



Analysis of the business environment in Least Developed Countries

Lesotho

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and balanced
voice for business

Lesotho

Region
Southern Africa

Population(2021)
2 281 454

Demographic growth
1.2%

Average income (2021)
1,094 USD

Human Development Index:
With a value of 0.514, it ranks 168 out of 191 countries.

Regional economic community
Southern African Development Community, Southern African Customs Union

Economic overview

Lesotho is geographically surrounded by South Africa. 80 per cent of goods imported into Lesotho come from South Africa. Lesotho enjoys ready access to the South African market. Lesotho is a member of the Southern African Customs Union (SACU), and as such, does not pay tariffs to export goods to other SACU members (Botswana, Namibia, South Africa, and Swaziland).

The textiles and apparel industry accounts for most formal manufacturing jobs in Lesotho. It employs more than 40,000 people and accounts for 92 per cent of manufacturing jobs (Bcreatingtics 2018). The industry generates 43 per cent of exports. The industry mainly generates low-skill, low-wage jobs. Although the industry is credited with the creation of thousands of jobs, there are concerns over job quality and the low career advancement of employees. Textile and apparel producers benefit from government incentives, including a reduced corporate income tax of 10 per cent, subsidised cost of factory shells, and tax allowances for training. In 2020, 29.89 per cent of the Gross Domestic Product (GDP) came from the industry and 52.84 per cent from the services sector.

In 2020, agriculture contributed around 6.37 per cent to the GDP, and accounts for most of the employment in rural areas, where over 70 per cent of the population live. Crop farming is dominated by



subsistence production of cereal crops. **Agricultural production accounts for less than 10 per cent of GDP but over 60 per cent of employment.** Most jobs are in subsistence-oriented small family farms characterised by low production. An even larger area is deemed opportunities to transform the rural economy and increase incomes. Lesotho's climate conditions are favourable to producing many vegetables and fruit. A crop suitability map identified 5,500 square kilometres (550,000 hectares) of micro-climate areas favourable for fruit cultivation and an even larger area is deemed to be suitable for vegetable production in Lesotho.

Tourism is one sector that has significant employment potential; however, it is not fully exploited. Lesotho has one of the region's most pristine and unspoiled natural environments, with spectacular scenery and vast potential for eco-tourism. The rugged countryside makes Lesotho ideal for off-road sports. Other outdoor sports include

canoeing, ski runs, horseback rides, pony trekking, mountain climbing, hiking, fishing, and camping.

According to the Lesotho Bureau of Statistics Business Register, **MSMEs account for 76 per cent of the private sector economic activities, largely in the informal sector.** Self-employment is also a dominant form of employment in MSMEs and the informal economy. MSMEs provide jobs to 118,130 Basotho, of whom 59 per cent are women, and 83 per cent are self-employed owners.



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Challenges faced by the private sector

- **Shortage of factory shells:** The lack of available factory shells is an important constraint to growth for industrial businesses. The wait times range from a few months to over a year. Shortage of ready-to-occupy industrial estates is also a constraint to establishing new domestic industrial enterprises.
- **Restrictive land regulations:** Private investment in industrial infrastructure is constrained by the complexity of the legal framework (Land Act, 2010) and the lack of promotion efforts by the government to attract investors in property development. The lack of a well-functioning land market and shortage of irrigable land have particularly negative impacts on modernising and commercial farmers.
- **Lack of locally available skills is an important constraint to competitiveness.** This increases production costs and contributes to low productivity. The skill levels of workers are a major constraint, as about 80 per cent of full-time employees receive training on the job. High employee turnover, migration of qualified workers to South Africa, and the need to contain costs are among the reasons for relatively low

investment in employee skill building. New employees in the manufacturing industry often have relatively low initial qualifications (incomplete secondary education, no formal industry-specific training, and low command of English).

- **Absence of programmes to support local linkages:** Although entrepreneurship support programmes exist, they generally do not meet the needs of growth-oriented enterprises. Basotho Enterprise Development Corporation runs several entrepreneurship programmes. Still, these are targeted primarily to the unemployed and microenterprises rather than to more established entrepreneurs who could benefit from mentorship, linkages with larger enterprises, and access to finance to scale up their operations.

- **Water shortages in the Maputsoe and Ha Nyenye industrial areas are an important constraint to the sustainability and growth of the apparel industry.** Firms throughout the country experience insufficient water supply for production. Water shortages mainly affect the Maputsoe area, where industrial estates and population growth have expanded over the past decade. The expansion of water infrastructure did not accompany this growth. Supply from the Lesotho Water and Sewerage Company's (WASCO's) water system can only serve about half of the demand in the area. Industries, as well as the population, depend on informal water systems without adequate quality control and reliable supply.



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- **Access to finance is an important impediment to development,** particularly for domestic firms that do not have access to multinational financial institutions. Firms

complain that banks have little understanding of their industries and perceive it as too risky. The reported annual interest rates were 20 per cent.

- **Outdated, inefficient and non-business-friendly tax system.** The tax system is based on a 1993 statute and has provisions that are not conducive to business growth. The unfavourable provisions include provisional taxes, fringe benefits, payment of accrual-based Value Added Tax to tax authorities before cash is collected, and government departments that act as agents of the tax authorities and deduct withholding tax on payments. There are insufficient provisions in the tax law to enable adequate tax deferring in the initial years of business when businesses are at the start-up stage¹.

- **Electricity:** Unreliable power grid and electricity supply negatively affect the activities of businesses. Despite the availability of rivers in Lesotho, the country generates only 72 megawatts of hydropower and imports more than 75 MW of electricity from South Africa and Mozambique, with less than 10 per cent of the rural population connected to the national grid. Lesotho meets approximately 50 per cent of its maximum energy needs with domestically produced hydroelectricity. The government plans to expand hydropower capacity under the Lesotho Highlands Water Project (LHWP) Phase II and establish wind farms, offering the prospect of an entirely green energy economy within a decade.

- **Lack of adequate physical infrastructure, including connectivity to rural areas.** The absence of effective transport solutions, including rail systems and road networks, is a major constraint to the private sector's growth. Businesses face the challenge of low levels of rural accessibility and inadequate road maintenance, which impacts business productivity, reduces access to markets, and increases business costs and time.

- The labour code has provisions that make it difficult to dismiss employees that are not productive. There is an overprotection of

employees at a cost to small businesses.

- Lack of specialised training institutions offering management degrees in fields relevant to the industry is also an obstacle to the upward mobility of Basotho employees. **There is a clear mismatch between the skills taught and those required by the industry.**

Private sector policy recommendations

- **Reform the provision of factory shells:** Key priority to attract new investments, enhancing the availability and quality of industrial estates will entail bringing current rental prices to the cost recovery level, improving rent collection, and involving the private sector in managing and developing factory shells. These measures will reduce the financial burden on the government, potentially encourage the development of domestic real estate companies, and facilitate improvements in the quality of infrastructure.



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- There are several options for involving the private sector in developing industrial infrastructure. The government may also consider running this in a well-established location, for example, close to Maseru or Maputsoe, where investors may potentially show more significant interest. These include:

- Private construction of industrial estates on government/LNDC-owned land (for example, through a concession or joint venture), and

- Private development, ownership, and operation of factory shells. The Ha Belo industrial zone construction in the District of Botha Bothe provides an opportunity to experiment with the private provision of infrastructure.

¹ Robert Likhanga "Facing Challenges" <https://sundayexpress.co.ls/facing-challenges/>

- The government should consider introducing a Supplier Development Programme (SDP) to facilitate the industries' localisation. The programme would aim to enhance the capacity of local small and medium enterprises (SMEs) to become subcontractors or suppliers to foreign firms. Many countries have successfully used SDP programmes to build linkages between foreign and local enterprises, promote knowledge transfer, and improve the competitiveness of domestic SMEs.
- The government should engage the private sector in developing initiatives to improve skills availability. **The curricula of universities and vocational schools need to be updated, with the involvement of the private sector, to make them more relevant.** This could include entrepreneurial and management skills training to build a cadre of workers to replace ex-pats in management positions.
- A SME policy that provides preferential treatment to SMEs owned by indigenous Basotho in public procurement, such as the sub-contracting of Basotho businesses in infrastructure and consulting work and protecting certain procurements of works, services and goods.
- Revising the tax system to address the promotion of priority areas in the National Strategic Development Plan, for example, capital allowances to be higher on priority areas such as tourism, agriculture matching those in the manufacturing sector, also staggering capital allowances such that they are higher in earlier years when businesses are at the start-up stage.
- The Labour law should show a balance and remove provisions requiring heavy and costly compliance and undue support for employees even when unproductive.
- The Ministry of Agriculture and Food Security, through its crop production and human resource department, should expand its farmers' education programme on highly mechanised

farming methods and stress-tolerant crop varieties. The government should also implement strict regulatory measures on soil conservation to ensure sustainability in production. It is also necessary to create a farmers' hub through which farmers can sell their products easily.



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- The government should partner with and encourage the private sector through subsidies and grant to exploit agro-processing opportunities. Opportunities exist to establish additional farms at the Mohale Dam and the proposed Polihali Dam.
- The government should adopt a long-term national policy on the information and communications technology (ICT) sector, prioritising ICT literacy in primary, secondary and vocational schools.
- There is a critical need for the government to engage the private sector in developing policies and initiatives focusing on increasing digital infrastructure, access to the internet and digital technologies by making use of appropriate development strategies and evidenced-based policy and regulations to encourage private sector investment of this sector².
- The government should also engage and support through financing the private sector to develop mini and off-grid electricity generation, especially in rural areas.
- Lesotho should develop policies aimed at deeper regional economic integration via SACU and the Southern African Development Community (SADC).
- The government should also develop and improve transport, electricity, and security infrastructures.

² Mukurunge, T., Mcina, T., & Bhila, T. (2019). Technology and assessment at tertiary level: Case of Limkokwing University of Creative Technology. TECHNOLOGY, 2(5).

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A powerful
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Avenue Louis-Casaï 71 – CH-1216 Genève
T +41 22 929 00 00 F +41 22 929 00 01
ioe@ioe-emp.com • ioe-emp.org

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