cent in Southern Africa and 3.7 per cent in Africa as a whole. After the robust performance of 7.9 per cent in 2010, more than double the subregional mean GDP growth over the same year, the pace of economic growth in Lesotho has slowed down, remaining at moderate, positive levels. In 2011, GDP growth nearly halved to 4 per cent, after which the economy recorded growth rates of 5 per cent in 2012, 4.5 per cent in 2013 and 3.6 per cent in 2014 (Bureau of Statistics, 2015a). As a comparison, the Southern African region registered its growth record of 3.7 per cent in 2010 and 2012, after which the rate decreased gradually to 2.5 per cent in 2014. At the same time, the continent as a whole was strongly affected by shocks to major economies, such as the war in Libya in 2011, so that overall growth fell to 1.0 per cent in 2011, rebounding to 5.5 per cent in 2012 and stabilizing at 3.3-3.4 per cent in 2013-2014 (United Nations, Department of Economic and Social Affairs, 2016).

The positive figures in Lesotho were mainly attributed to the strong growth in mining, construction and services, boosted by extensive public spending in the latter. The global crisis, however, triggered a slowdown in 2011 because of falling external demand for Lesotho's manufacturing exports. Similarly, the overall low growth rate for Southern Africa over the period was mainly due

to a downturn in South Africa, which was strongly affected by the world crisis. The robust performance of fast-growers like Mozambique or Zambia was thus offset by the major economy in the subregion. The recent drops in commodity prices have also brought negative perspectives for the subregion, whose economies are often commodity-based. It is projected, however, that Lesotho will grow at an average 3.9 per cent from 2015 to 2017 (Central Bank of Lesotho, 2015a).

Following an attempted coup d'état in September 2014, the fragile political situation in the country still remains a preoccupation in the region. After the mediation and security intervention imposed by the Southern African Development Community

Figure 1: Real GDP growth, Lesotho vs. Southern Africa and Africa (2010-2014)



Source: Lesotho Bureau of Statistics for Lesotho and United Nations, Department for Economic and Social Affairs, for Southern Africa and Africa.

(SADC) mandate, and in an effort to end the political crisis and restore order, early general elections were held. Despite the swearing in of the new cabinet at the end of March 2015, the risk of renewed political instability remains significant. In the aftermath of the political turmoil the opposition leaders were exiled in South Africa, which further exacerbated the current state of affairs. It appears, however, that the stabilization of Lesotho is under way, and political tensions are easing, with SADC closely monitoring the developments.

As an active member of SACU, the Common Monetary Area and SADC, Lesotho has preferential access to regional markets. In particular, SACU, with roughly 60 million consumers,¹ provides a huge market for Lesotho products with its zero-tariff agreement, whereas participation in the Common Monetary Area requires parity between the rand and the loti to ensure stable terms of trade. Lesotho's high level of integration within SACU does not, however, translate into a high level of integration outside of the subregion. Reliance on SACU revenues is a downside for planning budget spending and any shocks to the South African economy have a strong cascade effect on domestic developments. The plans to modify the SACU revenue-sharing formula emphasize the need to expand the economy and trade patterns of Lesotho.

On the infrastructure side, the Lesotho Highlands Water Project is a prime example of regional cooperation in the area of natural resources management and exploitation. Since its establishment in 1986, the Project has been regarded as one of the most ambitious engineering projects ever attempted in Africa. The underlying concept is to benefit both Lesotho and South Africa. The water transfer scheme, financed fully by the Government of South Africa, diverts water to the South African region of Gauteng for its domestic and industrial use, while apart from the

increased employment, Lesotho benefits from the hydroelectricity generated, water royalties and the associated infrastructure, as well as positive spin-offs for the economy. Recently, a tripartite agreement was signed with Botswana to extend the transfer network to the water-stressed southern part of the country.

Upon completion of Phase I of the Project in 2003, a network of dams, tunnels and reservoirs was inaugurated, with an annual water delivery capacity of 780 million m³. The accumulated sales of water to date² have brought Lesotho revenues of over 6.3 billion maloti (nearly 500 million United States dollars³) and the related hydropower generation has contributed nearly 930 million maloti (over US\$ 70 million), with electricity being sold on both the domestic and external markets.⁴ The completion of the second phase of the project planned for 2022, with an estimated cost of roughly US\$ 1.3 billion,⁵ will increase water delivery to 1,260 million m³ per annum and preliminary feasibility studies indicate it could boost existing hydropower generation in Lesotho by up to 1,200 MW (Lesotho Highlands Development Authority, 2015). This has the potential to contribute greatly to the country's rural electrification developments that are designed to supply electricity to rural and remote mountain areas, and to reduce diesel generation costs through the Lesotho Renewable Energy Based Rural Electrification project. Currently, apart from the 'Muela station, there are four mini hydro-power stations in the mountains at Semonkong, Tlokoeng, Tsoelike and Mants'onyane.

¹ SACU members include Botswana, Lesotho, Namibia, Swaziland and South Africa.

² As at 30 June 2015.

³ Rate as at 30 June 2015.

⁴ 'Muela hydropower station generates 85 per cent of Lesotho's domestic requirements. It is worth noting that Lesotho was 100 per cent dependent on South Africa for electricity before the 'Muela station was built.

⁵ The World Bank has committed to providing a grant and a loan to the Government of Lesotho, totalling over 15 million dollars (World Bank, 2014), to cover the hydropower and social and environmental impact components.

As a result, the Lesotho Highlands Water Project is also triggering infrastructure developments such as access roads, bridges, camps, schools and health facilities, as well as employment opportunities. It is estimated that the number of jobs provided by the project will increase over the period 2015-2020 by roughly 11,000 job opportunities per year (World

Bank, 2015). Overall, half of the jobs are expected to be in the construction sector, whereas spillover effects will lead to employment in the food and catering, health and tourism industries, with a corresponding increase in demand for agricultural products.

Box 1: Africa regional integration index: Lesotho

The Africa regional integration index is designed to measure the extent to which each country in Africa is meeting its commitments under the various pan-African integration frameworks such as Agenda 2063 and the Abuja Treaty. The index, which is a joint project of the African Development Bank, the African Union Commission and the Economic Commission

for Africa, covers the following dimensions: (i) free movement of persons; (ii) trade integration; (iii) productive integration; (iv) infrastructure; (v) financial integration and macroeconomic policy convergence. The following section gives highlights on selected indicators. A technical description of the indicator may be found on the ECA website at www.uneca.org.

Overall rank:

10th in the Southern African Development Community (SADC) (score - 0.39). Best-performing country in SADC is South Africa (score - 0.74). *

| | | | | |
|--|--|---|--|---|
| Free movement of persons - joint 8th in SADC (score - 0.6). Best-performing country in SADC is Swaziland (score - 0.70). | Trade integration - 6th in SADC (score - 0.54). Best-performing country in SADC is South Africa (score - 1). | Productive integration - 15th in SADC (score - 0.07). Best-performing country in SADC is Zimbabwe (score - 0.74). | Infrastructural integration - 15th in SADC (score - 0.29). Best-performing country in SADC is Botswana (score - 0.82). | Financial integration and macroeconomic policy convergence - 7th in SADC (score - 0.42). Best-performing country in SADC is South Africa (score - 0.915). |
|--|--|---|--|---|

Free movement of persons - African countries are scored based on two indicators in this dimension of the index: the proportion of regional economic community protocols on free movement of persons ratified (out of those RECs of which the country is a member) and the number of other African countries whose nationals are allowed to enter visa-free or with a visa on arrival. Lesotho scores moderately in this dimension. The state has ratified the relevant SADC instruments concerning free movement of persons, rights of establishment and free movement of workers, which is greatly benefiting the Basotho people, in particular miners, working in South Africa. However, currently it allows nationals of only 25 other African

countries to enter visa-free or with a visa on arrival. (ECA, African Development Bank and African Union Commission, 2012; ECA, African Union Commission and African Development Bank, 2013; ECA and African Union Commission, 2015).

Trade integration - The trade integration is measured through indicators including average applied tariffs on intra-community imports and intra-community goods imports and goods exports. Examining the above indicators in detail, in 2014 Lesotho had an average applied tariff of zero on imports from SADC, which is joint-lowest among the members of that community (with Mauritius and Swaziland) (United Nations

Statistics Division, 2015; ITC, 2015). Lesotho's trade with SADC as a share of its GDP is strong. In 2012, the country's imports from SADC amounted to 61 per cent of its GDP, placing it first within the bloc on this measure. Lesotho also performs strongly in terms of its exports (excluding re-exports) to the rest of SADC as a share of its GDP. Fourteen per cent of the country's GDP was accounted for by exports (less re-exports) to SADC in 2012, which means that it ranks fourth within the bloc. Swaziland performs strongest among SADC members on this measure, with exports to other SADC members (less re-exports) accounting for 30 per cent of GDP (United Nations Statistics Division, 2015; UNCTADStat, 2015; national statistics offices).

Productive integration - Lesotho falls within the group of lowest-ranking countries within SADC in terms of its integration into regional value chains. Lesotho scores weakly (forty-ninth or sixth-to-last out of all countries in Africa) in UNCTAD's Merchandise Trade Complementarity Index, which measures the extent to which a country's trade is complementary with that of its partners. This suggests that little specialization through trade between Lesotho and other countries in the region may have taken place.

The Index also measures productive integration looking at intra-regional trade in intermediate goods. The proportion of intermediate goods in Lesotho's trade within the region is low relative to other members of SADC. Lesotho's share of intermediates in its imports from SADC was around 11 per cent in 2012, the latest year for which data was available. In the

same year, its share of intermediates in total exports was around 13 per cent, which is also relatively low compared to other SADC members.

Infrastructure - Lesotho's infrastructural integration with the rest of the continent appears also to be weak relative to other members of SADC. Based on the latest available data (2013), Lesotho's internet bandwidth per capita of around 0.3 megabits per second per person is 33rd-highest on the continent. Internet bandwidth is important for international communication, both within Africa and beyond, including to support trade in services. However, 100 per cent of international flights to and from Lesotho in June 2014 were intra-SADC, meaning that it ranks joint-highest among members of that REC on this measure, along with Swaziland.

Information on Lesotho's macroeconomic policy convergence can be retrieved from the dedicated website on the Africa regional integration index.

Conclusion - Overall, Lesotho appears to perform strongly in the area of trade integration and moderately in that of free movement of persons relative to other SADC members. It scores weakly in the other dimensions of the index. In terms of specific policy measures that could boost its performance, Lesotho could consider:

- Waiving visa requirements or granting visas on arrival for nationals of a greater number of African countries
- Upgrading its internet infrastructure.

* A continent-wide ranking, in which all African countries from all Regional Economic Communities will be compared with one another, is currently under development for the Africa regional integration index and will be added to subsequent updates of ECA's country profiles.

3

ECONOMIC PERFORMANCE

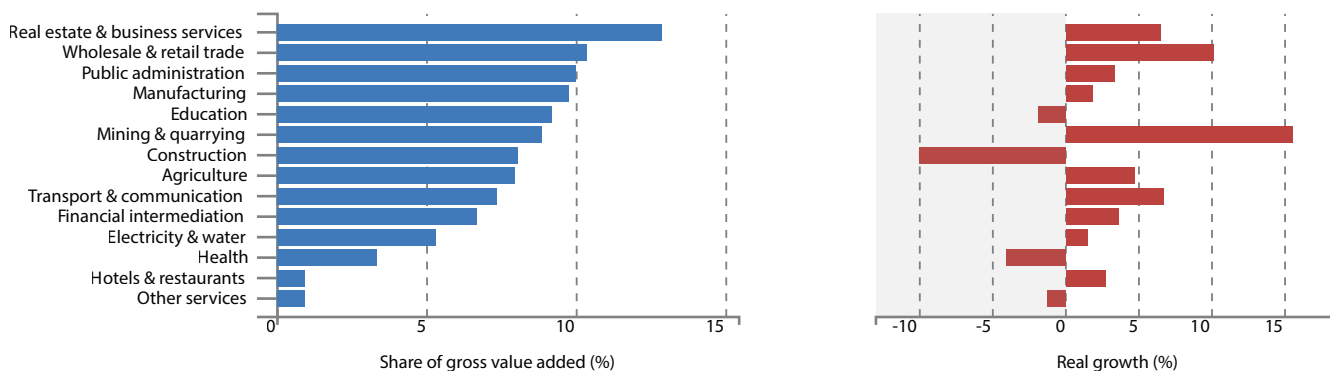
3.1 Economic growth and sectoral performance

Despite an armyworm attack in financial year 2013/14, the growth rate of agricultural value addition reached 4.7 per cent in 2014, although down from 13.2 per cent in 2013. The positive 2014 result was mainly due to the Government’s cropping program. The livestock subsector also contributed significantly to this outcome through wool and mohair production. However, owing to drought and flooding experienced in 2011/12 and 2012/13, the crops recorded a decline of 23.9 and 1.8 per cent in 2012 and 2013, respectively, leading to an average contraction of the agricultural sector of 0.3 per cent over the same period (Bureau of Statistics, 2015a). It is projected that the sector will continue to grow by approximately 2.4 per cent annually (Ministry of Finance, 2015) until 2018. As for the structure of the

economy (see figure 2), agriculture is a relatively small contributor to GDP, accounting for just 7.9 per cent in 2014 (Bureau of Statistics, 2015a).

In turn, the reopening of the Kao and Letseng mines led to increased mining production (although subdued by a temporary closure of the Liqhobong diamond mine), contributing to a remarkable growth in gross value addition of 15.5 per cent in 2014, after a serious dip of 9.2 per cent the year before. Overall, the gross value addition growth rate averaged at 20.6 per cent over 2011-2012. It is expected that production will further expand in the short-term future, and the GDP share of mining might increase from the 8.8 per cent recorded in 2014 (Bureau of Statistics, 2015a).

Figure 2: Gross value added shares and growth (2014)



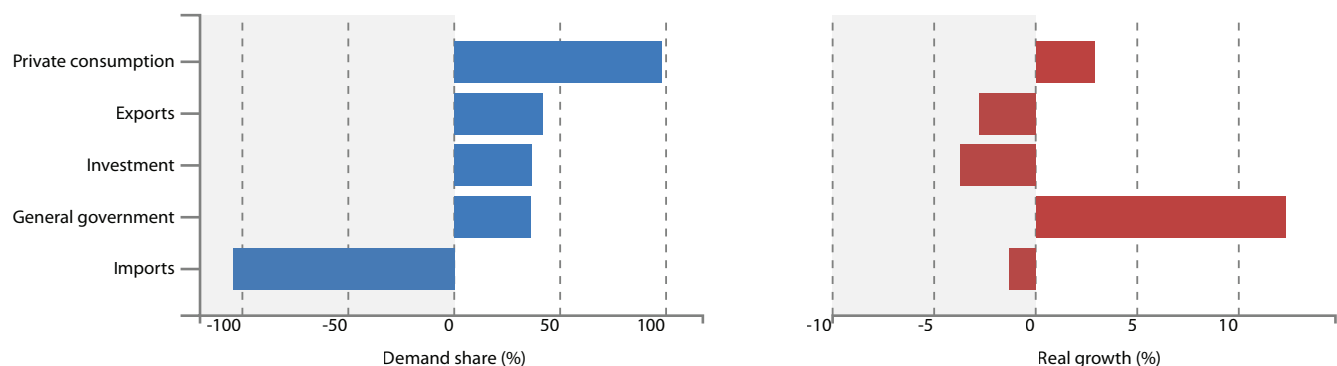
Source: Lesotho Bureau of Statistics.

At the same time, after a drop of 3.4 per cent in 2012 (Ministry of Finance, 2015), the recovery of the industrial sector (excluding mining) was mainly due to developments in construction, which benefited from continuing work on Metolong Dam and other government projects. Manufacturing recorded marginal growth of 1.8 per cent in 2014 after contracting by 12.9, 3.4 and 11.8 per cent in 2013, 2012 and 2011 (Bureau of Statistics, 2015a), respectively (in particular due to falling global demand in the textile and clothing as well as electronics industries). Nonetheless, the gross value added of the industrial sector as a whole⁶ grew by 2.2 per cent in 2014, down from the 3.9 per cent growth recorded in 2013, with an outlook of average growth of 1.1 per cent annually until 2018 (Ministry of Finance, 2015). At the same time, the industrial sector's share of GDP has stagnated in recent years, recording 23.1 per cent of GDP in 2014 (versus 25.3 per cent in 2010). Manufacturing dropped, registering 9.8 per cent in 2014 compared to 14.1 per cent in 2010 (Bureau of Statistics, 2015a). This decline came primarily as a result of uncertainties surrounding the extension of the African Growth and

Opportunity Act preferences⁷ and hence, a shrinking of the garment sector contribution.

The service sector has been contributing positively to growth, mainly through the health sector (which, after the 2011 opening of the new Queen 'Mamohato Memorial Hospital, grew at an average of 24.1 per cent annually until 2014 (Bureau of Statistics, 2015a)), financial intermediation (which profited greatly from reforms to improve access to credit⁸), wholesale and retail trade and also transport and communications, which were boosted by investments in other areas of the economy. The gross value added of service sector was therefore increased by 3.9 per cent in 2014 and 5 per cent in 2013, and it will grow at an estimated 3.6 per cent in the medium-term (Ministry of Finance, 2015). Furthermore, following the above improvements, in 2014 the services sector accounted for 59.9 per cent of GDP (Bureau of Statistics, 2015a).

Figure 3: Demand shares and growth (2013-2014)



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

⁶ Mining and quarrying is excluded.

⁷ The African Growth and Opportunity Act preferences were extended only on 29 July 2015.

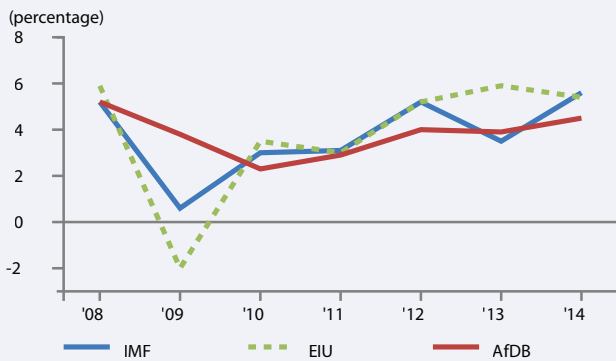
⁸ These include the Legal Capacity of Married Persons Act (2006), which capacitated women to conduct business on their own, and the Land Act (2010) and Land Administration Authority Act (2010), which made it possible to use fixed property as collateral.

Box 2: Forecast for Lesotho economy

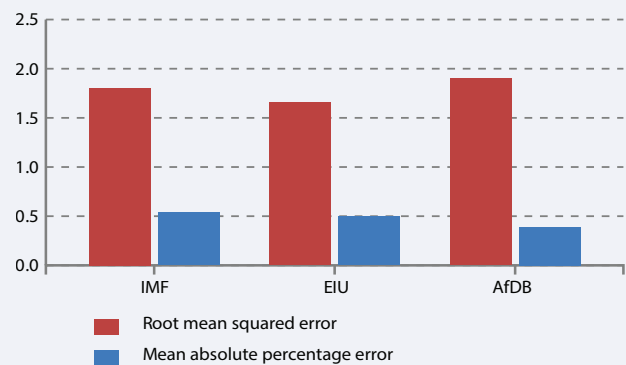
Economic forecasts provide essential information for decision-makers in the public and private sectors. A number of organisations produce forecasts of economic growth for Lesotho, including the African Development Bank (AfDB), the Economist Intelligence Unit (EIU) and the International Monetary Fund (IMF). Overall, the forecasts produced by these organisations are maintained within 1.5 per cent of each other for all years over the period of review (2008-2014) (figure A). The only major points of departure were in 2009, when the EIU was predicting negative growth, whereas AfDB projection was strongly optimistic; and in 2013, when the EIU was more optimistic than the others. More recently, the three organisations produced similar forecasts for 2014, the most optimistic of which is the one produced by the IMF (5.6 per cent), while the AfDB is the least optimistic (4.5 per cent).

The root mean squared error (RMSE) and the mean absolute percentage error (MAPE) are common measures used to evaluate forecasts. The higher the value of these errors, the less accurate the forecasts. Our analysis suggests that the most accurate forecasts produced for the period 2008-2014 were those made by the Economist Intelligence Unit (RMSE criterion) or African Development Bank (MAPE criterion) (figure A). The International Monetary Fund followed closely, generating forecasts of similar accuracy.

Forecasted GDP growth rates by institution



Forecast error



On the demand side (see figure 3), increases of 12.3 per cent in public spending in 2014 were the main driver behind demand growth, with government projects benefitting in particular the construction, transport, communications and health sectors over the last couple of years. Private consumption, which is the largest component of the aggregate demand (97.8 per cent in 2013 (Bureau of Statistics, 2015b)), registered in contrast a modest increase of 2.9 per cent in 2014 on account of better access to credit,

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

3.2 Fiscal policy

Fiscal interventions remain the country's main macroeconomic policy instrument and are aligned with the National Strategic Development Plan. Table 1 presents a detailed split of the budget. Currently, the main allocation of public spending is recurrent expenditure owing to the soaring civil service wage bill, which cannot be sustained in the medium- and long-term (estimated at 22.7 per cent of GDP and 37.5 per cent of total expenditure in financial year 2014/15⁹) and which compromises the Government's ability to stimulate growth. It is therefore crucial that the Government shifts from recurrent to development expenditure to ensure an adequate level of public investment. Among the other expense elements, interest payments amounted to 227 million maloti in 2014/15, rising from 192 million and 166 million maloti in 2013/14 and 2012/13, respectively. That represented a minor increase in relative terms from 0.8 per cent of GDP to 1.0 per cent over the period. In addition, the Government cut down on social benefits, from 763 million maloti in 2013/14 to 670 million maloti in 2014/15 (Ministry of Finance, 2015; Central Bank of Lesotho, 2015b).

On the revenue side, taxes constitute roughly 40 per cent of the total revenue, while water royalties from South Africa account for around 5 per cent (3.2 per cent of GDP in 2014/15). However, the budget is financed to the largest extent by SACU receipts (48.1 per cent of the total revenue in 2014/15, versus 45.7 per cent in the previous fiscal year), whose volatility remains a major risk to planning fiscal consolidation. Moreover, modifications to the SACU revenue-sharing formula may further jeopardize the country's revenues in the future, and it is thus pressing to generate income from sustainable domestic sources, such as national manufacturing value chains¹⁰ (Ministry of Finance, 2015; Central Bank of Lesotho, 2015b).

⁹ The fiscal year in Lesotho runs from 1 April to 31 March.

¹⁰ As one of the few least developed countries with a strong manufacturing sector, focusing on domestic value chains would be in line with the Istanbul Programme of Action.

Table 1: Lesotho fiscal accounts, millions of maloti

| | 2012/2013 | 2013/2014 | 2014/2015 | 2015/2016 |
|---------------------------|-----------|-----------|-----------|-----------|
| REVENUES | 12,624 | 13,198 | 14,109 | 15,321 |
| Taxes | 4,596 | 5,148 | 5,715 | 6,517 |
| Grants | 1,704 | 1,047 | 496 | 956 |
| Water royalties | 636 | 717 | 740 | 782 |
| SACU | 5,163 | 6,032 | 6,789 | 6,398 |
| EXPENSES | -12,615 | -12,486 | -13,885 | -16,350 |
| Wages | -3,749 | -4,589 | -5,211 | -5,978 |
| Use of goods and services | -2,385 | -3,026 | -2,908 | -3,527 |
| Interest payments | -166 | -192 | -227 | -284 |
| Social benefits | -613 | -763 | -670 | -937 |
| FISCAL BALANCE | 9 | 713 | 224 | 1,028 |
| % GDP | 0.0 | 3.3 | 1.0 | 4.0 |
| GDP | 19,833 | 21,007 | 22,918 | 25,387 |

Source: Ministry of Finance; Central Bank of Lesotho; the figures for 2015/16 are estimates.

The overall budget performance resulted in a slight surplus of 1 per cent of GDP in 2014/15 and of 3.3 per cent in the previous year (Central Bank of Lesotho, 2015b). This positive outcome in 2014/15 was mainly due to higher SACU revenue that rose by 12.5 per cent to 6,789 million maloti. At the same time, compensation expenditure increased by 13.6 per cent reaching 5,211 million maloti and capital expenditure rose marginally by 0.8 to the level of 4,166.2 million maloti (Central Bank of Lesotho, 2015a; Ministry of Finance, 2015).

With respect to debt policy, Lesotho maintains sustainable debt levels and the country is able to meet its debt obligations. The government gross debt reached 46.2 per cent of GDP in 2014. The external debt is the major component of the country's financial liabilities. In 2014, the total external debt stood at US\$ 837 million, in a gradual decline from US\$ 867 million and US\$ 841 million in 2012 and 2013, respectively. The debt to GDP ratio was 38.5 per cent in 2014, up from 37.9 per cent in 2013 (Bureau of Statistics, 2015c). The accumulation

of international reserves should further support external debt sustainability, making Lesotho a viable investment destination; however, the debt is projected to rise to 1,197 million maloti in 2015/16, growing to 47.4 per cent of GDP in relative terms (Central Bank of Lesotho, 2015b).

3.3 Inflation and monetary policy

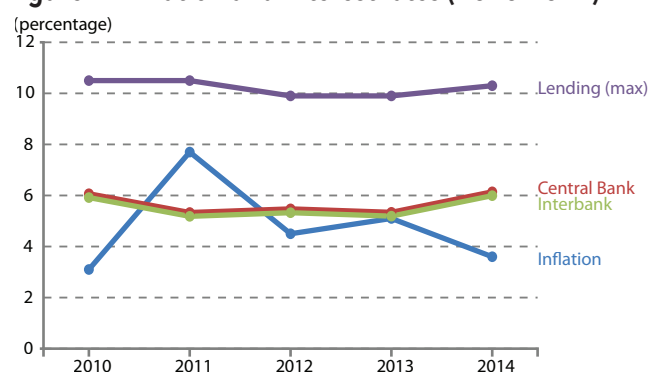
In terms of monetary policy, the country has very limited scope to act owing to its membership in the Common Monetary Area. This integrated market system results in certain restrictions which prevent excessive money creation by its members. As a consequence, the national currency, the loti, is pegged to the South African rand. As with the latter, the exchange rate of loti to the United States dollar rose gradually from 7.32 in 2010 to 12.85 in 2015 (Central Bank of Lesotho, 2015a). The broad money supply (M2) growth rate increased from 2.9 per cent in 2011 to 7.8 in 2014 (Bureau of Statistics, 2015c).

The influence of the South African Reserve Bank on the monetary developments is often reflected in price indices and interest rates. In order to maintain price stability, Lesotho focuses on keeping the loti at parity with the rand by maintaining an adequate level of net international reserves (Ministry of Development Planning, 2012). In terms of interest rates, the Central Bank of Lesotho announced in December 2015 that the policy rate, which is currently 6.25 per cent, will be the Central Bank reference rate. Previously, the reference rate had been the 91-day treasury bill rate, which is shown in figure 4. The interbank rate is on average 15 basis points below the Central Bank reference rate (Central Bank of Lesotho, 2015b).

In 2014 the inflation rate reported by national sources as a year-on-year change was at 3.6 per cent,¹¹ a remarkable fall by 1.5 percentage points compared to the 2013 value of 5.1 per cent. The main reason behind this downward movement was

¹¹ The average annual rate was 5.4 per cent.

Figure 4: Inflation and interest rates (2010-2014)



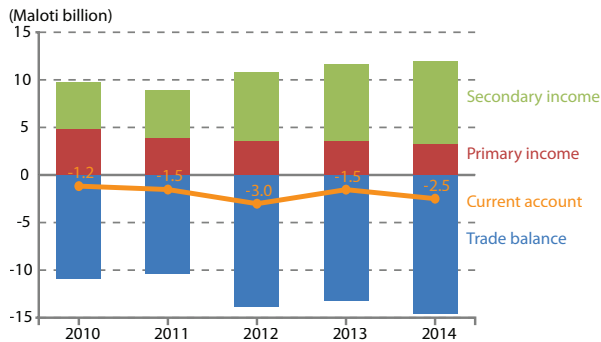
Source: Central Bank of Lesotho.

a significant decrease in prices of liquid fuels (mainly gasoline and diesel) by 14.5 per cent, following a drop in the global price of oil. Some non-food products, such as furniture, also recorded slight drops in prices. In turn, food inflation reached 5.3 per cent in 2014 due to the higher cost of food imports, the large majority of which come from South Africa (Bureau of Statistics, 2015d). A recent monthly consumer price index report indicated an annual inflation rate of 4.8 per cent. Annual increases in food (8.9 per cent), clothing and footwear (4.3 per cent) and education prices (3.9 per cent), as recorded in the report (Bureau of Statistics, 2015e), were the main cause of a rising consumer price index. It is projected that inflation will average 3.3 per cent by the end of the year and 5.7 per cent in 2016-2017 (Central Bank of Lesotho, 2015a).

3.4 Current account

For the last five years the current account balance has remained negative and relatively stable. Besides a more pronounced drop in 2012 to -3,015 million maloti, the current account deficit oscillated between -2,491 and -1,166 million maloti from 2010 to 2014. As illustrated in figure 5, the very high trade deficit is the driver behind the negative current account balance and a 2012 dip in the latter was also

Figure 5: Balance of payments (2010-2014)



Source: Lesotho Bureau of Statistics.

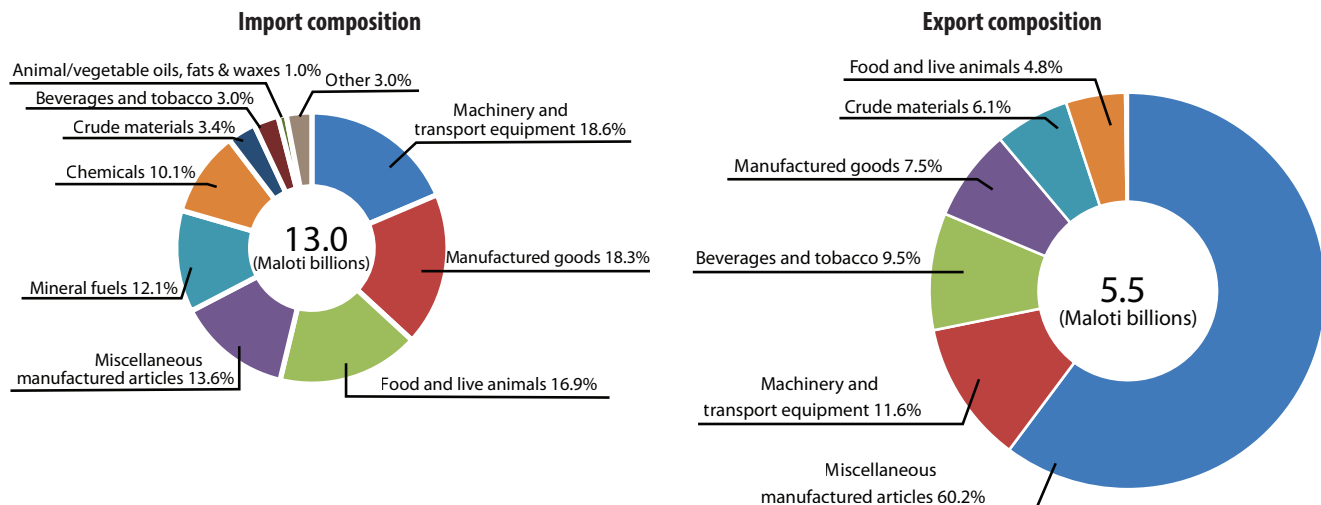
attributed to the strongly negative trade balance. The trade deficit reached 14,512 million maloti in 2014, a significant rise from 10,921 million maloti in 2010, which in relative terms represented an increase from 55.1 per cent of GDP in 2010 to 57.2 per cent in 2014 (Bureau of Statistics, 2015c). The coverage rate of imports by exports rebounded to 42.6 per cent in 2014, after a decade low of 39.9 per cent in 2013 (Ministry of Finance, 2015). The falling exchange rate and high imports value are among the main factors influencing the outcome. On the income side, the role of primary income has been diminishing since 2010, reaching 3,311 million maloti in 2014, whereas secondary income has gained growing importance

owing to remittances from abroad, mainly from the Basotho migrant mine workers in South Africa. With regard to their flows, remittances from migrants fell from 22.5 per cent of GDP in 2010 to 19.5 per cent of GDP in 2014, reaching 4,971 million maloti by the end of 2014 (Bureau of Statistics, 2015c).

Lesotho’s geographic location influences the foreign trade patterns to a large extent. It is highly concentrated both in terms of exports and imports. In 2012, South Africa was the origin of 88.9 per cent of the total imports value, and it was a major destination for exports, accounting for 47.3 per cent. Owing to the African Growth and Opportunity Act preferences, the United States of America was the second largest export destination with 43.9 per cent in 2012. Other major partners included Taiwan, China and Hong Kong for imports, and the European Union, United Arab Emirates and other SACU member States for exports (Bureau of Statistics, 2014a).

Figure 6 presents details of import composition. Food, manufactured articles and machinery were major import products, indicating low productivity of domestic agriculture (mainly subsistence farming), little diversification of local manufacturing and

Figure 6: Foreign trade (2012)



Source: Lesotho Bureau of Statistics.

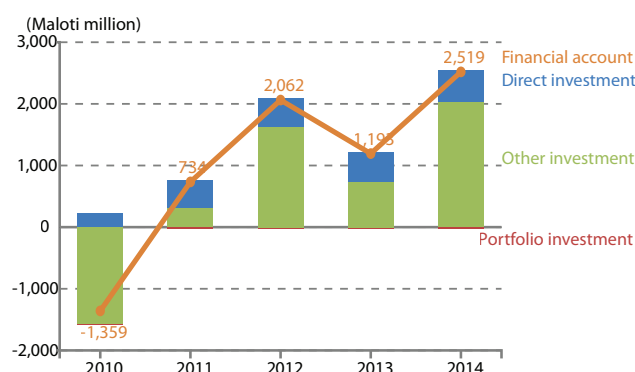
increasing number of infrastructure projects. In terms of value, the declining prices of oil and food offset the rising demand for imports. However, it is projected that the trade deficit will widen once international prices pick up and new construction projects will require more machinery and equipment inputs. In terms of exports, the recovery of the global economy spurred external demand for manufacturing exports, such as clothing, textiles, electronics and diamonds (see figure 6).

3.5 Capital and financial accounts

Despite a high deficit recorded in 2010 owing to outflows related to other investment, the financial account balance in Lesotho has been positive since 2011, reaching 2,519 million maloti, that is, US\$ 231 million in 2014, the highest level over the last five years (see figure 8). The level of FDI has remained relatively stable since 2011, oscillating between 445 to 505 million maloti. The country maintains negligible investments in bonds and shares, and the major role in the financial account is played by other investment (2,041 million maloti or US\$ 187 million in 2014), such as official development assistance grants and loans and their repayments. As maintaining an adequate level of net international reserves is a crucial means of keeping the loti at par with the rand, the level of those reserves is steady. Since 2010, net international reserves have fluctuated between US\$ 1.0 billion and US\$ 1.4 billion, with the 2014 stock of US\$ 1.12 billion slightly down from US\$ 1.14 billion in 2013 (Bureau of Statistics, 2015c). Similarly, months of import coverage recorded only minor fluctuations, from 4.3 in 2012 to 4.4 in 2015 (Ministry of Finance, 2015).

On account of the depreciating currency, however, inflows of FDI dropped to just US\$ 46.4 million in 2014, down from US\$ 60.9 million in 2011 (Central Bank of Lesotho, 2015b). However, it is estimated that FDI will increase at an annual average of 1.0 per cent of GDP between 2014 and 2016 (KPMG, 2015). Similarly to the current FDI flow, much of

Figure 7: Financial account balance, (2010-2014)



Source: Lesotho Bureau of Statistics.

this expected investment will be channelled into clothing and textiles firms. The Lesotho National Development Corporation estimates that the total employment created through FDI to date amounts to 45,400 jobs (Lesotho National Development Corporation, 2014) and future inflows are crucial to maintain the high figure.

Along with the National Strategic Development Plan,¹² the Government aims to attract private investment in the form of joint ventures and FDI in sectors ranging from textile and garments, infrastructure, mining, energy, health and tourism to food processing, electronics and plastic products. To that end, Lesotho offers incentives ranging from tax preferential corporate regimes and attractive market access to facilitating services offered by the Lesotho National Development Corporation,¹³ such as assistance with company registration or the acquisition of permits and licences.

¹² Along with agriculture, manufacturing and tourism, the improving investment climate is one of the Lesotho National Development Strategy's pillars for long-term job creation and growth.

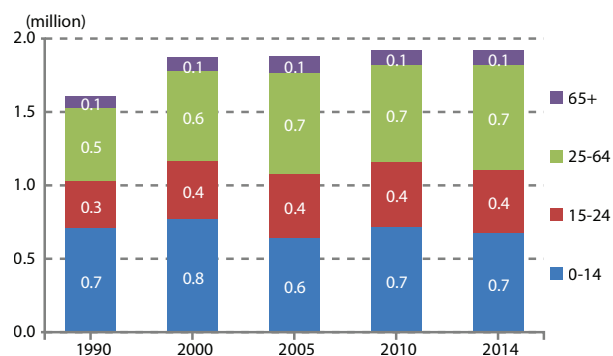
¹³ The main objective of the Lesotho National Development Corporation is implementation of the country's industrial development policies. The entity is fully owned by the Government of Lesotho and reports to the Ministry of Trade and Industry, Cooperatives and Marketing.

SOCIAL DEVELOPMENTS

4.1 Demography

In 2014, the country counted 1.92 million inhabitants, with a virtually unchanged population level since 2000 (see figure 8). Women account for a higher share of the population aged 25-65+ and men amongst 0-24 year-olds. Due to migration, a heavy HIV/AIDS burden and poor health care, the annual population growth rates are particularly low and in 2014 the rate was only 0.4 per cent, an increase from 0.2 per cent in 2010 or 0.1 in per cent in 2005. Overall, the population grew by 2.7 per cent between 2000 and 2014 and by 19.6 per cent since 1990. The rate of urbanization is also low and relatively stagnant, with 26.6 per cent of people living in urban areas in 2014 compared to 20 per cent in 2000 (Bureau of Statistics, 2015c).

Figure 8: Population by age group (1990-2014)



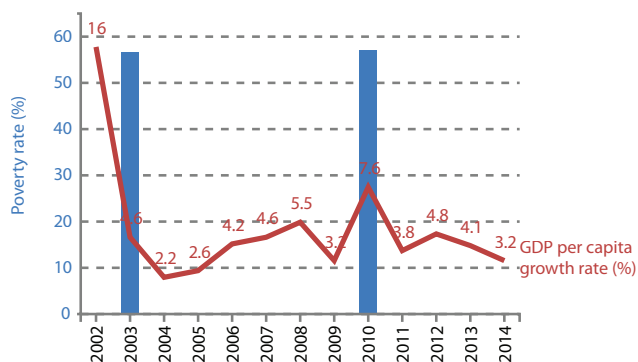
Source: Lesotho Bureau of Statistics.

The Basotho are principally a young society, as close to 60 per cent are aged under 24 years and just 5 per cent are over 65 years. At the same time, the dependency ratio remains high, oscillating between 65.7 and 72 per cent between 2000 and 2014, due to an extensive proportion of children below 14 years old (see figure 9) (Bureau of Statistics, 2015c). However, this age distribution augurs well for Lesotho, if the economy is able to generate quality jobs for its young population to benefit from the demographic dividend.

4.2 Poverty and employment

Lesotho is still struggling to alleviate the overarching poverty of its inhabitants and the poverty incidence is very high. Despite positive growth rates of real GDP per capita, economic development is benefitting only a limited fraction of the population (see figure 10) and the wealth distribution is skewed towards urban areas. The share of the population living below the national poverty line increased from 49.2 per cent in 1993 to 57.1 per cent in 2010, with the population affected mainly in rural areas (in 2010, 61.2 per cent versus 39.6 per cent in urban areas, as opposed to 68.9 versus 36.7 per cent in 1994). The most recent Gini coefficient of 53.8, reported in 2010, has changed slightly from its 1993 level of 57.9, suggesting persistent and large inequalities among the population (Bureau of Statistics, 2013; Bureau of Statistics, 2015c).

Figure 9: Poverty and economic growth per capita (2002-2014)



Source: Lesotho Bureau of Statistics.

With regard to the labour market, it was estimated that 51.5 per cent of men and 28.1 per cent of women actively participated in the labour force in 2011. Nevertheless, a large proportion of the working population, 39 per cent in 2011, had vulnerable employment, that is, they were own-account workers and contributing family members¹⁴ (Bureau of Statistics, 2013).

The 2011 national figures indicate that 38.4 per cent of the Basotho make their living from agriculture (51.5 and 16.3 per cent for men and women, respectively), many of them as subsistence farmers. Industry provided employment to 21.2 per cent (19 per cent and 24.8 per cent for men and women, respectively) and services to 40.6 per cent (29.5 and 58.8 per cent) (Bureau of Statistics, 2013). Public administration remains the biggest formal employment creator in the country, whereas manufacturing provides the highest number of formal jobs in the private sector, to a large extent owing to the textile industry that employs up to 43,000 mainly female workers (Ministry of Development Planning, 2012).

In turn, the total unemployment rate stood at 25.3 per cent in 2008, distributed almost equally between men and women; among young people (15-24 years), however, the rate was significantly higher, 32 per cent for men and 40.7 per cent for women (Bureau of Statistics, 2008). It is worth noting that registered unemployment is mostly an urban problem, with half of the job seekers¹⁵ residing in the Maseru area, and every fifth a university graduate or postgraduate student (Bureau of Statistics, 2014b).

In an attempt to step up the efforts to fight high poverty levels and inequalities, in February 2015 Lesotho officially launched the National Social Protection Strategy. The Strategy is based on the life-cycle concept and it embraces infant, child, disability and assistance grants, as well as an employment guarantee and an old age pension scheme. In addition, the agricultural input subsidies, cropping projects and national fertilizer programmes focus on narrowing the urban-rural divide. Although the Strategy is aimed at the most disadvantaged groups, its impact may not be sustainable. Expanding the social safety net without giving people access to productive assets raises the risk of deepening poverty and inequality in the long term.

¹⁴ For instance, 43.6 per cent of all economically active women declared "housewife" as their main activity.

¹⁵ The term "job seekers" refers only to those unemployed that were registered with the National Employment Services in 2013, and does not reflect all the unemployed.

Box 3: The National Social Protection Strategy in Lesotho

The Strategy is divided into a long-term vision with 2025 targets, and intermediary objectives for 2018/19 with a detailed action plan. The cost of the Strategy is estimated at 1,275 million maloti, representing 3.9 per cent of GDP, which is significantly less than the estimated current level of social protection of 7.8 per cent of GDP. At the same time, the Strategy is expected to result in increased coverage of 41 per cent of the population, as opposed to 23 per cent in 2011 (Freeland and Khondker, 2015).

The Child Grant Programme is one of the most successful examples of the Strategy's implementation. From a pilot phase that provided transfers to about 5,000 children, the programme has gradually expanded coverage to 80,000 in 2015, and currently benefits children in every district of the country. Starting from the fiscal year 2013/2014, the Government fully took over the funding and administration of the programme, committing 36 million maloti from the budget (Doyle, 2015). The Child Grant Programme is unique in sub-Saharan Africa with its effective transition from a donor-led pilot into a national programme.

As a result, Lesotho's National Information System for Social Assistance was introduced as a support tool for the Programme. Currently, over a quarter of Basotho households are covered by the system, and the System has the potential to become a single registry for all social assistance and security programmes, as it is expected to be linked to the national identification system.

In addition, launched in 2005, the Lesotho Old Age Pension is a universal pension scheme that is unprecedented among low-income African countries. It targets all the population above 70 years old, that is, about 83,000 Lesotho citizens. The programme began with a monthly transfer of 150 maloti and is currently at 450 maloti a month and will be increased to 500 maloti, as announced in the current budget (Freeland and Khondker, 2015).

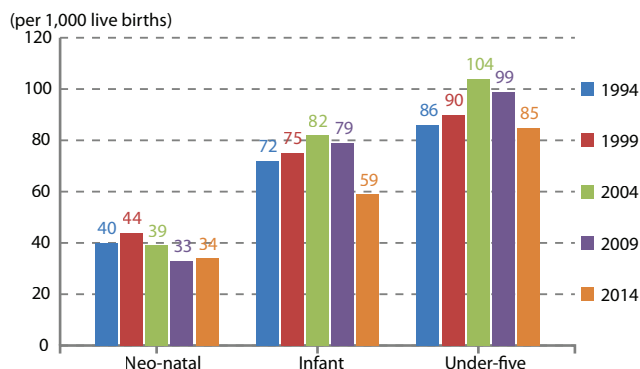
4.3 Health

The soaring HIV/AIDS burden and insufficient health infrastructure, strongly undermine the health status of the population and translate into persistently high mortality rates. In 2014, men lived on average 42.5 years and women 45.6, which was a mean of 44 years for the whole Basotho population. The number in 2000 equalled 47.2 years (46.7 – men, 47.6 – women) and 59.3 (58 versus 60.8) in 1990 (Bureau of Statistics, 2015c). Also, in 2014 the neo-natal mortality rate was 34,¹⁶ the infant mortality rate stood at 59 and the under-5 mortality rate was 85 (Ministry of Health, 2015), and this represented a significant drop from 2004 figures; however, the progress in all but infant mortality rates was limited compared to 1994 (see figure 10). In addition, 33 per cent of Basotho children are stunted, 3 per cent are wasted, while 10 per cent are underweight. For all three phenomena, the proportion is higher for male than female

children; and they are greater among children in rural areas (Ministry of Health, 2015). At the same time, the maternal mortality ratio reached 1,143 (per 100,000 live births) in 2011 (Bureau of Statistics, 2013), up from the 2000 level of 419 (Bureau of Statistics, 2015c), even though the recent health survey reports significant improvements in delivery care, as 78 per cent of mothers were attended by skilled personnel and 77 per cent gave birth in a health facility. Antenatal care was provided at least once to 95 per cent of women and three-quarters received it at least four times. Urban women, however, were more likely than rural women to have received antenatal care or to be attended in a health institution or by skilled personnel (Ministry of Health, 2015). The increase in the maternal mortality ratio, despite improved delivery and antenatal care, may be partly due to better administrative records as more women give birth in health facilities.¹⁷

¹⁶ All child mortality rates are per 1,000 live births.

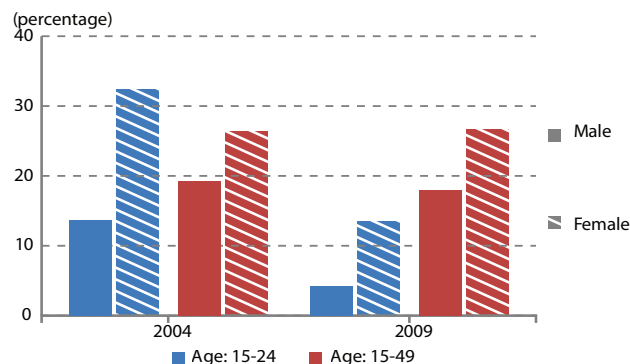
¹⁷ As a result, any differences in the maternal mortality ratio between sources, including the African Gender Scorecard, may be due to the varying

Figure 10: Neo-natal, infant and under-5 mortality rates (1994-2014)

Source: Demographic and Health Survey 2014 (Ministry of Health, 2015); Demographic and Health Survey 2004 (Ministry of Health, 2005).

With low rates of tuberculosis prevalence and no malaria incidence on account of the high altitude, the major health problem of Lesotho is the HIV/AIDS epidemic as seen in figure 12, with the adult (15-49 years old) prevalence rate at 23 per cent in 2009 (the rate reduces to 9.3 per cent for the population aged 15-24 years). Over 26 per cent of women aged 15-49 were HIV positive (13.6 per cent amongst 15-24 year-olds) as opposed to only 18 per cent of men in the same age group (or 4.2 per cent for male youths) (Bureau of Statistics, 2015c). Limited access to antiretroviral therapy (57.5 per cent in 2011) (Millennium Development Goals, 2015) and poor quality of health services lie at the basis of the alarming HIV and AIDS incidence. Despite high public spending on the sector (15.1 per cent of the 2015/16 budget (Ministry of Finance, 2015)), the lack of skilled personnel remains a major limitation to the proper functioning of the health care system. The doctor-patient ratio is less than 1 to 10,000 (Tlale, 2012), which is much lower than the regional average and the World Health Organization recommendation of 1 to 1,500.

methodologies.

Figure 11: HIV prevalence rates by sex and age group (2004-2009)

Source: DHS 2009 (MOH, 2010); DHS 2004 (MOH, 2005).

4.4 Education

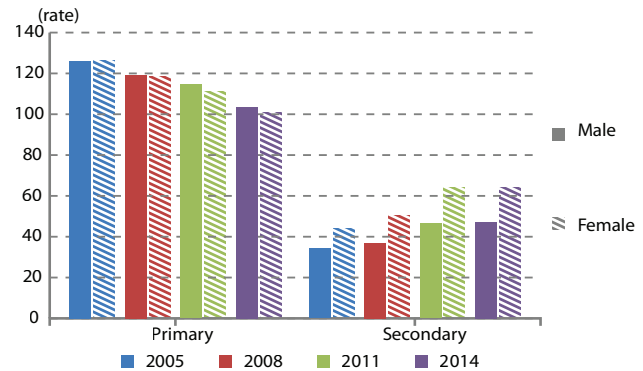
In the area of education, in contrast, substantive progress has been achieved. With an 87.4 per cent adult literacy rate in 2011 (Bureau of Statistics, 2013), the country has a comparably high rate for Africa (in 2015, for youths aged 15-24,¹⁸ the rate was 76.9 for men and 93.4 for women, and 85.1 per cent in total (United Nations Educational, Scientific and Cultural Organization Institute for Statistics, 2015)). School enrolment rates are high and progressing rapidly (see figure 12). The net enrolment rate was 76.6 per cent in primary education and 37.7 per cent in secondary education in 2014, whereas gross rates were 102.3 and 55.7 per cent, respectively, and the representation of girls is higher at all levels because many families keep boys out of school for household work such as pasturing livestock. In 2014, the gender parity index stood at 1.04 for primary education, 1.6 at the secondary level and 1.42 for tertiary (Bureau of Statistics, 2015f). High dropout rates, however, are a serious issue. It was reported that in 2011, 59.6 per cent of females in urban areas aged between 6 and 24 years left school, as opposed to 44.4 per cent of their counterparts in rural areas. The respective numbers for males were 40.4 and 55.6 per cent (Bureau of Statistics, 2013). The lowest percentage of

18 National data are not available.

dropouts is at the primary level (3.2 per cent in 2013 (Bureau of Statistics, 2015f)).

Overall, the quality of education is also rising as a result of the high public investment. The sector claims the largest proportion of government social spending (18.4 per cent of GDP in the 2015/16 budget (Ministry of Finance, 2015)). On the one hand, the pupil-teacher ratio has improved over the years, reaching 33 and 24 for primary and secondary levels in 2014; down from 42 and 26 in 2005; nevertheless, teachers are not equally distributed and are still scarce in remote rural areas (Bureau of Statistics, 2015f). On the other hand, social development programmes such as free primary education, school meals and bursaries for orphans and vulnerable children (OVC), in addition to the tertiary bursary scheme, contribute to higher education enrolment at all levels.

Figure 12: Gross enrolment rate in primary and secondary education by sex (2002-2014)



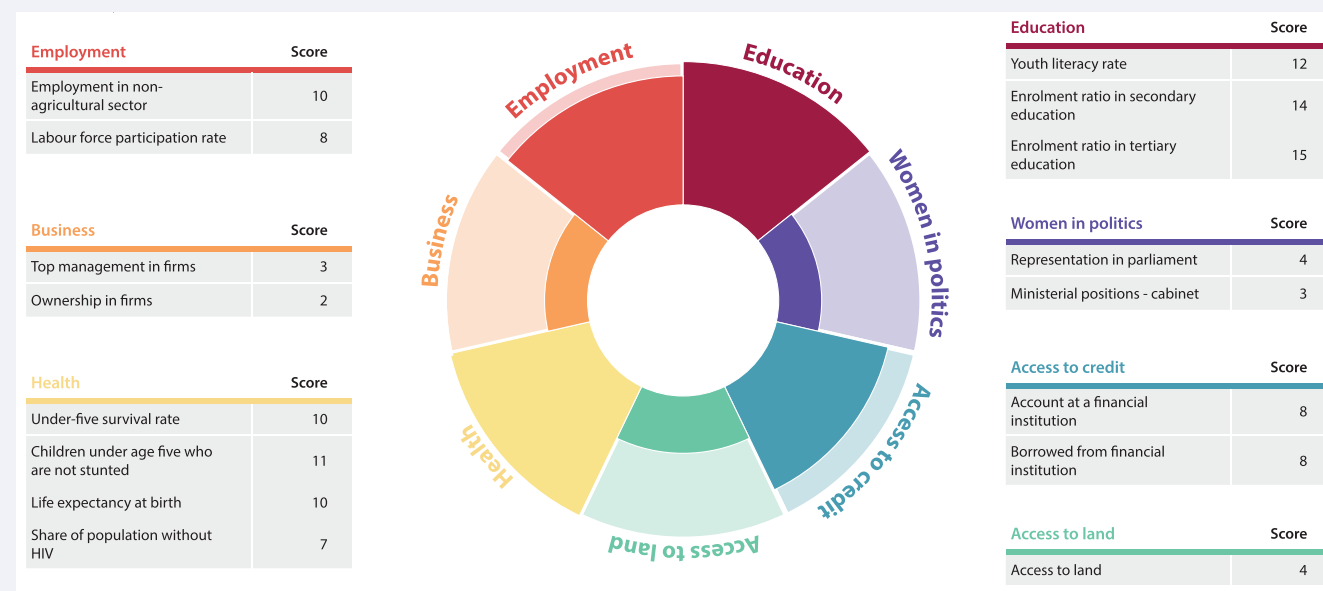
Source: Lesotho Bureau of Statistics (Bureau of Statistics, 2015f).

4.5 Gender scorecard of the African Union Commission*

The African Union declared 2015 as the Year of Women's Empowerment and Development towards Africa's Agenda 2063, with a view to building momentum for gender equality and women's empowerment on the continent. Based on this commitment, the African Union developed the African gender scorecard. The Scorecard is designed to measure the status of gender equality

and women's empowerment in seven core sectors that have a transformative impact on women's lives through their contribution to broad-based, sustainable and inclusive growth. These core sectors are: employment, the business sector, access to credit, access to land, women in politics and decision-making, health, and education at the secondary and tertiary levels.

Interpretation of the pie chart: The scoring is between 0-10, with 0 being the worst level of inequality, 5 suggesting middle parity, and 10 indicating perfect parity. Perfect parity connotes a situation where the proportion of men and women is equal, irrespective of the developmental level of the variable or indicator being assessed. Some countries go beyond the score of 10, thus showing that women may be more highly empowered in that subsector than men for that country. However, caution is needed when drawing conclusions based only on the scores, particularly when there are large variations in levels of developmental achievements between countries.**



* The data used in the calculation of the Scorecard are drawn from several international databases and sources, including: United Nations, Statistical Division; World Development Indicators, Global Financial Inclusion Database and Enterprise Surveys of the World Bank; the Gender and Land Rights Database of the Food and Agriculture Organization of the United Nations; International Labour Organization; United Nations Children's Fund; Joint United Nations Programme on HIV/AIDS; World Health Organization; International Food Policy Research Institute; United Nations Educational, Scientific and Cultural Organization; United Nations Population Division; United Nations Population Fund; Inter-Parliamentary Union; and some national data sources. Data on access to land were drawn from several sources, with the scoring and harmonization of legislative frameworks done in-house by the African Centre for Statistics and the African Centre for Gender.

** The pie chart is based on the African genders scorecard, which was presented to the Heads of State and Government at the twenty-fifth ordinary session of the Assembly of the African Union in June 2015.

MAJOR POLICY CHALLENGE: WATER FOR ECONOMIC TRANSFORMATION

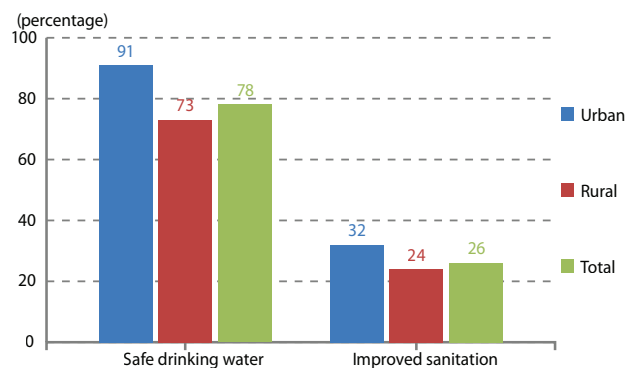
Water, popularly known as “White Gold”, is Lesotho’s most abundant and most valuable natural resource, greatly exceeding domestic needs. On the one hand, the country is one of Southern Africa’s major water catchment areas. The rainfall in the highlands averages at 1,400 mm per year (Ministry of Water Affairs, 2015), feeding the Senqu (Orange), Mophokare (Caledon) and Makhaleng river systems. Every year, rain and snowfall bring an estimated 5.5 billion m³ of water, and renewable groundwater resources provide a further 340 million m³ (Embassy of the Kingdom of Lesotho in Ireland, 2015). On the other hand, after the introduction of the Lesotho Highlands Water Project, water has become the largest single source of non-tax revenue, creating 3.5 per cent of GDP per year (Ministry of Finance, 2015)¹⁹ and contributing to development and job creation in various sectors.

Despite such a rich natural endowment and revenue source, few Basotho people profit from it fully. As seen in figure 13, access to water is particularly limited in rural areas, where only 73 per cent of the population had access to safe drinking water in 2014 and 24 per cent had the benefit of improved sanitation facilities. The proportions in urban areas were 91 per cent and 32 per cent, respectively (Bureau of Statistics, 2015c). The figures fall short of the country’s potential. In addition, once the

Project-related activities cease, the economy may experience a downturn and drops in employment if positive spillovers are not maintained. Also, the water sector presents opportunities that remain largely unexplored, even though they could play a significant role in fostering sustainable growth and transforming the economy further.

In order for the country to benefit from this rich natural resource, the Government has recognized the need to set up a number of institutions. Most importantly, the Lesotho Highlands Development Authority is the implementing agency for the Lesotho Highlands Water Project. In turn, since 2013 the Lesotho Electricity and Water Authority has overseen the regulation of urban water and

Figure 13: Access to safe drinking water and improved sanitation (2014)



Source: Bureau of Statistics, 2015c.

¹⁹ Outturn for the 2014/15 fiscal year, including royalties from water and water-generated electricity sales; SACU receipts are not taken into consideration.

sewerage services, establishing quality standards²⁰ to improve access to clean water, prevent waterborne diseases and ensure uninterrupted supply to individuals as well as businesses. The recently formed Ministry of Water Affairs²¹ highlights the central role that the Government attaches to water resources in the economy. Importantly, recognizing the need to institutionalize the sector has been key to ensuring that the country can profit from the resources in the long run. At the same time, effective functioning of the new management structure is a challenge that policymakers must address in order to retain oversight mechanisms, attract investors and turn water into a sustainable growth driver.

In that regard, the Lesotho Highlands Water Project since its inception has offered vast scope for transforming the economy. Nonetheless, the biggest challenge to sustaining the growth spurred by the Project is to maintain long-lasting spillover effects in other sectors of the economy. The project itself, even as a strong growth driver in the medium term, cannot continue to propel economic and social developments after its completion. It is expected that employment related to the Project will drop significantly in 2021-2022 (World Bank, 2015), and the growth rates of some sectors, in particular construction, will start declining sharply, which may lead to an economic downturn unless other industries can absorb the labour force, private investment takes off, technology transfer occurs and domestic capacity-building is maintained. On the other hand, the spread of already abject levels of poverty and deepening inequalities is the biggest risk if the recently drafted income restoration and resettlement strategy is ill-designed and myopic.

Importantly, the Lesotho Highlands Water Project area has opened new opportunities for tourism

developments. The main assets include dams²² and hydropower stations that are modern engineering feats, nature reserves and botanical gardens created as part of the biodiversity protection programmes,²³ housing unique mountain species of fauna and flora, as well as the water reservoirs themselves, which are already attracting an influx of tourists. An opportunity therefore exists for private investors to build accommodation facilities such as lodges, hotels and resorts at Katse and Mohale. Furthermore, the Project has provided Lesotho with the infrastructure for water-based sports and other recreational activities, with a special emphasis on leisure cruise boats and extreme sports, for which the dams are perfectly suited. Currently, the Lesotho National Development Corporation is running a small cruise service at Mohale dam, which it plans to pass over to a private operator for further developments. The prospective infrastructure of Phase II will broaden the scope of existing opportunities. It is also expected that the impact on job creation will be pronounced, with an estimated increase in tourism employment of 25 per cent if demand in the sector rises by 50 per cent (Ministry of Development Planning, 2012). Moreover, many of those jobs would be created in rural areas, where the highest underemployment occurs.

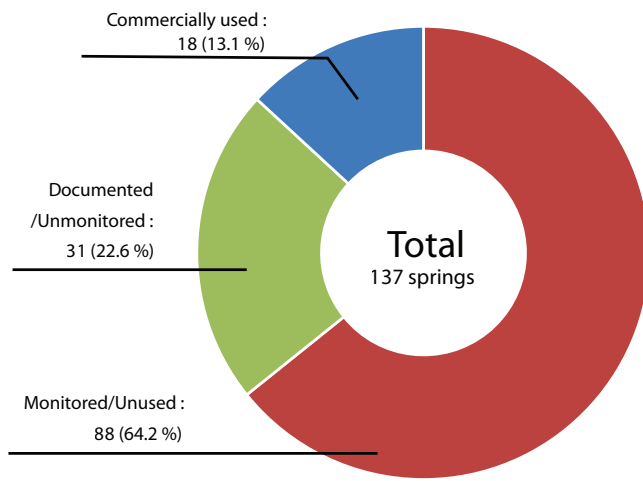
In addition to the investment opportunities in tourism described above, there is great scope for setting up lucrative businesses in the Lesotho water sector, which needs adequate policy support in order to prosper. The high quality of water in the country constitutes a natural comparative advantage that, if used, could generate long-lasting job creation and sustainable growth sources. The policy of concentrating on creating a conducive business environment in the water sector could thus lead to the desired investments. One of the priority projects at present is water bottling. Lesotho abounds

20 Urban Water Quality of Service and Supply Standards (May 2013) set up as main objectives the protection of customers and environment, the sufficient water supply and assuring water quality adequate for human consumption.

21 Water resources management was previously coordinated by the Ministry of Energy, Meteorology and Water Affairs.

22 Katse Dam is the highest dam in Africa, one of less than 30 dams in the world of a double curvature arch design and one of the world's 10 largest concrete arch dams in terms of volume.

23 The affected communities in such areas have been entitled to 10 per cent of all park collections in the form of community development projects.

Figure 14: Classification of water springs

Source: Lesotho National Development Corporation.

in natural springs with water that is physically, chemically and biologically clean. Currently, it is reported that only 18 out of 106 monitored springs scattered across all ten districts are used commercially (Lesotho National Development Corporation, 2015), leaving at least 88 springs that have water adequate for bottling and being sold both locally and internationally (see figure 15). It is essential to mention that developments in the business would also have positive externalities in

the public health sector, as safe drinking water could be more widely distributed to the areas with a poor water supply. In addition, Lesotho's springs, rivers and other water reservoirs are ideal for setting up the fisheries business aimed at exporting quality trout or tilapia.

Finally, water is undoubtedly one of Lesotho's richest natural resources; however, the Basotho people's limited access to it has been an impediment to both social and economic development. The adverse impact on health is pronounced, which has cascading repercussions on education and employment. In turn, this undermines labour productivity significantly and restrains the potential of the economy in the long run. The problem is particularly pertinent to the lowlands areas of the country, where roughly two-thirds of the Basotho live. Improved water supplies are crucial in the Maseru district, where the majority of manufacturing industry, especially textiles, is concentrated. Simultaneously, a rising share of urban population in the area sparks growing demand for reliable residential supplies. The emphasis is therefore placed on overcoming this challenge, through a set of programmes and projects (see annex I). However, high dependence on donor capital creates a risk of interruptions in financial flows and underutilization

Box 4: The water bottling sector presents a lucrative business opportunity

- The country boasts about 137 documented springs, at least 106 of which are monitored
- Only 18 springs are commercially used at the moment, leaving at least 88 springs for business developments
- A total of 6 springs lie in close proximity to Maseru
- There are also 90 boreholes countrywide
- Opportunity: establishing a procurement plant and equipment to bottle water
- Product: bottled spring and mineral water
- Potential markets: Lesotho, South Africa, the European Union and the United States of America
- Collaboration sought: joint ventures or new projects

of resources, which should be mitigated through internal efforts, in both organizational and financial terms.

The best illustration of a well-targeted project is the completion of the Metolong Dam, which is a breakthrough in ensuring a supply of clean water for Maseru. Not only will it provide the much needed supply, but it will also give a strong stimulus to the national economy. Taking into consideration the textile sector only, one of the biggest in the Maseru area, it is estimated that 48,000 jobs in the sector will be preserved and 6,000 more jobs will be created, thanks to the operationalization of the dam (Public Eye News, 2015). Moreover, it is estimated that the Metolong Dam Water Supply Programme will add capacity of 75 million litres of water supply per day (Metolong Authority, 2015), which will relieve the currently overstretched system with the capacity of barely 44 million litres a day and is believed to meet Maseru residential and industrial demand for roughly forty years (Public Eye News, 2015). Complementing the direct effects of the Programme, the Metolong Dam construction has led to the creation of almost 50 kilometres of new roads, rural access roads, vehicle and pedestrian bridges, sanitation systems, developments in telecommunications and construction of staff housing and a visitors' centre. Promoting similar undertakings, even on a much lower scale, in other areas of the country could accelerate positive social transformation.

Policy implications

Taking into consideration the various aspects and interlinkages that the water sector creates in Lesotho, there is great scope for the country to focus on policies that could benefit developments in the sector, and hence, to bolster the structural transformation engendered by it. Below are the focus areas that policymakers could explore further:

- Good governance, including good institutions, is a cornerstone of durable economic development, which the State could foster through the right policies. One line is to ensure that the institutional environment, in particular that of water resources management, is efficient and transparent, with the minimal level of bureaucracy that is conducive to business. Meanwhile, in reference to the recent political turmoil, the focus could be combined with strengthening the recovering stability. Well-targeted policies in both areas could play a fundamental role in reassuring potential investors and making efficient use of resources.
- In relation to the spillovers triggered by the Lesotho Highlands Water Project, adequate policies could support developments in sectors that profit directly from the project and have the potential to provide lasting impacts to the economy beyond the duration of the Project, with tourism being a flagship example.
- In combination with the above, policies aimed at enhancing the investment climate and promoting the natural comparative advantage of the country's water and tourist assets could be a reinforcing element in bringing more investors to those sectors and a deciding factor in developing other water-related business areas, such as fisheries or water bottling.
- In addition, the social facet of exploiting water resources in Lesotho cannot be neglected. On one hand, there needs to be an ongoing domestic effort, not relying uniquely on external donors, to provide access to drinking water and sanitation to all the Basotho people. At the same time, it is fundamental that the communities affected by the Lesotho Highlands Water Project are provided with the productive means of making their living, either in the Project-related activities or through other occupations which

can contribute to higher and more sustainable incomes in the future.

- Finally, to preserve the high quality of water, monitoring and environmental protection mechanisms could be put in place to ensure that water remains a long-lasting source of both human and economic development. A set of environmental studies²⁴ is being conducted with relation to the impact of the Project, which could be further used to shape the policy direction in that regard.

²⁴ The most significant are the Flow, Water Quality and Geomorphology and IFR Baseline Study and the Biological and Archaeological (including Heritage) Baseline Study.

6. NATIONAL DATA QUALITY EVALUATION

Methodological note on data quality evaluation

The quality of national data sources for key indicators in the country profiles was evaluated. The result is presented in colour codes, with green indicating a "good" data source, yellow for "satisfactory", and red for "needs improvement".

The evaluation focused on the transparency and accessibility of each national data source. The evaluation took into consideration the timeliness and periodicity of data publishing, based on the punctuality of publication and frequency of data updates in accordance with international standards. It also measured the comparability of the data series, based on their length, definition and standard units of measurement. It evaluated database accessibility, specifically whether the data were open and freely available to the general public, the format of the data, and the ease of downloading and sharing. Data citation, together with references to primary or secondary sources, was also assessed. Finally, the evaluation checked the completeness of metadata for data release and the completeness and clarity of documentation and notes.

| Demography | Value | Evaluation | Education and employment | Value | Evaluation |
|--|--------------|------------|---|-------------|------------|
| Population (millions) | 1.9 (2014) | 1 | Net enrolment ratio in primary education (%) | 76.6 (2014) | 1 |
| Children (0-14 years, million) | 0.7 (2014) | 1 | Proportion of pupils starting grade 1 who reach last grade of primary (%) | 96.8 (2013) | 1 |
| Adults (15-60 years, million) | 1.1 (2014) | 1 | Ratio of girls to boys in primary | 1.04 (2014) | 1 |
| Elderly (60+ years, million) | 0.1 (2014) | 1 | Ratio of girls to boys in secondary | 1.6 (2014) | 1 |
| Urban population (%) | 26.6% (2014) | 1 | Ratio of girls to boys in tertiary education | 1.42 (2013) | 1 |
| Growth rate (%) | 0.4 (2014) | 1 | Share of employed in primary sector (%) | 38.4 (2011) | 1 |
| Crude death rate (deaths per 1,000 population) | 20.3 (2014) | 1 | Share of employed in tertiary sector (%) | 40.6 (2011) | 1 |
| Crude birth rate (births per 1,000 population) | 29.8 (2014) | 1 | Unemployment rate (%) | 25.3 (2008) | 1 |
| | | | Proportion of own-account and contributing family workers in total employment (%) | 39.1 (2011) | 1 |
| Key macroeconomic and sectoral performance | Value | | Health | Value | |
| GDP, constant price (Maloti billion) | 12.5 (2014) | 1 | Prevalence of underweight children under 5 years of age (%) | 10.3 (2014) | 2 |
| GDP, current prices (billions of maloti) | 23.7 (2014) | 1 | Under-5 mortality rate (per 1,000 live births) | 85 (2014) | 2 |
| Real GDP growth rate (%) | 3.6 (2014) | 1 | Infant mortality rate per (per 1,000 live births) | 59 (2014) | 2 |
| Inflation rate (%) | 4.8 (2015) | 1 | Neo-natal mortality rate (per 1,000 live births) | 34 (2014) | 2 |
| | | | Maternal mortality ratio (per 100,000 live births) | 1143 (2011) | 1 |
| Economic trends and performance indicators | Value | | Proportion of births attended by skilled health personnel (%) | 77.9 (2014) | 2 |
| Gross fixed capital formation (billions of maloti) | 7.5 (2013) | 1 | HIV prevalence among population aged 15-24 years | 9.3 (2009) | 2 |

Data sources code index

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ANNEX I

Major projects and programmes focusing on improving access to water

| | |
|---|---|
| <p>Metolong Dam and Water Supply Programme</p> <ul style="list-style-type: none"> - Total initial cost of US\$ 200 million, currently estimated at US\$ 430 million (according to CDM Smith) - Funders: Governments of Lesotho and South Africa, European Investment Bank, Millennium Challenge Corporation, World Bank, Arab Bank for Economic Development in Africa, Organization of Petroleum Exporting Countries Fund for International Development, Kuwait Fund, Abu Dhabi Fund and Saudi Fund - Water treatment plant with a capacity of 75 million liters of water per day - Downstream conveyance system to Maseru, Roma, Mazenod, Morija, Teyateyaneng - Central part of the Lesotho Lowlands Water Supply Scheme (LLWSS), which aims at providing more than 1.2 million people with access to clean water by 2020 | <p>Lowlands Rural Water Supply and Sanitation Project</p> <ul style="list-style-type: none"> - Estimated cost of US\$ 17.16 million - Financed by African Development Fund, World Bank and Government of Lesotho - Bound to benefit directly 65,000 Basotho living in villages along the Metolong Dam pipelines in Berea and Maseru districts, 75 per cent of which do not yet have an adequate level of clean water and sanitation - Completion expected by the end of 2017 |
| <p>Urban and Peri-Urban Water Supply Network</p> <ul style="list-style-type: none"> - Part of Water Supply Projects of a total budget exceeding US\$ 164 million - Financed by the US's Millennium Challenge Corporation (MCC) through the Lesotho Millennium Challenge Account - Implemented in 11 urban centres, providing approximately 41.5 per cent of urban dwellers with access to reliable water supply services | <p>Rural Water Supply and Sanitation Project</p> <ul style="list-style-type: none"> - Part of MCC's Water Supply Projects - Targeted a total population of 160,000, providing improved water and sanitation services to nearly 27,500 households, scattered over 250 villages - Construction of up to 30,000 Ventilated Improved Pit (VIP) latrines |
| <p>Maseru Wastewater Project</p> <ul style="list-style-type: none"> - The total cost of nearly 33 million euro - Co-financed by European Investment Bank, European Union and the Government of Lesotho - Aiming to increase by 2015 the sanitation coverage in the capital from 49 to 85 per cent, with over 100,000 Maseru inhabitants directly profiting from the project - 3,100 households provided with dry sanitation system toilets | <p>The National Indicative Programme (NIP) for Lesotho</p> <ul style="list-style-type: none"> - Total budget of 142 million euro spread over 2014-2020, of which 78 million euro for the expansion of water supply and sanitation infrastructure and rain water collection - Funded by the EU through the 11th European Development Fund - The focal areas of water, energy and governance for development cooperation |

Sources: Metolong Authority, Water and Sewerage Company Lesotho, European Investment Bank, Millennium Challenge Corporation, European Union Delegation in Lesotho, the Lesotho Review.

