

LESOTHO

Maseru (gtai)– Lesotho’s economic development is difficult to predict at this time. The private sector relies primarily on the textile industry. At the moment, it is unclear how long Lesotho will still benefit from preferential market access to the US. Both an upswing and a major collapse of the sector are possible. A large dam project is making progress. This project will have positive consequences for many sectors of the economy.

ECONOMIC PROSPECTS

The different forecasts available for the Lesotho economy are worlds apart. The optimistic view of the International Monetary Fund (IMF) predicts steady momentum between 2018 and 2022 and average growth rate of 4.5% per annum. The Economist Intelligence Unit (EIU) whose experts are clearly more restrained, expects GDP to increase by around 2% from 2018 to 2019.

The reason for this discrepancy is most probably the uncertain future of the textile sector which contributes about a fifth of Lesotho’s GDP and accounts for more than 40% of its export earnings. The country’s 66 textile processing companies employ around 46,500 people and are thus the most important private sector employers. The major sales market for apparel manufacturers is the US. Although Lesotho benefits from customs facilities for textile products through the US legislation of the African Growth and Opportunity Act (AGOA) benefits depend on compliance with certain minimum standards of law and democracy.

The EIU fears that Lesotho could lose its preferential access to the US market as early as 2018 and that as a result many textile manufacturers will have to close down. Development partners such as the EU and US have long been calling for political reforms, particularly stronger parliamentary oversight of the military; many of its senior leaders have been accused of corruption and it often acts as a state within a state. In the past there have been many coups; most recently in 2014, politicians had to flee due to rumours of a coup.

The incumbent Prime Minister, Thomas Thabane, is ready for reform but it is doubtful whether his coalition government, which has only a small majority, can assert itself against the interests of the powerful military. A military mission of the Southern African Development Community (SADC) could provide the necessary support and ensure stability in the country.

If Lesotho retains its AGOA benefits, the

EIU expects medium-term economic growth of about 5%. The Taiwanese textile manufacturer Nien Hsing may implement the construction of two new factories and construction of the Polihali dam will boost the economy in the second phase of the Lesotho Highlands Water Project (LHWP).

INVESTMENTS

The Polihali dam and existing dams Mohale and Katse, form part of the LHWP, which supplies Johannesburg, which is why construction of the 164 metre dam wall and a 38 km connecting tunnel to the Katse Dam are being financed by South Africa. Work is scheduled to begin at the end of 2019.

Planning and construction supervision were assigned to a consortium of consulting firms made up of GIBB (South Africa), Mott MacDonald (UK), Tractebel-Coyne et Bellier (France) and Lyma Consulting (Lesotho). For the small economy of Lesotho, a project of this magnitude will have many positive consequences that include logistics, telecommunications, hotels and restaurants.

Despite tight budgets, the government is concentrating on smaller electrification and water supply expansion projects. Funds available for road construction in 2017–18 amounted to about 65.8 million US dollars.

CONSUMPTION

Private consumption prospects are mixed. On one hand, job creation should stimulate consumer demand – the Polihali Dam construction alone will generate 3,000 jobs and if AGOA privileges are maintained, the textile industry is also likely to create new jobs. More than 80% of the textile workers are women, whose income supports a large family circle.

On the other hand, a weak private sector and high unemployment are major problems. More than 200,000 Basotho depend on South Africa’s formal and informal sector for their

living, including some 26,000 miners. The gold and platinum mines in South Africa, however, dismissed tens of thousands of workers in 2017.

Lesotho's inflated public sector is the second most important employer with around 44,000 employees. Because of its high budget deficit (8.1% of GDP), the Lesotho government wants to grant public sector workers a wage increase of only 3% in 2017/18, below the expected inflation rate of 4.4%.

FOREIGN TRADE

Imports will rise significantly in the coming years. Construction of the Polihali dam in particular will require construction machinery and materials. Of 20 construction contracts, three were awarded by the end of 2017. In 2018, work will begin on electricity supply, accommodation, telecommunications infrastructure and access roads. Most of the supply business is via South Africa, with a share of 85% in Lesotho, the main supplier country.

Diamond mining is also in need of capital goods. There are currently three mines: Letseng (Gem Diamonds), Liphobong (Firestone Diamonds) and Kao (Namakwa Diamonds). Letseng and Liphobong will invest in a transition to underground mining in the longer term. The Australian Lucapa Diamonds took over Mothae mine in 2017 and aims to reach production of about 16,000 carats a year by 2019. The government is also negotiating with prospective buyers for the Lemphane Diamond Project (around 10,000 carats/year). Another project is the Kolo Mine of Batla Minerals (France) with estimated reserves of 110,000 carats.

Diamonds are Lesotho's most important export after textiles. One-third of exports go to South Africa and the United States, followed by Belgium, which accounts for a good fifth.

SECTOR SURVEY

Lesotho is a small satellite economy of its larger neighbour, South Africa which dominates sectors such as retail and finance. Dependence is however mutual, because Gauteng province relies on Lesotho for its water supply via the Lesotho Highlands Water Project.

Lesotho is a curiosity on the map of Africa. About the size of Belgium, the kingdom lies like an island within South Africa. This places Lesotho among the likes of San Marino and the Vatican as one of only three countries in the world whose territory is surrounded by another

country. With about 2 million inhabitants, Lesotho is characterised by its high mountain ranges.

The obscure role of the military, which is accused of political influence and corruption, has prompted development partners such as the EU and the US to call for comprehensive reforms, particularly for stronger democratic control over the military as well as measures for more efficient and transparent budget management. Otherwise, Lesotho is threatening to lose development funds and privileged market access to the US through the African Growth and Opportunity Act (AGOA).

Goods can be exchanged duty-free with South Africa, Namibia, Botswana and Swaziland via the Southern African Customs Union (SACU). However, due to the low industrial base, there is also a high dependency on revenue from the Customs Union, which accounts for around 19% of gross domestic product (GDP).

Many Taiwanese companies like Nien Hsing operate in Lesotho's textile industry. About 70% of the production goes to the US. Companies like Levi Strauss, Lee, and Wrangler manufacture their collections in Lesotho. The textile export to South Africa is becoming increasingly important. The Economic Partnership Agreement with the EU, signed in 2016, could also strengthen the European market in future.

AN IMPORTANT WATER SUPPLIER FOR SOUTH AFRICA

Lesotho's wealth of water offers further economic opportunities. The greater Johannesburg area of South Africa is supplied via the Lesotho Highlands Water Project via the Mohale and Katse dams. A third dam project is being led by the Polihali dam, with two more to follow. The chances of this project being realised are good, since South Africa is undergoing rapid urbanisation and is increasingly suffering from water scarcity. Botswana also seeks to source water from the Maluti Mountains.

In addition, Lesotho has high-quality diamond deposits. Although the active mines have low production volumes, many particularly valuable diamonds, sometimes over 100 carats, are found. Lesotho has 405 kimberlite formations, in which more reserves could be discovered. Two companies also want to start exploration for shale gas and coal. ■

RIGHT: This 2001 NASA image shows the area around the Katse Dam (bottom left) which is part of the Lesotho Highlands Water Project. The Sterkfontein Dam in the top right-hand corner is part of the Tugela-Vaal Water Project.

