KINGDOM OF LESOTHO
Lesotho is a small, landlocked kingdom completely surrounded by South Africa, located in the east-central part of that country. It is officially called the Kingdom of Lesotho and is referred to as the “kingdom in the sky” because of its magnificent setting in the Drakensberg and Maluti mountain ranges.

Lesotho’s real GDP growth is expected to improve from an estimated 1.8% in 2015 to 2.3% in 2016. The uptick in growth largely reflects favourable movements in the exchange rate. These exchange rate movements will boost the global competitiveness of the manufacturing sector and its dominant textile subsector. Manufacturing is also expected to be boosted in 2017 by the depreciation of the loti.

The US government has approved a ten-year extension to the African Growth and Opportunity Act (AGOA), which gives preferential access to US markets. The extension has been welcomed by Lesotho’s textile producers, who rely on exports to these markets. They are worried, though, by a recent trade deal was struck between the US and a number of Asian countries in the form of the Trans-Pacific Partnership (TPP). The deal, which may come into force as soon as late 2017, gives already highly competitive economies such as Vietnam the same preferential access to US markets that AGOA gives to African countries. This will restrict the growth potential of manufacturers in Lesotho.

Economic growth will be low because of the continued effects that the drought has had on agriculture; a downturn in the mining sector; lower government expenditure; and slow economic growth in South Africa, which limits demand for Lesotho’s products.

The economic outlook for 2017 is slightly stronger, but growth will stay relatively slow at 3.5%. The processing plant at the Lihobong diamond mine is currently undergoing a major expansion. Completion of the expansion is scheduled for the final quarter of 2016. After that it will be able to handle about 1.1 million carats of rough diamonds a year, up from around 0.4 million carats. In agriculture, the effects of a regional drought experienced from 2015 to early 2016 should mostly have passed by the middle of 2016. This will allow for a more typical planting season and a better harvest in 2017. However, agricultural performance will continue to be held back by soil degradation that limits arable land and overall growth in the sector. This is despite improvements to productivity, and extra spending on agricultural projects in recent budgets to try and stimulate growth in the rural sector.

Furthermore, if the political instability in Lesotho goes on or gets worse, this could scare off foreign investors and threaten Lesotho’s AGOA status. Tourism remains a priority for development, but Lesotho will keep struggling to compete with other, more high-profile destinations in the region.
LESOTHO: IN A NUTSHELL

Loti
Monetary unit

Languages
Sesotho (official) (Southern Sotho), English (official), Zulu, Xhosa

Population
1 942 008

Population growth
0.34%

Type of government
Parliamentary constitutional monarchy

Capital
Maseru

Area
30 355 km²

Real GDP growth
4.7%

Gross domestic product (GDP) (GDP): US$2,088 billion

Tax rate (corporate)
25%

Tax rate (individuals)
35%

Natural resources
Water, agricultural grazing land, diamonds, sand, clay and building stone

Most popular exchange currency
US dollar

Major export commodities
Pearls, precious stones, metals, coins etc. (40.47%); articles of apparel and accessories, knitted or crocheted (24.69%); articles of apparel and accessories, not knitted or crocheted (15.64%); electrical, electronic equipment (6.59%); milling products, malt, starches, inulin, wheat gluten (2.25%)

Major import commodities
Mineral fuels, oils, distillation products, etc. (15.61%); machinery, nuclear reactors, boilers, etc. (5.73%); electrical, electronic equipment (5.73%); vehicles other than railway, tramway (5.56%); knitted or crocheted fabric (4.45%)

Major export countries
South Africa (47.3%), USA (43.9%), Belgium (3.2%), United Arab Emirates (1.6%) and Canada (0.9%)

Major import countries
South Africa (88.9%), China (8.2%), India (0.5%), USA (0.5%) and the Netherlands (0.3%)

CHAMBERS/ASSOCIATIONS

Lesotho is a member state of the African Union (AU), the Common Market for Eastern and Southern Africa (COMESA), the Southern African Customs Union (SACU), the Southern African Development Community (SADC), and the United Nations (UN).
POLITICS AND LAW

• Lesotho has a two-tier parliament. The parliament consists of the senate (33 seats; 22 principal chiefs; and 11 other Senators nominated by the king with the advice of the Council of State) and the National Assembly. The last Presidential election was held on 28 February 2015, with Prime Minister Pakalitha Mosisili being elected. The next presidential election is to be held in 2020.
• Lesotho has a mixed legal system of English common law and Roman-Dutch law.
• A major political challenge is power struggles within political elite groupings. These power struggles result in uncertainty and have led to attempts at coups d’état.

ECONOMICS

• The economy is dependent on textile manufacturing, agriculture, remittances, and regional customs revenue.
• Lesotho relies on South Africa for much of its economic activity. It imports 90% of the goods it consumes from South Africa. This includes most agricultural inputs. This trade concentration is viewed as a challenge as the bulk of Lesotho’s imports are from SACU.
• Households depend heavily on remittances from family members working in South Africa in mines, on farms and as domestic workers.
• Diamond mining in Lesotho has grown in recent years. It is expected to have contributed 8.5% to GDP in 2015, according to current forecasts. The growth is driven by the recovery in mining and increased production at Lets’eng and Kao mines.
• The gross domestic product (GDP) in Lesotho was estimated to have expanded by 3.4% in 2014. GDP is projected to average 2.6% in 2015 and 2016.

• Lesotho’s economy faces challenges such as little diversification; low domestic savings with an over-dependence on foreign capital inflows; high unemployment; widening inequality and poverty; and spatial exclusion.
• Lesotho launched its first stock exchange, Maseru Securities Market (MSM), on 22 January 2016. MSM is a centralised securities market that is meant to bring buyers and sellers of financial securities together to trade them in an organised and regulated environment. The Central Bank
of Lesotho’s role would be to regulate and supervise MSM operations without being involved in its day-to-day operations. This will be an interim solution until the private sector can take over the running of MSM. This will provide an alternative investment opportunity.

- Inflation: Consumer prices in Lesotho are estimated to have increased by 3.8% in 2014. Inflation is forecasted to average 3% for 2015.
- Currency: The Lesotho loti is pegged one-to-one to the rand.

<table>
<thead>
<tr>
<th>Economic growth (%)</th>
<th>2014</th>
<th>2015(^{(f)})</th>
<th>2016(^{(f)})</th>
<th>2017(^{(f)})</th>
<th>2018(^{(f)})</th>
<th>2019(^{(f)})</th>
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<tr>
<td>BMI Research(^{(2)})</td>
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<td>3.3</td>
<td>3.3</td>
<td>3.4</td>
<td>3.4</td>
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<td>The World Bank(^{(3)})</td>
<td>2.0(^{(e)})</td>
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<td>4.5</td>
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<table>
<thead>
<tr>
<th>Inflation (%)</th>
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<tbody>
<tr>
<td>BMI Research (year-on-year average)</td>
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<tr>
<th>Short-term interbank rate</th>
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</thead>
<tbody>
<tr>
<td>EIU</td>
</tr>
</tbody>
</table>

\(^{(f)}\): forecasted; \(^{(e)}\): estimate

Sources: \(^{(1)}\) EIU: Country Report, generated 18 December 2015; \(^{(2)}\) BMI Research: Lesotho Country Risk Report 2015; \(^{(3)}\) World Bank

**STRUCTURE OF THE ECONOMY**

Lesotho Economic structure: GDP composition by sector 2014 estimate

- Services: 61.2%
- Agriculture: 8.1%
- Industry: 30.7%

Source: KPMG: Lesotho Economic Snapshot, Quarter 2 2015
ECONOMIC GROWTH: CURRENT VS OUTLOOK

The major economic sectors contributing to GDP:

- The Lesotho economy has been dominated by the tertiary sector, which accounts for over 60% of GDP.
- **Agriculture** contributes 8.1% to the economy. It is an important sector, as most of the population live in rural areas and depend on subsistence crop and livestock farming. However, this only accounts for less than 20% of the nation’s demand for food. Agricultural products include corn, wheat, pulses, sorghum, barley and livestock.
- **Industry** consists of food, beverages, textiles, apparel assembly, handicrafts, construction and tourism. The ongoing construction activities of phase II of the Lesotho Highland Water Project, the continuation of the Millennium Challenge Compact and the construction work at Tikoe Industrial Estate should fuel sectoral growth.
- **Services** are driven by wholesale and retail trade as well as tourism. US brands and retailers sourcing from Lesotho include Foot Locker, Gap, Gloria Vanderbilt, JC Penney, Levi Strauss, Saks, Sears, Timberland and Wal-Mart.
- The Abu Dhabi Fund for Development (ADFD) put up $21 million in concessionary loans towards the construction of the Metolong Dam in Lesotho. The construction of the dam at a total cost of $189 million was recently completed by the government of Lesotho. It provides 71,000 cubic meters of drinking water daily. The dam project aims to support Lesotho’s economy by enhancing the country’s water infrastructure and supplementing drinking water sources in the capital Maseru, as well as in the arterial towns of Roma, Mazenod, Teyateyaneng and the surrounding villages. The dam should meet the population’s water demands until 2025.

- Four diamond mines are expected to be opened in 2016. This will quadruple the country’s projected annual diamond production.

SOCIAL

POPULATION:

- **Population**: Lesotho has a population of 1,947,701 people (July 2015), with 61.91% of the population aged between 15 and 64.
- The country has a high adult literacy rate of 79.4%.
- There is a strong emphasis on non-technical education. This has produced skills that do not meet the labour market demands and do not promote self-reliance.
- **Ethnic groups**: The various ethnic groups are the Basotho, Europeans and Chinese. Basotho subgroups include the Bakuena, Batloung, Baphuthi, Bafokeng, Bataung, Batšoeneng and Matebele.
- **Religion**: 80% of the citizens are Christian.
- **Sector employment**: Agriculture employs 86%, while the industry and services sector employs 14% of the employed population.
- **Unemployment**:
  - Unemployment is estimated to be 28.1% as at 2014.
  - Lesotho has one of the highest Gini coefficients in the world at 54.2, based on 2010 data.
  - Income distribution in Lesotho is skewed towards urban areas.
- Lesotho has the third-highest prevalence of HIV/AIDS in the world.
The Lesotho government started a number of initiatives to encourage school attendance. This includes free primary education, school feeding, and bursaries for orphans and vulnerable children. These have increased enrolment rates above 80% since 2004. The retention of learners is still a challenge as there are high drop-out rates and repetitions in the lower grades.

Because of a weak health care system and a lack of qualified human resources, health indicators in Lesotho have become progressively worse.

The concentration of economic activities in the urban areas led to a high rural to urban migration. This has left the rural population vulnerable to poverty, inequality, lack of economic opportunities and dependence on subsistence agriculture and remittances from family members employed in South African mines. This has created spatial exclusion in the economy. Poverty, inequality and unemployment continue to shadow the development of the country.

The country faces critical policy changes in terms of inclusive growth, creating gainful employment opportunities, developing the rural economy in order to reduce the rural-urban divide, and reducing poverty and inequality. The economy remains highly undiversified in both products and markets. More than 80% of its exports are concentrated in textile and garments destined mainly for the US market.

Lesotho has a high mobile market penetration rate; however, internet penetration rates have been much lower.

The Internet penetration rate in 2014 was at 5.3 per 100 people, whereas the mobile penetration rate was 110 per 100 people. Fixed-line telephone subscription is lower at three per 100 people.

The country has three mobile operators – Econet, Ezi-Cel (Pty) Ltd, Tele-Com Lesotho (Pty) Ltd and Vodacom Lesotho Pty.

**ENVIRONMENTAL**

Lesotho experiences cyclical patterns of floods and droughts caused by climate change. This has resulted in soil erosion and land degradation that is further compounded by over-exploitation of natural resources, including overgrazing. A co-ordinated and well-managed environmental governance system is needed to manage these challenges.

The Lesotho Highlands Water project aims to provide water to South Africa while also generating hydroelectricity for Lesotho. It will increase water delivery to 1 259 million cubic metres per annum.

**LESOTHO: WHAT TO CONSIDER WHEN STARTING A BUSINESS**

The National Strategic Development Plan (NSDP) sees the private sector playing the leading role in spurring growth. Commercial agriculture, textile manufacturing, tourism and technology have been identified as key to supporting economic development, along with an expansion of diamond mining and major new water projects. The plan also aims to boost the underdeveloped financial sector in order to increase domestic savings and stimulate credit extension. However, if the goals of the NSDP are to be achieved, the authorities will need to place more emphasis on improving the country’s difficult business environment. For example, there are lengthy delays in the approval of construction permits.
OPPORTUNITIES FOR DOING BUSINESS

- As a member of the Southern African Customs Union (SACU), Lesotho’s textiles and garment firms can get almost the entire range of SACU rebates.
- The close proximity to South Africa means Lesotho companies can access South Africa’s consumers, infrastructure and financial sector.
- The high literacy rate equates to a literate labour force.
- The country has emerging telecommunications and financial services sectors. Further investment could help boost these sectors. This will not only aid economic development but also open up access to international financial markets.
- Key exports such as diamond and water exports have remained resilient despite the political instability.

CHALLENGES TO DOING BUSINESS

- Lesotho has a Corruption Perception Index of 4.9 out of 10, indicating that Lesotho is perceived to be relatively corrupt. The main driver of the high level of corruption is the political instability.
- Lesotho is ranked 128 out of 189 countries in ease of doing business. This shows that the business environment needs substantial development. In addition, Lesotho is ranked 151 out of 201 countries in terms of trade and investment risk, indicating a high risk to trade and investment. The main challenges to doing business in Lesotho include:
  - Lack of infrastructure
  - Poor technological advances
  - A small domestic market, given the small population
  - A high HIV/AIDS prevalence rate, which could negatively impact labour productivity
  - Inadequate supply of public utilities
  - Difficulty in obtaining construction permits
  - Access to land and electricity
  - Trading across borders
  - Enforcing contracts.
STANDARD LESOTHO BANK CAPABILITIES

- Standard Lesotho Bank Limited is the largest bank in Lesotho in terms of assets and market share.
- Lesotho has 17 points of representation and 83 ATMs throughout the country.
- Our Lesotho team consists of 680 permanent staff, some of whom are tasked with taking care of approximately 9,261 active Business Banking employees.

<table>
<thead>
<tr>
<th>Trading name</th>
<th>Standard Bank Presence</th>
<th>Standard Bank ATMs</th>
<th>Corporate Banking</th>
<th>Retail Banking</th>
<th>Investor Services</th>
<th>Investment Banking</th>
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Exchange Controls
Regulated by central bank. Part of the Common Monetary Area (CMA) which requires balance of payments (BOP) reporting.

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<th>Transactional Products and Services</th>
<th>Foreign Current Account</th>
<th>Foreign Deposit Account</th>
<th>Telegraphic Transfers</th>
<th>Bulk Payments (channel)</th>
<th>Real-Time Gross Settlement (RTGS)</th>
<th>Card Acquiring</th>
<th>Mobile Banking</th>
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<th>Corporate Finance (Equity and Debt Capital Markets and Mergers and Acquisitions)</th>
<th>Mining, Energy and Infrastructure (MEI) Diversified and Leveraged Lending (DLL)</th>
<th>Structured Finance</th>
<th>Strategic Investments (Team based in South Africa)</th>
</tr>
</thead>
</table>
SOURCES

• African Economic Outlook, Lesotho, 2015
• BMI Research, Lesotho Country Risk Report, 2015
• Economic Intelligence Unit: Country Report, Generated 18 December 2015
• KPMG Economic Snapshot Q2, 2015