CPIA Detailed Report

Country: Lesotho

Exercise Year: CPIA Exercise 2023

Currency: South African Rand (ZAR)

City: Maseru

Income Group: Lower middle income

Lending Category: IDA

Final CPIA Score: 3.483

(A) Economic Management

Cluster Score: 3.5

01. Fiscal Policy

Criteria Score: 3.5

1. Fiscal Policy

Score Type	Value
Draft Score	3.5
Reviewed Score	3.5
Second Draft Score	3.5
Final Score	3.5

Country Notes:

Fiscal policy continues to experience external shocks, largely emanating from the downturn in the South African economy and its impact on SACU receipts. This dependence has a pro-cyclical effect on the annual budget decisions, where expenditures are seen to increase when the receipts increase and create fiscal pressures in subsequent years when the receipts decline. This has an adverse impact on the Government’s ability to provide a consistent and predictable support to growth.

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Compared to annual national output, government spending is high, equivalent to 47 percent of national output. Thus, compared with the private sector, the government sector is disproportionately large and is likely to crowd out private investment, which explains in part the fragility of private business in Lesotho.Half of this already high spending bill, is accounted for by wages and salaries.

The Lesotho wage bill has grown faster than national output and this increase was funded by windfall SACU revenues or hollowing out the share of the budget that used to fund goods and services—which has fallen to below half of the wage bill since 2002—There is therefore an urgent need to adopt measures to reduce public spending as a percentage of GDP, including those aimed at curbing the growing wage bill.

02. Monetary Policy

Criteria Score: 3.5

2. Monetary Policy

Score Type	Value
Draft Score	3.5
Reviewed Score	3.5
Second Draft Score	3.5
Final Score	3.5

Country Notes:

In the second quarter of 2023, inflation continued to moderate in most countries except in China, where the inflation rate remained unchanged and India, where it rose. In South Africa, inflation declined due to falling fuel and food prices. However, the forecasted adverse weather conditions, higher electricity prices and the weak rand remain an upside risk to inflation. Despite declining inflation rates, most central banks maintained tight monetary policy stancesto lower inflation below target rates. In contrast, the Peoples Bank of China cut its policy rate to support economic recovery. Japan, India and South Africa kept their policy rates unchanged given the recent moderation in inflation.

Inflation increased to 1.5% in 2022 owing to an increase in inflation in South Africa, the country's main trading partner. This represents a deterioration compared to 0.3% registered in 2021.

Domestically, economic activity is estimated to have contracted by 2.6 per cent in July 2022 compared to a 3.5 per cent decline recorded in June 2022. This was at the back of poor performance by both the demand and production sides of the economy. Regarding the domestic labour market, both manufacturing and migrant mineworkers recorded job losses during the quarter ending in June 2022. Job losses in manufacturing were due to low external demand from major markets, which led to closure of some factories. The key driver for job losses of migrant mine workers was low production during the review period because of prolonged periods of load shedding in South Africa. 8. Domestic inflationary pressures remain heightened notwithstanding a moderate reprieve realised in August 2022. In particular, domestic inflation rate declined from 9.8 per cent in July to 9.4 per cent in August. Inflation rate is expected to remain high and average around 7.0 per cent in the medium term due to the on-going Russia-Ukraine war. 9. The broad measure of money supply (M2) rose by 4.0 per cent between June and July 2022. The total loans extended to private sector declined by 0.7 per cent in July 2022 compared to a slide improvement of 0.6 per cent in June 2022. This was against the backdrop of a drop in credit extended to both households and business enterprises. 10. Contrary to the first quarter, the domestic current account balance worsened in the second quarter of 2022. The current account recorded a deficit equivalent to 10.8 per cent of GDP during the quarter ending in June 2022 compared to a deficit of 2.7 per cent in the previous quarter. This follows the widening of the goods account deficit coupled with the contraction of the secondary income account. The stock of reserve assets declined by 6.7 per cent to M12.93 billion. As a result, gross official reserves expressed in months of imports cover fell from 5.3 to 5.1 months in the quarter ending in June 2022. 11. In August 2022, government operations registered a deficit equivalent to 7.4 per cent of GDP. The stock of public debt grew slightly from 53.2 per cent of GDP in July 2022 to 53.9 per cent of GDP.

Lesotho’s growth trajectory and recovery are highly dependent on the economic performance in neighbouring South Africa given the strong economic integration with the South African economy. The risks to Lesotho’s macroeconomic outlook remain tilted to the downside with the fragile fiscal situation and policy uncertainty expected to compound the downside risks. Finally, the war in Ukraine is affecting Lesotho’s economy through rising transportation costs which have fed into a rise in food prices.

03. Debt Policy

Criteria Score: 3.5

3. Debt Policy

Score Type	Value
Draft Score	3.5
Reviewed Score	3.5
Second Draft Score	3.5
Final Score	3.5

Country Notes:

Lesotho’s risk of external and overall debt distress remains moderate, with risks to debt sustainability broadly unchanged since the last DSA1. The surge in SACU transfers is expected to improve the fiscal balance in FY22/23 and help stabilize the public debt burden in the medium term. However, growing risks to debt from unaddressed contingent liabilities, exchange rate depreciation, and persistent domestic arrears, elevate debt sustainability risks. While debt indicators remain below their thresholds under the baseline scenario, stress tests indicate that both the PV of public debt-to-GDP and PV of PPG external debt-to-GDP are vulnerable to contingent liability, current transfers-to-GDP, exchange rate, and export shocks, breaching their thresholds in the near term. The moderate risk rating suggests limited space to absorb shocks. The use of windfall external transfers to amortize public debt over the medium term is critical to create a buffer against future volatility and setbacks in reform implementation. Improved *efficiency on critical public infrastructure investment is needed to raise productivity and lift the growth outlook. Finally, addressing contingent liability risks, strengthening public financial management, and introducing robust and enforceable fiscal rules will be critical for maintaining debt sustainability.*

All of Lesotho's external debt sustainability indicators remain below their corresponding thresholds. The overall risk of public debt distress is moderate. The present value (PV) of PPG external debt-to-GDP is expected to reach close to the 40 percent threshold in FY 2020/21, about 10 percentage points higher than the 2019 DSA.

The DSA includes a contingent liability stress test to capture extrabudgetary units, SOEs, and financial market shocks in the assessment (Text Table 2).5 The contingent liability stress test incorporates the following shocks:

·The pension fund financing gap—estimated at 7.4 percent of GDP.6

·Liabilities associated with potential asset seizures—estimated at 2.5 percent of GDP.7

·5 percent of GDP for a financial market shock that exceeds the existing stock of banks' NPLs.

·3.7 percent of GDP for SOE debt, which is not captured in the country's definition of public debt. Calibration includes LSL1.5 billion as an estimate for non-guaranteed and on-lent debt of the six fully-owned and four majority-owned SOEs.

·**Lesotho's public debt has increased since the last DSA**.9 The gross public debt-to-GDP ratio has increased by 4.1 percentage points to 59.8 percent of GDP in FY22/23, reflecting both exchange rate valuation effects on external debt and growing domestic debt issuance. Given that foreign currency-denominated external debt—of which approximately 90 percent is US$-denominated—accounts for 75 percent of total debt, valuation effects from the strengthening U.S. dollar against the South African Rand (ZAR) and Maloti (LSL) have a material effect on the debt-to-GDP ratio. The ZAR depreciated against the US$ by 17 percent during FY22/23, contributing the lion's share of the increase. Higher domestic borrowing was mainly driven by the larger public spending due to the lower external transfers from the Southern African Customs Union (SACU).

DeEbt management in Lesogho is coordinated by the Debt Management Department in the Ministry of Finance and Developmnet Planning. The debt management strategy facilitates coordination with fiscal and monetary management, helping to reconcile various objectives and constraints, including on domestic debt market development and balance of payments issues.

(B) Structural Policy

Cluster Score: 3.833

04. Policies and Institutions for Economic Cooperation, RI and Trade

Criteria Score: 3.667

4.a. Regional Integration and Economic Cooperation

Score Type	Value
Draft Score	3.5
Reviewed Score	3.5
Second Draft Score	3.5
Final Score	3.5

Country Notes:

Lesotho is a landlocked country with a small population and is heavily dependent on imports from South Africa which make up about 80% of total imports, followed by China (at 11%). The main export destinations are South Africa (56.4%) and the United States (35.4%), (underlining the role of AGOA). The rest of the exports go to the countries in the region (Botswana, Eswatini, Mauritius, and Zimbabwe). Lesotho's major export products are garments, diamonds, water, electricity, wool and mohair while its major imports include machinery, electrical machinery, vehicle and automobiles, minerals fuel and oil, pharmaceuticals, medical equipment and supplies. Regional integration is important to Lesotho given the country's small population and its dependence on its neighbour, South Africa. Despite the success in the clothing and textile industry under AGOA, Lesotho has not been able to substantively diversify the export market beyond South Africa and the USA. Its African Integration Index is low ranking 11th in SADC, with a score of 0.3 reflecting lack of diversification. Following its ratification of the African Continental Free Trade Area on 27th November 2020, Lesotho is exploring the AfCFTA with view to diversifying her export markets as AGOA is expiring in 2025

The Kingdom of Lesotho is a founding member of the Southern African Development Coordination Conference (SADCC) which was formed in Lusaka, Zambia, in April 1980. SADCC transformed into the Southern African Development Community (SADC) in 1992. Situated in the south-eastern region of Southern Africa, Lesotho is entirely surrounded by South Africa.

SADC launched the Kingdom of Lesotho's SADC Success Stories publication on 5 July 2023, which features examples of benefits arising from the implementation of the SADC regional integration agenda.

The Minister of Finance and Development Planning of the Government of the Kingdom of Lesotho, Honourable Dr. Retšelisitsoe Matlanyane, who chaired the launch, emphasised that the dissemination of information is the foundation of good governance and accountability.

The Minister encouraged members of the media fraternity in Lesotho to continue to report stories on SADC regional integration, using examples of the stories contained in the Lesotho SADC Success Stories. In this regard, the Minister took the opportunity to sensitise and encourage journalists in Lesotho to participate in the SADC Media Awards by focusing on positive stories that promote and deepen SADC regional integration and development.

Success Stories marks another milestone in SADC's quest to strengthen regional and national linkages and achieve the goal of "Taking SADC to the People". "SADC belongs to the people and it is through initiatives such as SADC Success Stories that we will be able to raise awareness among SADC citizens of the positive impact of SADC regional integration.

Success Stories provide a platform for knowledge sharing and peer learning within the SADC region, thereby strengthening the collective capacity of the SADC region to address challenges and accelerate progress towards the shared aspirations of a peaceful and prosperous region.

The launch was hailed as hailed the launch as a testament to the incredible progress Lesotho has made in various sectors ranging from agriculture, infrastructure, water, trade, labour and beyond.

These stories encapsulate the innovative approaches, dedication and resilience of the Basotho people and the transformative policies implemented by the government. They showcase the positive impact of regional cooperation and highlight Lesotho's exceptional achievements within the SADC community.

The publication highlights several noteworthy aspects, including the achievement of increased efficiency through expedited customs clearance of goods and travel. It also highlights improved traffic management as a result of the implementation of a coordinated border management project. These developments contribute to smoother cross-border processes and more effective border operations. It also highlights the implementation of a cross-border money transfer project between Lesotho and South Africa which stands out as a secure and cost-effective method for transferring money between these two countries. This initiative has received acclaim for its reliability and affordability, providing a valuable service for individuals looking to send money across the Lesotho-South Africa border.

On shared watercourses, the publication highlights the implementation of initiatives to conserve Lesotho's most precious resource, water, referred to as Lesotho's 'white gold'. Lesotho's water resources play a crucial role not only for its own development, but also for neighbouring countries in the SADC region. Several SADC countries rely heavily on Lesotho's water to meet their own needs for drinking, agriculture and industry. This regional cooperation highlights the importance of managing and protecting water resources across borders to ensure sustainable use and equitable distribution among all member states

4.b. Trade restrictiveness

Score Type	Value
Draft Score	3.5

Reviewed Score	3.5
Second Draft Score	3.5
Final Score	3.5

Country Notes:

According to the World Bank's 2022 Doing Business Report, Lesotho is ranked 40 out of 190 countries in the category "Trading Across Borders." The report notes that it requires four documents to export a product from Lesotho or to import a product into the country. On average, it takes 14 hours to import goods into Lesotho, while it takes 12 hours to exports goods out of Lesotho. In Lesotho, there are prohibited, or restricted imports based on their impacts on security, health, economic, and moral factors. Import restrictions are regulated by the Customs and Excise Act of 1982, the Import and Export Control Act of 1984, the Import Restrictions Regulations of 1988, and the Agricultural Marketing Regulations of 1967. The list of prohibited imports include weapons, drugs, used clothes, and shoes. There are also quantity control restrictions imposed per the Agricultural Marketing Act on bread, legumes, sugar, eggs, meat, dairy products, fruits, and vegetables. Except for eggs, sugar, and legumes, import restrictions include provisions allowing for small consumer purchases made outside the country.

Lesogtho as a land lcoked country is a andlocked countries are troubled performer in every aspect. It is These nations surrounded on all sides by South Africaother countries, which is are sometimes hostile, are among Africa's most conflict torn. How can itstheir troubled existences be accounted for? Trading restrictions do play a role, as transportation of exports and imports is made cumbersome and expensive by the need to tranship through South Africaone or more neighbouring countries to the nearest sea port. This isolation is an economic competitive disadvantage. Because of the cost of bringing in industrial inputs and shipping out finished products, manufacturing is less developed, and the world community is more likely to deal with Lesotho these countries for itstheir natural resources. Minerals are trucked out but no real development beyond a mining infrastructure is created. It ahs become a The countries become single-commodity economy, such as Zambia's copper or Democratic Republic of Congo's (DRC) and Central African Republic's (CAR) diamonds and gold. ItsTheir economyies stunted, itthese countries cannot afford good social amenities for itstheir peoples. Corruption founded on bribery and malfeasance that has always been a part of commercial natural resources exploitation undermines governance and leads to coups d'états.and dictatorships

4.c. Customs/trade facilitation

Score Type	Value
Draft Score	4.0
Reviewed Score	4.0
Second Draft Score	4.0
Final Score	4.0

Country Notes:

Trade Facilitation activities are guided by the Trade Facilitation Roadmap 2019-2224 and are coordinated by the National Trade Facilitation Committee, made up of relevant government ministries and the private sector. This roadmap outlines the direction which the Kingdom of Lesotho will take to implement TF reforms with a view to enhance cooperation between the public and private sectors, while improving domestic and cross-border trade with a possible impact on economic growth. The Lesotho National Trade Facilitation Committee (NTFC) through consultations with relevant stakeholders has come up with this five-year Roadmap (2019-2024) . Although the TF Roadmap was developed under the auspices of the WTO TF Agreement, it is also essential in achieving the objectives set out in the VPoA. The Roadmap is also used as a tool for resource mobilization for implementation of the Trade Facilitation activities. The Roadmap activities are also incorporated in regional development plans; Lesotho Lesotho is implementing the SADC Regional Indicative Strategic Development (RISDP); the Strategy guides SADC Member States, International Development Cooperation partners as well as key regional stakeholders in planning the implementation of significant parts of the cooperation and integration agenda in order to achieve sustainable development through regional integration. The RISDP priority areas are: Trade and Economic liberalization, Regional Infrastructure and Services Development for regional Integration among others. Lesotho is also implementing the Southern African Customs Union Trade Facilitation Program whose aim is to promote intra-SACU trade amongst Member States. The program includes a range of activities and initiatives to facilitate trade at the national, bilateral and regional levels, these have been consolidated into a single plan and some of them are currently being pursued. They include: IT Interconnectivity; Improving Border Efficiencies; Partnerships with Traders; Legislation; and establishing One Stop Border Posts. Key achievements in this regard have been in the area of harmonization and simplification of Customs rules and procedures including development of a model customs law; Single Administrative Document; transit management and training manuals for building capacity of customs administration in the region,

The second phase of the Customs reform journey is in progress. This second phase, meant to make further improvements on cross border trade related performance indicators, seeks to build on phase one achievements through implementation of initiatives and projects which include enhancement of the Customs automated declaration system and electronic connectivity with relevant trade related stakeholders (including Regional Customs administrations) amongst others. In addition to these initiatives, through mandate from the NTFC, Lesotho Customs leads the national initiative on implementation of Articles 8 and 10.4.To ensure ease of implementation of new initiatives when they get launched, Lesotho Customs is also undertaking a comprehensive legal reform exercise. In line with WTO TFA Article 2, Lesotho Customs holds relevant stakeholder forums and enables online feedback mechanisms to allow for comments. For an example, the legal reform project has an online feedback form through with which stakeholders can make comments.

Considering that successful implementation of Customs reforms and modernisation leads to improvements on cross border trade, successful implementation of initiatives under phase two of Lesotho Customs reforms and modernisation will further facilitate and enhance cross border trade, which is the aim of WTO TFA. This way Lesotho Customs will be acting as a conduit for national implementation of WTO TFA.

05. Financial Sector Development

Criteria Score: 3.833

5.a. Financial stability

Score Type	Value
Draft Score	4.0
Reviewed Score	4.0
Second Draft Score	4.0
Final Score	4.0

Country Notes:

The favourable trends seen in the financial sector in the past years changed significantly in 2020. The sector is exposed to risks emanating from the challenging covid-19-induced economic environment and credit concentration. While the banking sector continued to be adequately capitalised, profitability declined noticeably. Liquidity levels improved in the review period, while the quality of assets declined marginally and there was a notable increase in exposure to foreign exchange. Nevertheless, the stress-test results demonstrate that the current capitalisation, liquidity, and profitability levels guarantee a high degree of resilience to the assumed shocks. 6. The overall financial performance of the Other Financial Corporations (OFCs) remained robust despite the challenging economic environment. The insurance sector continued to be resilient and financially sound with minimal systemic threats. The Credit-only Micro-finance Institutions (MFIs) sector maintained a good quality of credit portfolio and its asset base continued to grow. 1 Fiscal support, regulatory flexibility and liquidity provision. The payment system and infrastructure operated effectively and efficiently during 2020 and continued to anchor financial stability. The systemically important payment system maintained high system availability and registered a higher transaction density in 2020 relative to 2019. The mobile money business has grown tremendously since 2012 and has bridged the financial inclusion gap. However, growth rates have fallen significantly. This shows that the market has entered its maturity phase and much lower growth rates can be expected in the future. Vulnerabilities related to mobile money operations have been minimal and pose minimal systemic threats.

Banking sector is to some extent vulnerable to shocks in the medium-term. The share of NPLs and the level of capital at risk are moderate. General adherence to Basel Core Principles (capital adequacy requirements in line with or above Basel I requirements, enforcement improving) and the quality of risk management in financial institutions is not quite satisfactory. Supervisors have a moderate ability to assess risk.

5.b. Sector's efficiency, depth, and resource mobilization strength

Score Type	Value
Draft Score	3.5
Reviewed Score	3.5
Second Draft Score	3.5
Final Score	3.5

Country Notes:

Size and reach of financial markets, and capital markets, underdeveloped but growing. High but falling interest rate spreads, and moderately low ratio of private sector credit to GDP. Microfinance moderately inefficient.

Credit risk remains moderate during the review period but the concentration in certain loan types and exposures to single or group of borrowers remain a concern. The ratio of NPLs to total loans increased from 3.3 percent in December 2019 to 4.2 percent in December 2020. The elevated past-due loans (Figure 6) remains the main downside risk to the NPLs' outlook. Past-due loans increased by 31.3 percent to M960.0 million while total NPLs decreased by 28.2 percent to 313.5 million in 2020. Consequently, provisioning levels grew by 35.3 percent to M469.1 million in December 2020. Credit risk rose moderately during 2020.

Sectoral analysis of NPLs revealed that the mortgage component of the banks' loan portfolio realized the highest growth in NPLs during the review period while personal loans' NPLs declined significantly as shown in Figure 7. The growth in NPLs in the mortgage loans is attributed to the arrears in payments from clients that were no longer working8 and could not service their loans and low economic activity.

5.c. Access to financial services

Score Type	Value
Draft Score	4.0
Reviewed Score	4.0
Second Draft Score	4.0
Final Score	4.0

Country Notes:

Lesotho's inclusive finance strategy targets broadly the low income people in Lesotho excluded from the mainstream formal financial system, namely MSMEs, smallholder farmers engaged in production, processing, and marketing of agricultural products; women; youth; men; self- employed; and, disadvantaged groups in rural and ...

Among the 14 African countries in which FinScope surveys had been undertaken, Lesotho had the lowest financial exclusion figure, with only 19% of the adult population being financially excluded. 38% of adults had a bank account and a further 22% made use of only other formal (non-bank) financial products/services. The scale of financial exclusion remains high, especially among low-income and disadvantaged people in rural and remote areas in Lesotho owing to the concentration of physical financial infrastructure in urban areas, high costs of bank accounts and other financial services, lack of proper documentation, lack of interoperability and lack of a proper financial consumer protection and dispute resolution framework. The deployment of mobile money provided a glimpse of hope, but it also faces significant challenges. Therefore, government authorities, financial regulators and policymakers are engaged in policy and regulatory initiatives aimed at increasing financial inclusion in Lesotho. These comprise the expansion of financial infrastructure beyond urban areas; promoting efficient account-to-account interoperability; and enactment and review of the legal and regulatory framework for payment, clearing and settlement systems, banking and non-bank financial institutions, insurance, pensions and other financial services and products. Other initiatives are the implementation of Lesotho Scaling Inclusion through Mobile Money (Lesotho SIMM) to address the challenges facing mobile money uptake and use in Lesotho and assessing the feasibility of introducing digital financial identity as a unique identifier in Lesotho. The government of Lesotho should also adopt digital payment methods (including mobile money) to increase financial inclusion in Lesotho.

Payment and clearance systems and credit reporting systems moderately developed and functional. Moderate share of the population has access to formal sector financial services. SMEs have moderate access to finance. Legal and regulatory framework still has weaknesses but generally supports access to finance.

06. Business Regulatory Environment

Criteria Score: 4

6.a. Regulations affecting entry, exit, and competition

Score Type	Value
Draft Score	4.0

Reviewed Score	4.0
Second Draft Score	4.0
Final Score	4.0

Country Notes:

The Business Licensing and Registration Act 2019 and its Regulations of 2020 repealed the old Trading Enterprises Act 0f 1993 and the Trading Enterprises Regulations of 1999 and its amendments. The new law introduces a modern and user/investor friendly legal framework. Streamline licensing processes/procedures. Do away with the Board, applications are now considered by the Licensing officer. The Objective of the law is to facilitate promotion of private sector development through inclusion of all types of businesses into the formal sector , provide for simple and short business licensing and registration procedures; facilitate speedy issuing of licenses and registration of businesses.

It seeks to set out licensing and registration procedures that are simple, short, cost effective and responsive to the needs of the business operators. The licensing and registration application process can be done electronically. This makes the procedures short and fast and will save business operators time and money as applications are considered as soon as they are lodged.

The law introduces a risk based system: businesses which do not pose any risk will be registered either before or after the operations have commenced. These type of businesses do not pose a threat to the environment, public health, security and safety.

Identity of a business is valid for 3 years ,unless the business or a holder ceases to exist — sets out a procedure for the issuance of business registration identity card to business operators. The business registration identity card will be used by all public authorities in their dealing with the business enterprises. This will ensure that a business can be easily identified by its business identity number by all public authorities rather than a different number for each authority.

The Regulations provide for Reserved Business activities which are exclusively reserved for the citizens of Lesotho. This will give Basotho an opportunity to grow their businesses in other sectors without fear of facing stiff competition from foreign firms/companies/individuals.

Protect the rights of the consumers to have their change given back to them, especially when the change is in small denominations (e.g.1 cent, 2 cent coins). In the event that the change is given in smaller denominations, the law makes it mandatory that such a change be rounded off to the higher denomination (10 cents or 20 cents) . The consumer will have a right to receive their change back even if it means it is at the expense of the seller but not the other way round.

Under the new law, the Trading Enterprises Appeal Tribunal will hear appeals from decisions made pursuant to exercise of power under the Act.

This provides more transparency to the legal process and maintains independence

Lesotho was ranked 84 out of 190 countries in the World Bank's EODB report 2020 in the ease of starting a business. The total number of procedures to register a firm is 6 procedures and takes 15 days to register the firm. The institution in charge of business registration is the One-stop Business Facilitation Center (OBFC).The World Bank DB ranked Lesotho 165 in ease of getting a permit. It takes between 183 days and 10 procedures to obtain permits. The requirements for obtaining a building permit are easily accessible online.According to World Bank Doing Business, Lesotho's resolving insolvency framework provides that a creditor or debtor has the right to object to decisions accepting or rejecting creditors' claims. The insolvency framework provides for the possibility of the debtor obtaining credit after the commencement of insolvency proceedings.

6.b. Regulations of ongoing business operations

Score Type	Value
Draft Score	4.0
Reviewed Score	4.0
Second Draft Score	4.0
Final Score	4.0

Country Notes:

According to the US Department of State, Lesotho is open to foreign investment and there are no economy-wide restrictions applied to foreign ownership and control. However, the government has passed laws and regulations intended to limit foreign ownership to large-scale businesses in complex sectors while reserving small-scale businesses in designated sectors exclusively for the indigenous citizens of Lesotho ("Basotho"). In Lesotho there are currently no economic zones; however, the law permits waivers in order to attract investment. The law provides for freedom of association and the right to bargain collectively.According to the US Department of State, export proceeds should be repatriated into the country within the period of six months (180 days). There are restrictions on converting or transferring funds associated with an investment into a freely usable currency and at a legal market-clearing rate. Funds can only be converted into the world's widely recognized currencies such as the U.S. dollar, British

Pound, and the Euro. Incoming funds can be converted into the local currency if the investor does not have the Customer Foreign Currency (CFC) account. If the investor has a CFC account, such funds can remain foreign in that account without any obligation to convert to Maloti.

Essential documents before operating in Lesotho!!!!

i) Business Permit: a document that authorizes a foreign business to engage in a business in Lesotho. Applicable only to foreign businesses /enterprises

ii) Business Identification Card(“passport”): in order to operate in Lesotho all businesses must possess this document. Applicable to both citizens and foreigners.

iii) License : issued only to businesses that pose a risk to Public health, environment and safety and security. The holder must have Business Permit(foreign business), Business ID card.

Requirements that must be satisfied before a Business Permit can be issued to foreign business:

i) A Business plan which must state

ii)the minimum Capital resource ii) Employment generation, not less than 6 citizens of Lesotho

iii) Technology transfer and business expertise (Contracts)

iv) Advancement of business undertakings

Business ID card requirements

i) Certificate of occupancy under Building Control Act 1995

ii) Business permit (in case of a foreign enterprise)

iii Registration fee — Validity period: 3 years, renewable upon payment

iv The Business ID lapses upon death of the holder, dissolution or liquidation of entity

License Requirements

i) Capital resources

ii) Location

iii Employment generation

iv Business permit in case of a foreign business

v Certificate of occupancy — Fire protection plan

vi Emergency exit Map

vii A recommendation letter from a public authority

Duration of license

i) A license shall be renewed annually

Grounds for Suspension & cancellation

i) Closure of business operations — Failure to comply

ii Misuse of the license (fraud, allowing another person to use the licence)

iii) Failure to comply with the conditions in the license

iv If a licensee is foreigner: i) operates without a business permit ii) convicted of an offence under immigration or labour laws

v Failure to comply with Health and safety laws

Extension and exemption

i) development of SMMEs

ii) The Minister may exempt small, micro or medium enterprises from certain provisions in this Act to give them time to grow/develop if compliance is proven burdensome

Offences and Penalties

i) operating without a license

ii) providing false information

iii) obstructing the work of the inspector

iv) Failure to renew license or business registration

v) Failure to produce license business identification card

vi) engaging in bribery or acts of corruption

vii penalties range from M50,000-M100,000.

viii) Administrative penalties: the Minister may publish administrative monetary penalties or fines for noncompliance.

6.c. Regulations of factor markets (labor and land)

Score Type	Value
Draft Score	4.0
Reviewed Score	4.0
Second Draft Score	4.0
Final Score	4.0

Country Notes:

Lesotho's current land governance and land reform program is informed by the Land Act 8 of 2010, which succeeds the Land Act 17 of 1979 that previously informed land reform in post-independence Lesotho.[1] The prevailing land tenure system in Lesotho operates under leasehold terms of 31 years, as established under the 1979 Land Act, which mandates the State as the trustee of land in Lesotho. Prior the 1979 Land Act, tenure in the mountainous Kingdom was dictated by a customary system via the 1903 Law of Lerotholi provisions, and overseen by the Basotho King, in whose care the land was entrusted. The King therefore previously held all prerogatives to land allocation in the country.

Customary land includes farmland as well as unfarmed common land in the form of forests, rangelands and marshlands, which customary societies exercise tenure over and use as livelihood assets for the society's advancement. Rangelands in Lesotho constitute at least 60% of the country's 3 million hectares of land area and play a pivotal role in the country's economy. Basotho people still largely depend on subsistence livelihoods, which have traditionally been driven by livestock rearing and ownership. The export contribution from Lesotho's wool and mohair sector was recorded at 2.5% of GDP in the 2015/16 financial year, produced by the Country's more than 37 000 sheep and goat farmers.[2]

The government of Lesotho's (GOL) land reform efforts, enacted in the Land Act 2010, principally seek to create an environment that is favourable to agricultural development and economic investment.[3] For years, Lesotho has lacked efficient land markets in which foreign investors could participate. The limitations on foreign landholding by the 1979 Land Act have presented impediments to improving the commercial use of land. Notable among the reforms in the 2010 Land Act is the reduced partnership interest which foreign enterprises are required to have with Basotho nationals to acquire land.

The 2010 Land Act requires that Basotho nationals should own at least 20% of land acquired by foreign investors as opposed to the cumbersome 51% required by the 1979 Land Act.[4] While primarily aimed at attracting foreign investment through easing the foreign-owned land acquisition requirement, the reduction in the shareholding requirement for Basotho nationals also aims to boost participation in business ownership among Basotho.

Lesotho's long-standing challenge to rural transformation has been its people's limited capacity to access credit to enhance their livelihoods and support economic transformation in rural communities. To deal with this challenge, the 2010 Land Act seeks to address tenure insecurity and enable rural land to be used as collateral for financing. The Act also enables legitimate exchange of lease rights, which previously could not be sold under the 1979 Land Act.[5] The legal reforms will improve landholding by Basotho and improve their capacity to use the land or commercialize it.

In addition, the 2010 Land Act addresses the issue of land tenure insecurity in rural areas. The possession of land rights by those wishing to invest in the land facilitates credit access by providing the collateral required in loan agreements. Lesotho has a dual legal system where both customary and common law are practiced. This legitimized a parallel customary land tenure system that operated in rural areas while the rest of the land was converted to leasehold land under the 1979 Land Act. Land rights under customary law are inherited along patriarchal lines and almost entirely exclude women. Thus, despite their dominance as household heads in the country's rural areas, women have been prohibited from owning land. Many women have had to also waive their land rights upon the passing of their husband. The 2010 Land Act provides for the registration of immovable property in the name of a married man's spouse (his wife), and removes previous provisions that only allowed for male ownership.[6] Consequently, this provision also allows female land owners to gain access to credit should they wish to invest in their land.

Successful industrial development typically depends on access to adequate physical infrastructure such as roads, factory buildings, and communications. Hence, governments often assume leading roles in the provision of key physical infrastructure in order to underpin its industrialization program. The Lesotho National Development Corporation (LNDC) is the primary government agency providing serviced industrial and commercial workspace to support the GOL's industrial development program. The LNDC constructs industrial estates on state-leased land, and sub-lets the premises to industrial enterprises. Most of the industrial estates have been developed in district capitals in the Maseru and Leribe, along with road and rail infrastructure. The Maputsoe Industrial Area in Leribeis is close to Ficksburg in South Africa, which is connected to Bloemfontein via rail and road freight routes that pass along the north-western border of Lesotho.[8] Other industrial estates include Ha Nyenyane (31 hectares) situated 80 kilometers North of

Maseru, Ha Tikoe (40 hectares) situated 7 kilometers South of Maseru, Berea (7 hectares) and Ha Belo (121 hectares) in Botha Bothe.[9] Some of these industrial estates are situated in Lesotho's rural and peri-urban areas; such as the Tikoe Industrial Estate which opened 11 factory buildings in 2015 that were projected to create more than 5 000 jobs in textiles and clothing for local Basotho.[10]

Industrial production and the accompanying infrastructural developments around the industrial estates create important rural-urban linkages within Lesotho. These linkages enable reciprocal transfer of raw and processed goods, and labour between rural and urban areas. Connecting these industrial estates to the freight routes between Lesotho and South Africa enhances regional integration which allows Lesotho to export goods into Southern Africa.

An apparent downfall of the 2010 Land Act however, is its silence on customary rights, despite the country's previous accommodation of customary tenure. While the Act's strides to allocate land more democratically in its issuing of titles to rural land have largely been welcomed by communities, tenure security on other customarily-acquired land is minimal, and remains restricted to house and farms lands. The Act does not provide tenure security for common land such as rangelands, which constitute the main traditional resource for pastoral activity in Lesotho. Common land in Lesotho is vested with the state, which has liberty to reallocate the land to investors or individuals. Indeed, many of the SADC member state's national land policies exhibit the same pattern, in which common land is not positively recognized as the property of communities, save to say for a few exceptions like Tanzania and Mozambique.

Common land is an important asset to rural communities, often being the main or only source of livelihood for the landless or land-poor. The continual non-recognition of customary communities as the lawful owners of common land perpetuates the risk of tenure loss by these communities to wealthy individuals or companies who acquire land through the state. The GOL's enthusiasm in boosting industrial activity through the provision of factory space and sites presents a potential threat to customary land tenure in Lesotho, and can potentially also exacerbate the state's limited investment in the smallholder sector. The Tanzanian scenario provides an ideal model for the recognition of customary rights, wherein the nearly 70% village lands of the country are registered and governed under the Village Land Act 5 of 1999.[12] Village communities assume total control over communal lands, and benefit from utilizing the land per the dictates of elected village committees.

Lesotho is a member of the International Labor Organization (ILO) and has ratified 23 international labor conventions, including all the eight fundamental human rights instruments. Lesotho's Labor Code Order of 1992 and its subsequent amendments are the principal laws governing terms and conditions of employment in Lesotho. The law provides for freedom of association and the right to bargain collectively. The law stipulates that employers must allow union officials reasonable facilities for conferring with employees. Lesotho's investment climate is improving as a result of recent policy reforms and the government plans to undertake further reforms. The Land Act of 2010 reformed the land tenure system, allowing foreign investors to hold land titles so long as 20% of the company is owned by local investors. The Land Act has also allowed the use of land as collateral, which has expanded access to credit. The Companies Act of 2011 reduced the time it takes to start a business from forty to five days, and strengthened investor protections. As a result of these reforms, Lesotho's rank in the World Bank's Doing Business report improved from 153 in 2012 to 136 in 2014.

Lesotho has abundant supply of unskilled labor but a limited supply of skilled labor. The official unemployment rate is 25.3%, and youth unemployment is widespread. To augment the limited supply of skilled labor, the Labor Code allows firms to hire of non-citizens with a work permit. A work permit is issued based on a labor quota formula by the Labor Commissioner who must be satisfied that no qualified Lesotho citizen is available for the position. Within the textile and garments sector, an informal policy permits a company to employ one expatriate worker for every 20 Basotho workers. The statutory maximum duration of a work permit is two years. A work permit may be cancelled before term or renewed.

The government is aware that Lesotho needs to preserve its competitive labor costs while affording workers fair wages and conditions. Statutory minimum wages are fixed annually by the Ministry of Labor and Employment with recommendations from a tripartite Wages Advisory Board, representing the government, employers, and employees.

The law provides for freedom of association and the right to bargain collectively. Employers sometimes violate those rights. The law stipulates that employers must allow union officials reasonable facilities for conferring with employees, but, according to union officials, some employers denied employees access to union officials, even during lunch breaks. Collective bargaining at the factory level is restricted in practice because the law requires that any union entering into negotiations with management represent 50 percent of workers at a factory, and only a few unions meet that condition. The labor movement is also fragmented, with multiple unions competing for membership among workers. Most unions focus on organizing apparel workers. All worker organizations were independent of the government and political parties except the Factory Workers Union, which is affiliated with the Lesotho Workers Party. The Labor Commissioner's Office reported that the fragmented union movement did not influence labor market decisions. The law provides for a limited right to strike. In the private sector, the law requires workers and employers to follow a series of procedures designed to resolve disputes before the Directorate of Dispute Prevention and Resolution, an independent government body, authorizes a strike. The law does not permit civil servants to strike, and therefore all public sector strikes are illegal. In practice, strikes are rare in Lesotho.

Lesotho has been a member of the International Labor Organization (ILO) since 1966 and has ratified 23 international labor conventions, including all the eight fundamental human rights instruments of the ILO. In addition, Lesotho is a signatory to the following Conventions which enable social dialogue to take place: Freedom of Association and Protection of the Right to Organize Convention, 1947 (No. 87); Right to Organize and Collective Bargaining Convention, 1949 (No. 98); Workers' Representatives Convention, 1971 (No. 135); Tripartite Consultation Convention, 1976 (No. 144); and Labor Administration Convention, 1978 (No. 150). Lesotho has also ratified the Prohibition and Elimination of the Worst Forms of Child Labor Convention (No. 182) and the Minimum Age of Employment Convention (No. 138).

Lesotho's Labor Code Order of 1992 and its subsequent amendments are the principal laws governing terms and conditions of employment in Lesotho. The Labor Code regulates terms of employment and conditions for worker health, safety, and welfare. The law permits union organization. The Labor Court and the Labor Court of Appeal are the key judiciary entities dealing with labor disputes. In addition, the Labor Code Amendment Act of 2000 established the Directorate of Industrial Dispute Prevention and Resolution (DDPR), which is a semi-autonomous labor tribunal independent of the government, political parties, trade unions, employers and employers' organizations. LNDC is another key institution that deals with labor disputes. The function of LNDC in this realm is to bring parties together before any formal process is set in motion. For example, LNDC intervenes in strikes and tries to reconcile workers and employers. When this informal process fails, the more formal process of the DDPR can be engaged which can consist of conciliation and arbitration.

Lesotho’s high HIV/AIDS prevalence, estimated at 23 percent of the adult population, has heavily impacted the labor market; companies need to take the health of their workforce into account when making management decisions. With the support of external donors, such as the Global Fund and the U.S. governments PEPFAR (The President’s Emergency Plan for AIDS Relief), the anti-retroviral drugs are easily accessible to HIV positive workers.

According to the US Department of State, no new reforms are being implemented within the labour space.According to the DB of report of the WB, there are 4 procedures and 43 days process involves in registering property in Lesotho. The type of land registration system in the economy is Deed Registration System. Land Administration Authority is the institution in charge. There is no electronic database for recording boundaries, checking plans and providing cadastral information (geographic information system). The Land Court of the High Court of Lesotho is the Court of first instance in charge of a case involving a standard land dispute between two local businesses over tenure rights for a property worth 50 times gross national income (GNI) per capita and located in the largest business city.

(C) Policies for Social Inclusion/Equity

Cluster Score: 3.547

07. Gender Equality

Criteria Score: 4.333

7.a. Promotion of equal access for men and women to human capital development opportunities

Score Type	Value
Draft Score	5.0
Reviewed Score	5.0
Second Draft Score	5.0
Final Score	5.0

Country Notes:

In 2018, the Gender and Development Policy was promulgated into an Act and includes updates to incorporate gender merging issues as contained in the SDGs. However, Lesotho scores low in gender equality recording 0.667% in 2022 (World Bank). According to the Gender parity index (GPI), the ratio of girls to boys in secondary education is higher in Lesotho than in the neighbouring countries. For example, Lesotho's PGI in 2020 for secondary school enrolment was reported at 1.35 compared to 1.09 for Botswana, 1.14 for Namibia, 0.95 for Eswatini and 0.95 for South Africa.

Gender parity index (GPI) in Lesotho for secondary school enrolment was reported at 1.35in 2020 compared to 1.09 for Botswana, 1.14 for Namibia, 0.95 for Eswatini and 0.95 for South Africa. This reflects the fact that the ratio of girls to boys in secondary education is higher in Lesotho than in the other four countries.

The proportion of parliamentary seats held by women in Lesotho is 23%, Botswana, 29.52%, Eswatini, 10%, Namibia, 44% and South Africa, 44.5% reflecting the fact that Lesotho and Eswatini has less female representation than their neighbours regional. The level of stunting and micro nutrient deficiency in under five years in Lesotho is reported at 37% with boys being more at risk especially in the mountains districts. Anemia is another challenge reported highest among women at 27% compared to men at 14%.

The high rating score reflects the extent to which Lesotho has enacted and put in place institutions and programs to enforce laws and policies that promote equal access for men and women to human capital development opportunities. In fact, there are no major differences in female to male enrolment in primary and secondary education with female even enrolling more than male at the two levels of education considered. Several indicators show evidence of access to antenatal and delivery care and family planning services. The Gender and Development Policy and various other laws address gender equality in education, access to antenatal care and delivery, and to family planning services.It is recommended to include several other indicators/information into the note to further support and motivate the rating score.The gender parity index in school enrollment only captures the equal representation of female and male at school which is one of the useful dimensions to consider when assessing equal access. Since the indicator conducts comparison in absolute terms (the number of females by the number of males enrolled in a given stage of education) it does inform on whether, in relative terms, women are getting equal opportunities to access primary and secondary education. Comparing school enrollment rates between female and male in Lesotho at primary and secondary level would be helpful in assessing equal access to basic education.

7.b. Promotion of equal access for men and women to productive and economic resources

Score Type	Value
Draft Score	4.0
Reviewed Score	4.0
Second Draft Score	4.0
Final Score	4.0

Country Notes:

In Lesotho women and girls in the rural areas have great difficulty accessing credit. Most women do not meet the compliance conditions of financial institutions and do not have property to use as collateral. In response the Lesotho Government has recently given attention to ensuring access to these services. Processes to reform the relevant legal frameworks and establish micro credit schemes are also underway.

Legal reforms that allow women to access productive resources include: Legal Capacity of Married Persons Act 2006 which gives women and men equal legal status; the Land Act of 2010 which makes provision for inheritance of immovable property by the widow; joint titling of immovable property of couples married in community of property and how the immovable property is to be disposed or burdened.

This requires the written consent of the spouses. The result is the protection of women’s economic rights and gives security of tenure on immovable property. The *Companies Amendment Act No.7 of 2008* repeals the provision that denied women the right to be directors of companies without the consent of the husband. Consent is no longer required and they are free to engage in business in their own right.

A significant development is the amendment of the *Lesotho Bank Savings and Development Order* which made reference to women’s minority status as a limitation to accessing credit. These reforms ensure women’s access to opportunities to acquire collateral, obtain loans or credit from commercial institutions and empower them to own and manage companies/enterprises. These developments demonstrate positive movements towards attaining the SADC Protocol provision to review all policies and laws including those that determine access to, control of, and benefit from, productive resources by 2015.

The following are micro credit schemes/programs that have been established: Youth entrepreneurship micro-credit scheme; Village Savings and Loan Associations (VSLAs); ILO supported Know About your Business (KAB); BEDCO Entrepreneurship Training for SMMEs; Women’s entrepreneurship development and gender equality (WEDGE); Rural Financial Intermediation Program (RUFIP), and the RUFIP & MFDP entrepreneurship training Project; Support for Financial Inclusion in Lesotho (SUFIL) . (MGYSR National Action Plan on Youth Employment, 2011/12-2015/16)

One notable initiative is the Gender Equality in Economic Rights project of the MCA Lesotho. This project aims to create women’s and girls’ “equal access to economic resources and opportunities for their meaningful participation in economic growth”. This is done through supportive laws and increased capacity and awareness to address gender equality in economic rights and improved knowledge. The envisaged project output is to have key men and women stakeholders trained in gender equality in the economic sector.

Lesotho labor force participation rate for 2022 was 42.50%, a 0.15% increase from 2021. Lesotho labor force participation rate for 2021 was 42.35%, a 0.09% increase from 2020. Lesotho labor force participation rate for 2020 was 42.26%, a 0.41% decline from 2019.

Ratio of female to male labor force participation rate (%) (modeled ILO estimate) in Lesotho was reported at 80.18 % in 2022, according to the World Bank collection of development indicators, compiled from officially recognized sources.

The rating score reflects the efforts of the Government of Lesotho to promote equal access for men and women to credit, productive and economic resources including land tenure as it transpires from the legal reforms, programs and initiatives in place in the country.

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7.c. Men and women equal status and protection under the law

Score Type	Value
Draft Score	4.0
Reviewed Score	4.0
Second Draft Score	4.0
Final Score	4.0

Country Notes:

Lesotho global gender gap index was at level of 0.7 index in 2022, unchanged from the previous year.

One right entrenched in the constitution is Section 4 which provides that “every person in Lesotho is entitled, whatever his race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status to fundamental human rights and freedoms.

Women’s land rights and tenure security have been constrained by women’s status as legal minors. The Lands Registry Act of 1967 specifically provides that no land shall be registered in the name of a married woman. Women’s rights to land are analyzed within the dual tenure systems that characterizes Lesotho. Tenure insecurity manifests itself in a number of ways; namely competition resulting from overcrowding in the form of high population to land ratio and inappropriate and exploitative administrative practices and limited women’s land rights. This is worrying because economies in Southern Africa are highly dependent on agriculture. The agricultural sector is a major contributor to the Gross Domestic Product. Given that over 80% of the Lesotho population is based on the rural economy, and has its livelihood linked to land and exploitation of natural resources, land tenure rights are central to sustainable agricultural production. The HIV/AIDS epidemic has brought a new dimension to land tenure problems in the sub-region and in Lesotho in particular as the country is battling with the third highest prevalence rate in the world8 . The epidemic seems to have contributed to increased vulnerability of women, children, and poor households to land dispossession and increased likelihood of losing unutilized/underutilized land. Although Lesotho has signed international treaties to protect and uphold the human rights of her citizens, the substantive rights and equalities are still not enjoyed by women because the country has not yet made constitutional provisions to domesticate international undertakings to domestic laws. Notwithstanding, legal, policy and institutional reforms are underway to implement the undertakings of the Beijing Platform for Action and its five- and ten-year reviews. The role of lobbying and grassroots organizations in advancing women's human rights and freedom from discrimination and a right to improved livelihood therefore remains critical.

Sexual orientation and gender identity are neither protected nor overtly criminalized in Lesotho's Constitution. Sodomy laws are in place that could be used to prosecute homosexual behaviour but reported sodomy offences are due to rape between men. Though there are no specific protections for sexual orientation or gender identity, there are general clauses talking to freedom from discrimination of any sort and the overall rights of equal treatment, fairness before the law and respect. These clauses could be gateways into explicit freedoms and protections for the LGBTI community in Lesotho.L

Lesotho has signed the UN Convention on the Elimination of All Forms of Discriminaton Against Women on 17th July 1980 and ratified it onb 22 August 1995.

Lesotho shall adopt policies aimed at promoting a society based on equality and justice for all its citizens regardless of race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status.2. In particular, the State shall take appropriate measures in order to promote equality of opportunity for the disadvantaged groups in the society to enable them to participate fully in all spheres of public life. (Sec. 26)

Lesotho has one of the highest rates of rape and sexual violence in the world. The issue of sexual violence against women has been identified as one of the contributors to the AIDS crisis and HIV gender gap. 28% of men and 27% of women believe that women do not have the right to refuse sex.

Improvements have been made to support women's legal rights, particularly in property ownership and marriage. New laws protecting the rights of women include the Sexual Offences Act 2003 which recognizes marital rape as an offence, the Legal Capacity of Married Persons Act 2006, which removes the minority status of women married in community of property, the Labour Code Order 1992 which denies discrimination in the work place and the Labour Code Wages Act which provides for paid maternity leave for workers in some industries. A strategic plan on combating human trafficking is currently being drafted. In addition to the Sexual Offences Act other steps have been taken to combat gender based violence, including the opening of a protection unit and a child help line. A Domestic Violence Bill is currently being drafted.

08. Equity of Public Resource Use

Criteria Score: 3.5

8.a. Poverty Measurement

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

Lesotho’s poverty rate measured at the national poverty line of LSL 648.88 (2017 prices) per adult equivalent per month declined from 56.6% in 2002 to 49.7% in 2017. Inequality, as measured by the Gini coefficient, declined from 51.9% in 2002 to 44.6% in 2017 underscoring the fact that the benefits of Lesotho’s growth have not been equally shared. Poverty levels are higher among female headed households compared to men owing to low levels of education for females compared to males. Policies tailored towards addressing employment, poverty and inequality in education, especially in STEM studies remain critical.

· Health Spending. Lesotho spends 6.0 percent (2017) of its GDP in public spending on health. This is higher than both the regional average (2.4%) and the average for its income group (2.8%). 5 percent (2010) of the population incurs catastrophic health expenditure measured as out-of-pocket spending exceeding 10% of household consumption or income.

• Education Spending. Lesotho spends 6.5 percent (2018) of its GDP in government education spending. This is higher than both the regional average (4.0%) and the average for its income group (4.5%).

• Social Assistance Spending. Lesotho spends 5.2 percent (2017) of its GDP on social assistance. This is higher than both the regional average (1.5%) and the average for its income group (1.4%).

• Government Revenue. General government revenue in Lesotho is 41.4 percent (2018) of GDP. This is higher than both the regional average (20.6%) and the average for its income group (27.3%).

8.b. Public Expenditures: Priorities and strategies

Score Type	Value
Draft Score	3.5
Reviewed Score	3.5
Second Draft Score	3.5
Final Score	3.5

Country Notes:

Government expenditure programs should emphasize improving the quality of human resource development, maintenance of existing infrastructure, orderly growth of new infrastructure investment, provision of other essential services, and creating an appropriate environment for production activities but leaving those to the private sector. Lesotho's public expenditure program is evaluated to identify expenditure priorities in line with the underlying policy framework needed to promote Lesotho's development objectives.

Public expenditure policy in Lesotho represents the government's primary economic management tool. The Lesotho government is presently at a critical juncture with regard to its development strategy and public expenditure program. The high expenditure and budgetary deficit levels experienced in recent years cannot be sustained as they have exceeded concessional resource availability and the government's capacity to mobilize additional resources or accumulate more non-concessional debt. Given the serious constraints on skilled manpower availability in the country, expenditures have exceeded as well the economy's capacity for effective absorption. Thus government needs to reduce the size of its spending program relative to the size of the economy and ensure that the remaining expenditures are directed only to the highest priority programs.

Over the longer run the government's resource situation should improve with the receipt of Lesotho Highlands Water royalties, firstly in the form of SACU rebates on LHWS construction-related imports. These *advance* royalties will reach significant amounts around 1992. Government needs to determine how to achieve the most beneficial development impact for the Basotho people from these natural resource-based economic rents. Needing greater consideration by government is the possibility of creating a trust fund to save LHWS revenues until such time as they could be absorbed effectively. We have prepared this report to contribute to the near- and longer-term processes of expenditure restraint, prioritization and identification of the most effective pattern for future resource allocation. A later report will review the issues surrounding the creation of a development trust fund.

Government expenditure programs should emphasize improving the quality of human resource development, maintenance of existing infrastructure, orderly growth of new infrastructure investment, provision of other essential services, and creating an appropriate environment for production activities but leaving those to the private sector. In this report we evaluate Lesotho's public expenditure program to identify expenditure priorities in line with the underlying policy framework needed to promote Lesotho's development objectives. In addition to identifying ways to achieve greater efficiency of resource use through reallocation of resources, the report sets forth for government consideration steps which could be taken to mobilize additional revenues, particularly through more appropriate cost recovery policies.

8.c. Regressive Tax

Score Type	Value
Draft Score	4.0
Reviewed Score	4.0
Second Draft Score	4.0
Final Score	4.0

Country Notes:

In an attempt to strengthen tax administration, the government of Lesotho established Lesotho Revenue Authority (LRA) in 2003 and introduced Value Added Tax (VAT) to General Sales Tax (GST). The purpose of the VAT was to stop the abuse of tax exemptions certificates and to close the loopholes that suppliers were using to evade tax. It was hoped that these measures would widen the tax base and improve efficiency and equity. In 2006, corporate tax rates were reduced from 35% to 25% with the objective of encouraging private sector growth, and improving competitiveness with South Africa, with both actions hoped to increase corporate tax revenue In addition, the tax on manufacturing industries was lowered from 15% to 10% to attract investors and provide support for manufacturing industries. An upfront VAT refund scheme to cover all exporters was proposed as well as a zero percent company tax on income generated from exporting manufactured goods to countries outside the SACU region. In 2007 tax credit was increased from M2 911 to M3 500 mainly to help low income groups. Further income tax reform included a reduction of the lower tax rate from 25% to 22% and the increase of the threshold from M35 064 to M37 378. The threshold where people start paying tax was also raised from M11 643 per annum to M14 000. In 2009 personal income tax was linked to inflation, and the tax credit was increased from M4 500 to M5 000. In 2012, the tax credit was adjusted to M 5 755 as a response to the difficulties endured by income earners due to the global economic crisis, implying that income less than M26 160 per annum attracted no tax. In 2014, in addition to increasing the tax credit and the thresholds by an inflation rate of 6%, both the lower and the upper personal income tax rates were also reduced from 22% to 20% and 35% to 30% respectively. The tax credit and the threshold were adjusted to avoid tax brackets creep. The tax credit was increased to M6 100 implying that the lowest taxable income was increased to M27 730 while the threshold for higher earners was adjusted to M51 690. During this same period, other tax reforms that took place include: the so called sin taxes on liquor and cigarettes; taxation of vehicles based on their gas emission were harmonized 8 at SACU level; the minimum turnover threshold that businesses have to register for VAT was increased from M500, 000 to M850, 000, providing relief for some small businesses.

09. Building Human Resources

Criteria Score: 3

9.a. Health and nutrition services

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

The MOHSW Human Resources Development and Strategic Plan 2005-2025 has been produced as an output of the Lesotho Human Resources Consultancy financed by the World Bank and undertaken as part of the Health Sector Reform initiative. The Plan draws upon the work presented in the Health Sector Human Resources Needs Assessment (Schwabe, McGrath and Lerotholi, 2004). It reflects the considerable input received from a wide range of stakeholders.

COVID-19 highlighted the critical need for countries to make greater investments in their health workforce. This is no truer than in Lesotho, the small, mountainous country landlocked within South Africa, dealing with multiple epidemics. When COVID-19 struck, Lesotho had the second-highest number of people living with HIV per capita in the world.

The United States Agency for International Development (USAID), through the U.S. President's Emergency Plan for AIDS Relief (PEPFAR), is a committed partner to the Government of Lesotho and continues to make significant progress towards ending preventable deaths from HIV/AIDS with a nearly 75 percent drop in AIDS deaths from the height of the HIV epidemic in Lesotho in 2005, as compared to the most recent data from 2020 (UNAIDS data 2021).

Lesotho reached a significant milestone toward ending the HIV epidemic, having met the first Joint United Nations Program on HIV/AIDS (UNAIDS) 90-90-90 target: 90 percent of all people living with HIV know their HIV status. Lesotho also exceeded the second and third 90 targets: 90 percent of all people with diagnosed HIV infection receive sustained antiretroviral therapy, and 90 percent of all people receiving antiretroviral therapy have reached viral suppression. This progress can be traced to the direct investment made in the health workforce.

What does ‘investing in the health workforce’ mean? The most visible examples include hiring additional health workers and training the existing frontline workforce to meet urgent service demands across communities. Globally, USAID has been a key contributor to PEPFAR’s annual one billion investment in supporting additive health workers, supporting over 200,000 health workers across countries where shortfalls impede delivery of HIV services. In Lesotho, USAID alone invests over $25 million in support of an additional 4,000 health workers to advance HIV service delivery goals. “PEPFAR has been with us from day one, and we are very grateful for their support,” said Dr. Llang Maama Maime, National Tuberculosis (TB) and Leprosy Program Manager at the Ministry of Health (MOH) in Lesotho (October 2021). “PEPFAR has helped hire and place various health workers—the triage officers, nurses, and doctors responsible for screening and treating TB and HIV in our communities, facilities, and [at] district levels.”

In Lesotho, such health workforce investments are being made by PEPFAR-funded, USAID project, Human Resources in Health in 2030 Program (HRH2030) and the Meeting Targets and Maintaining Epidemic Control (EpiC) project, with targeted attention toward strengthening ministerial capacity. The Lesotho government is becoming equipped with the capabilities to address health workforce challenges and prepare and plan for a more resilient health workforce. Part of this approach has included embedding a technical advisor in the MOH to support leaders to maintain their focus on long-term health workforce planning and resiliency while they tackle the ongoing COVID-19 health emergency.

The COVID-19 pandemic has underscored the importance of investment in the health workforce. This is a critical area of focus as the global HIV community pivots toward sustaining gains made in achieving UNAIDS 90-90-90 targets in countries like Lesotho. This entails building stronger local health system capacity to manage and provide adequate support and protection for the number of health workers required to meet service demands. The work in Lesotho also highlights a model of technical support, that better leverages local expertise, for a stronger country-owned and led response that secures a robust health workforce equipped to respond to the needs of today and the future.

9.b. Education, ECD, training and literacy programs

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

The Government's Early Childhood Education has the following objectives:

· Foster national commitment, awareness, and mobilization towards ECCD.

· Represent the views, concerns, and expectations of all stakeholders that, through national consultations, have contributed to the development of this policy.

· Contribute to the strengthening, expansion and consolidation of the ECCD programs.

· Be child centered, reflecting a priority focus on the framework of children rights.

· Reinforce the interest of the Government for ECCD as a lifelong investment.

· Be a departure point for integrated multisectoral actions.

· Include services from 0 to the age of 6. This will provide a fair start for children and will support the smooth transition into formal systems of education.

· Create linkages and partnerships within and among government sectors, NGO's, and all stakeholders involved in ECCD.

· Support the development of new ECCD approaches that will benefit more children.

· Provide guidelines for the delivery of effective and quality ECCD services.

· Clarify the roles, responsibilities and interaction between the Government and non-governmental organizations, the International agencies, the private sector, the community and families for the development of children's full potential.

· Define an appropriate organizational structure for the ECCD’s functions at the national and district level.

· Support the creation of a National ECCD Council to be the national umbrella body for ECCD.

· Recognize and support the community efforts towards caring for and protecting the development of their children.

The ECCD programs involve a massive mobilization at the national level, and will include educating parents, families and communities about the holistic view of child development.

The programs centers, homes and community based sustainable programs and accommodate flexible options for ECCD.

Particular emphasis will be placed on the most deprived and underprivileged children, that is, those living in difficult socioeconomic conditions or at risk.

A National Early Childhood Care and Development Council has been formed by the Government to coordinate the work of ECCD. It will have a wide representation of all stakeholders at national and local levels to coordinate the work of ECCD.

Its principles include the following:

· Recognition of the family as the first and direct learning environment.   Child rearing practices will be used as one of the basis for developing ECCD programs, improving service delivery, and building capacity.

· Recognition of the Government’s responsibility to provide the necessary support for the families, caregivers and community in the development of young children.

· Community participation is basic for the development of affordable, sustainable and culturally sound ECCD programs.

· Programs that ensure equity and harmonious opportunities for all.

· ECCD services that foster joint efforts in order to ensure provision of effective sustainable programs. Partnership is the guiding principle for joint actions. This collaboration among role players from private and public sectors is consistent with the holistic framework of ECCD.

· Children's participation is compulsory in the design and follow up of the ECCD programs.

In 2021, adult literacy rate for Lesotho was 81 %. Adult literacy rate of Lesotho fell gradually from 86.3 % in 2000 to 81 % in 2021.

There are a number of literacy programs, inclduing the Unlock LieteracyModel and Preschool Litercay Program. The Unlock Literacy Model is a good example of literacy programs. It was implemented in 23 primary schools in Lesotho within World Vision's Mpharane Area Program and in all of them, the results are phenomenal. It was as piloted in 16 countries. It is now being implemented in 30 countries in Africa, Asia and Latin America. It gives all the techniques in learning and teaching.

The Preschool Literacy Program seeks to enhance early literacy experiences for children from underprivileged preschools who might otherwise attend school unprepared and unmotivated to learn.

Preschool children have the opportunity to participate in a variety of interesting and fun literacy-based games and activities. Learning activities take into account auditory and visual processing. The auditory processing includes listening for sounds, numbers or words and following directions. Visual processing activities include assembling puzzles and linking stories with pictures. The library is stocked with Afro-centered children’s books at all reading levels. Children are encouraged to participate in both group activities and individual reading time in the colourful ‘Children’s Corner’ of the library. Fostering familiarity with a library promotes its use as the children grow. Each preschool session includes storytelling by Help Lesotho youth leaders who are looked up to as role models. The preschool program also helps address the dietary needs of children by building keyhole gardens that provide the children with fresh vegetables

9.c. Prevention and treatment of HIV/AIDS, tuberculosis, and malaria

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

Lesotho has the third highest HIV prevalence in the world, at 24 percent, and the fourth highest estimated TB incidence. The TB-HIV co-infection rates are the fifth highest in the world and multidrug resistant TB is a growing challenge.

His Majesty, the King remarked that the 2006 HIV/AIDS policy focused on prevention, but this of 2019 came up with strategies to eradicate the infection, thus expressing hope that by 2030, Lesotho will be an HIV/AIDS free generation

Pivoting around Lesotho’s *National Strategic Plan for Elimination of MTCT and for Pediatric HIV Care and Treatment* (2011 to 2016), this project aimed to prevent the spread of HIV and mitigate the impact of AIDS among orphans and vulnerable children. Funded through Single Stream of Funding (SSF) from Global Fund Rounds Seven and Nine, EGPAF served as the technical agency to the MOH. EGPAF trained more than 3,000 village health workers to strengthen community-level support for PMTCT services, coordinated MOH community activities, conducted PMTCT supervisory visits to ensure service quality, and trained district teams on data quality. EGPAF’s role in revitalizing the national village health worker program and providing technical assistance on PMTCT and data quality is expected to result in increased service utilization and quality towards elimination of pediatric HIV in Lesotho.

10. Social Protection and Labor

Criteria Score: 3.4

10.a. Social safety net programs

Score Type	Value
Draft Score	3.5
Reviewed Score	3.5
Second Draft Score	3.5
Final Score	3.5

Country Notes:

Lesotho's social protection program's main goal is to provide comprehensive inclusive social protection that reduces poverty, vulnerability and inequality, increases resilience to risks and shocks, promotes access to services and to the labour market, and stimulates economic growth and social stability. Social assistance covers core programs and complementary programs. The core programs include the infant grant, child grant, seasonal employment guarantee scheme (public works), old- age pension, disability grant and public assistance.

To be effective, social protection systems need to be tailored to the social, economic, fiscal and policy contours of a country, which may change over time. In the context of Lesotho that would mean to provide support to households and vulnerable individuals to protect them from poverty and food-insecurity, shocks coming from frequent droughts, the consequences of the global Covid-19 pandemic. It would also mean providing support to poor and vulnerable individuals to help them improve their livelihoods and invest in their children’s human capital. Lesotho has made significant investments in developing social protection programs as part of the Government’s commitment to protecting vulnerable groups. Over the last two decades, Lesotho has put in place and scaled up a lifecycle approach to social protection systems. Lesotho has a developed social protection system that makes regular transfers to its beneficiaries, covering vulnerabilities throughout the life cycle. As a result, Lesotho now spends 6.4 percent of Gross Domestic Product (GDP) on social protection. This is a considerable share compared to most other countries regionally and globally. While several social assistance programs in Lesotho are found to be effective, whether measured by impact or spending effectiveness, cost-effectiveness varies. Most of the overall social protection spending goes to old-age pensions, school feeding, and tertiary bursaries. In contrast, the poverty targeted programs which have higher cost-effectiveness are very small in scale and provide very low benefits.

10.b. Protection of basic labour standards

Score Type	Value
Draft Score	3.5
Reviewed Score	3.5
Second Draft Score	3.5
Final Score	3.5

Country Notes:

On 15 March 2023, the Government of Lesotho deposited the instruments of ratification of the Labour Relations (Public Service) Convention, 1978 (No. 151) , the Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187) , and the Violence and Harassment Convention, 2019 (No. 190) .In depositing the instruments of ratification, the Honourable Minister of the Public Service, Labour & Employment, Mr Richard Ramoeletsi, stated: “Today marks a momentous occasion in the history of the governance of the labour market in Lesotho where the Government of the Kingdom of Lesotho is going to demonstrate its political will to heed the resolutions of various fora dedicated to promoting decent work across the globe. For our purposes, I wish to mention that whilst discussion and adoption of International Labour Conventions is the purview of the International Labour Conference (ILC), the promotion of ratification of these conventions is a product of social dialogue at national, subregional and regional levels.

Lesotho has abundant supply of unskilled labor but a limited supply of skilled labor. The official unemployment rate is 25.3%, and youth unemployment is widespread. To augment the limited supply of skilled labor, the Labor Code allows firms to hire of non-citizens with a work permit. A work permit is issued based on a labor quota formula by the Labor Commissioner who must be satisfied that no qualified Lesotho citizen is available for the position. Within the textile and garments sector, an informal policy permits a company to employ one expatriate worker for every 20 Basotho workers. The statutory maximum duration of a work permit is two years. A work permit may be cancelled before term or renewed.

The government is aware that Lesotho needs to preserve its competitive labor costs while affording workers fair wages and conditions. Statutory minimum wages are fixed annually by the Ministry of Labor and Employment with recommendations from a tripartite Wages Advisory Board, representing the government, employers, and employees.

The law provides for freedom of association and the right to bargain collectively. Employers sometimes violate those rights. The law stipulates that employers must allow union officials reasonable facilities for conferring with employees, but, according to union officials, some employers denied employees access to union officials, even during lunch breaks. Collective bargaining at the factory level is restricted in practice because the law requires that any union entering into negotiations with management represent 50 percent of workers at a factory, and only a few unions meet that condition. The labor movement is also fragmented, with multiple unions competing for membership among workers. Most unions focus on organizing apparel workers. All worker organizations were independent of the government and political parties except the Factory Workers Union, which is affiliated with the Lesotho Workers Party. The Labor Commissioner's Office reported that the fragmented union movement did not influence labor market decisions. The law provides for a limited right to strike. In the private sector, the law requires workers and employers to follow a series of procedures designed to resolve disputes before the Directorate of Dispute Prevention and Resolution, an independent government body, authorizes a strike. The law does not permit civil servants to strike, and therefore all public sector strikes are illegal. In practice, strikes are rare in Lesotho.

Lesotho has been a member of the International Labor Organization (ILO) since 1966 and has ratified 23 international labor conventions, including all the eight fundamental human rights instruments of the ILO. In addition, Lesotho is a signatory to the following Conventions which enable social dialogue to take place: Freedom of Association and Protection of the Right to Organize Convention, 1947 (No. 87); Right to Organize and Collective Bargaining Convention, 1949 (No. 98); Workers' Representatives Convention, 1971 (No. 135); Tripartite Consultation Convention, 1976 (No. 144); and Labor Administration Convention, 1978 (No. 150). Lesotho has also ratified the Prohibition and Elimination of the Worst Forms of Child Labor Convention (No. 182) and the Minimum Age of Employment Convention (No. 138).

Lesotho's Labor Code Order of 1992 and its subsequent amendments are the principal laws governing terms and conditions of employment in Lesotho. The Labor Code regulates terms of employment and conditions for worker health, safety, and welfare. The law permits union organization. The Labor Court and the Labor Court of Appeal are the key judiciary entities dealing with labor disputes. In addition, the Labor Code Amendment Act of 2000 established the Directorate of Industrial Dispute Prevention and Resolution (DDPR), which is a semi-autonomous labor tribunal independent of the government, political parties, trade unions, employers and employers' organizations. LNDC is another key institution that deals with labor disputes. The function of LNDC in this realm is to bring parties together before any formal process is set in motion. For example, LNDC intervenes in strikes and tries to reconcile workers and employers. When this informal process fails, the more formal process of the DDPR can be engaged which can consist of conciliation and arbitration.

10.c. Labour market regulations

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

The main provisions on the setting of minimum wages are contained in the Labour Code.

The Government establishes wages Advisory Board, which is responsible for fixing and updating the minimum wage on annual basis. This Board consists of representatives of the employees and employers, as well as independent members. The Board may after consultation among its members, make a proposal to the Minister for Labour on the minimum wage level. The Minister can then decide to implement the same through a wage order. In addition, the Minister may also implement any minimum wage that has been agreed upon through collective bargaining if the parties to the negotiations represent a significant proportion of the workforce.

Labor officers (Authorized by the Labour Code) are responsible for monitoring compliance of the minimum wage legislation. In the pursuance of their duties, they may inspect the workplace, ask questions from employees and request provision of information on working conditions. In the case of non-compliance, law provides for fine of up to 300 maloti or a punishment by imprisonment for a period of up to 03 months depending on the seriousness of the offence. In addition, a court can also order the payment of the salary that the worker was entitled to earn. In case of non-compliance with the court order, the employer can be punished by imprisonment for a period of up to 6 months.

Minimum wage has been set differently for different sectors of the industry. They are further classified on the basis the term of occupation and skill level. Examples of such sectors include: clothing textile and leather manufacturing; construction? wholesale and retail? retail (other than small business)? hospitality? service? transport and other driver's small business? and domestic workers (including light physical workers).

The term "wages" has been defined in the Labour Code as any remuneration or earnings, however designated or calculated, capable of being expressed in terms of money, fixed by law or by a mutual agreement made in accordance with the Code, and payable by virtue of a written or unwritten contract of employment to an employed person for work done or to be done or for service rendered or to be rendered.

Wages can be paid daily, weekly or on a monthly basis depending on the type of work contract as follows:

i. Contract at piece rate: wage payment on daily basis;
ii. Contract for less than a month: wage payment on weekly basis;
iii. Contract for more than a month: wage payment on monthly basis; and
iv. Contract for completion of a task: wage payment on completion of the concerned task

Generally, wages are to be paid in legal tender only. The employer may, on agreement with the employee, give partial remuneration in addition to money wages in the form of food or a dwelling place. Wages must be paid on working days and at or near the workplace.

When paying wages to employees, the employer may only deduct amounts corresponding to income tax; contributions to any provident, medical or pension funds; any amount ordered by a court of law; trade union dues; loss or damage caused by an employee; deduction of wage for unauthorized absence and repayment of loans. However, the total amount of the deductions, which are made at one time from any wages payable, cannot exceed 50% of the wages.

10.d. Community driven initiatives

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

There are several community based initiatives in Lesotho. Community health is gaining prominence in Lesotho. At the core is the provision of primary health care services to rural and urban communities with full participation and ownership by the community. Community health is a critical component of Public Health, of which the main objective is to promote health and prevent diseases within families and at the community level, ensuring universal access to primary health care as close as possible to the population. Globally, community health is a critical contributor towards achievement of the Sustainable Development Goals (SDGs); in particular, SDG 3 on universal health coverage, alongside the attainment of other SDGs, including eradication of hunger, quality education, gender equality, clean water and sanitation, innovation and infrastructure, reduced inequities, and partnerships. Therefore, achieving these goals demands comprehensive approaches that focus on building a strong and responsive community health system. Over the years, community health has significantly contributed to improvements in health outcomes. However, neither has community health been institutionalized, nor community health worker cadre have been professionalized. Lesotho's community health system faces resource constraints, inconsistencies around quality of service and weak coordination which have a negative impact on health outcomes.

The Lesotho Ministry of Health (MOH) is committed to advance the community health agenda, considering the impact of the COVID-19 pandemic and the recognition of the important role communities play in strengthening health systems, both as watchdogs and service providers. The MOH launched the Village Health Program Policy in 2020. Nevertheless, its implementation has been erratic and limited for the document does not encompass broader community health services. The Community Based Health Services (CBHS) Program has developed a Village Health Worker Tool Kit that contains a package of capacity building manuals, guidelines, standards, and other relevant documents for community-based health services. The country therefore requires a comprehensive national community health strategy that encapsulates the vision, values, policy directions, strategies, and implementation plan for the delivery of quality, integrated community health services. These services shall be affordable, appropriate, culturally acceptable, client-centered and accessible to every household through meaningful community participation, as outlined in the 2021 Essential Health Service Package and mandated in the MOH policy and strategic framework. Such a comprehensive strategy will respond to priority needs, challenges and expectations and define policy directions for each of the health system building blocks including community engagement, multi-sectoral collaboration, resource implications and an investment strategy.

10.e. Pension and old age savings programs

Score Type	Value
Draft Score	4.0
Reviewed Score	4.0
Second Draft Score	4.0
Final Score	4.0

Country Notes:

All citizens of Lesotho over 70 years of age are entitled to a monthly pension benefit of 550 Lesotho Maloti (LSL), equivalent to US$40. The Ood Age Pensions was introduced to lift older persons out of poverty and is the largest regular cash transfer in Lesotho, covering about 83,000 persons (4.5 per cent of the population).

The Old Age Pension (OAP) is a tax-based scheme for all older persons. This noncontributory social pension also benefits other household members, particularly children. With more than 4 per cent of its population above the age of 70, Lesotho has a larger share of older people than many countries in sub-Saharan Africa. All citizens of Lesotho over 70 years of age are entitled to a monthly pension benefit of 550 Lesotho Maloti (LSL), equivalent to US$40. The OAP was introduced to lift older persons out of poverty and is the largest regular cash transfer in Lesotho, covering about 83,000 persons (4.5 per cent of the population). While coverage of eligible persons is approximately 100 per cent, it is estimated that many more benefit indirectly. Prior to the OAP’s introduction, only war veterans and civil servants received a pension, covering less than 3 per cent of older persons in Lesotho. Main lessons learned

• The high prevalence of HIV/AIDS in Lesotho often leads older persons to become the main caregivers for their orphaned grandchildren. In such cases, the Old Age Pension also benefits children.

• Lesotho’s implementation of the Old Age Pension shows that high coverage is possible even in difficult geographic conditions.

• The OAP has always been fully funded and administered by the Government, which is proof that even a country with limited financial resources can afford a universal programme.

• Regular adjustments in benefit amounts indicate the continued commitment from the Government.

• The OAP in Lesotho demonstrates that in the initial years, the administration of a noncontributory pension scheme can be done manually.

• Lesotho’s OAP experience shows that a universal social protection scheme which has high coverage can help garner political support among people and can be a key factor in the re-election of a government.

11. Environmental Policies and Regulations

Criteria Score: 3.5

11. Environmental Policies and Regulations

Score Type	Value
Draft Score	3.5
Reviewed Score	3.5
Second Draft Score	3.5
Final Score	3.5

Country Notes:

Lesotho is particularly prone to a number of environmental hazards such as drought, soil erosion, land degradation, deforestation, loss of biodiversity and drying up of the wetlands and mountain sponges. The depletion of natural resources has deepened poverty in rural areas, contributing to significant rural–urban migration. Climate change has exacerbated the situation, especially in the agricultural sector, thus undermining sustainable development efforts. The Ministry of Energy, Meteorology and Water Affairs (MEMWA), Reports in Lesotho indicated that there has been a 0.7ºC degree increase in seasonal mean temperature and there is a projected increase of 1.78-2.2ºC degrees by 2060 in many areas of Lesotho (MEMWA, 2013).

Climate change, extreme weather, and global economic shocks pose a challenge to the development of the agriculture sector. Prolonged and severe droughts of 2016 and 2019, and the floods of the 2021 and 2022 are clear manifestations of this changing weather patterns, which is adversely affecting the agriculture sector. Overall, 21,418 people in the agricultural sector were affected by food insecurity in 2018 against 7,414 between 2019-2021. Meanwhile, the country's physical and social infrastructure capacity to build climate resilience is relatively low owing to other competing priorities and limited fiscal space.

Lesotho's National Adaptation Program of Action on Climate Change (NAPACC) and Environmental Act 2008 seeks to enhance management of the environment targeting in particular the energy sector as a major climate change mitigation measure. Access to alternative sources (off-grid) of energy is being prioritized, in addition to hydropower (50% of the energy mix) to stimulate economic growth, especially in rural access.

The government is committed to reducing green house emissions (GHG) emissions by 10% by 2030 and a further 25% reduction can be achieved by 2050 with additional external resources). The country has taken steps to enhance its national financing governance capacity and regulatory framework to incentivize private sector investment. These include improving the enabling environment for private sector investment and private sector capacity building to adopt climate-smart technology and facilitate the country's transition to low-carbon emission development pathways. For instance, the country approved its Public-Private Partnership Policy (2017) and established the Department of private sector development hosted by the Ministry of Finance. The department among its mandate aims to create a conducive environment for private sector development by initiating, reviewing legislation, and coordinating investment clients; monitoring corporate governance and performance of parastatals; managing fuel supply contracts as well as enabling the implementation of the country's PPP framework.

Further regulatory measures promoting private sector participation include the Energy Policy 2015-2025, Electrification Master Plan 2018-2035: the National Climate Change Policy 2017- 2027 and Implementation Strategy (CCPIS).

The PPP policy is a relatively new modality in Lesotho with regard to infrastructure development, although PPPs have been used in small social sectors, such as public health and education, and not for large infrastructure projects in climate resilience priorities sectors. The only PPP project in Infrastructure in Lesotho has been the Lesotho Electricity Corporation (LEC) Hydropower project (2002.

Due to the limited technical capacity to fully assess the cost of climate and associated technology needed to build resilience and enable the transition to a low carbon economy, estimation of climate finance in Lesotho has only covered conditional mitigation finance. This is estimated at USD 0.6 million between 2015 and 2030, equivalent to 0.2% of its Gross Domestic Product (GDP).

The climate finance landscape in Lesotho is dominated by the public sector. The climate finance landscape in Lesotho is dominated by the public sector Lesotho's total finance needs amount to USD49.7 million. The public sector contributes about USD272 million while the private sector accounts for USD16.4 million during the period 2019-2020. The private sector share has declined since 2018. For instance, it declined from USD19.9 million in 2019 to USD 0.27 million in 2020. Commercial financial institutions contribute to a large share of 3% (6.97 million USD) while corporates source accounts for 1.2% (USD2.99 million) and institutional investor shares are negligible accounting for 0.058% (USD 0.14 million).

Institutional investors in Lesotho include the Climate Finance Facility (CFF) of the Development Bank of Southern Africa (DBSA). The CFF is a blending finance instrument aimed at filling capital market gaps and crowding in private sector investment targeting adaptation and mitigation infrastructure projects in SADC member states, including Lesotho.

Despite the weak capacity of private sector to turn innovative solutions to commercial products in Lesotho, and the lack of a coordinator in the cleantech industries, private sector finance in Lesotho is allocated both for adaptation and mitigation projects with indeed adaptation finance in Lesotho accounting for 42.4% of the economy-wide climate finance flow while mitigation finance is estimated at 9.6%.

Lesotho's Green Growth Index has increased from 47.6 in 2010 to 48.6 in 2020 (Graph 1). The country is one of the highest performing countries in Green Growth with a mean of 48.6 owing to remarkable performance in low green house emissions, efficiency in waste management, social equity, gender balance and environmental preservation.

PPespite Lesotho being a very low contributor to the causes of climate change, it stands to be among the worst hit countries to suffer the effects. Recent climate change trends and future projection models indicate consistent evidence of climate change and Lesotho's vulnerability. The country has been experiencing an increasing frequency of natural disasters such as droughts and floods in recent years. Water resources have greatly diminished (perennial springs, robust rivers and many dams). Farming, a major source of living in rural areas, is in steady decline. In addition, soil loss and land degradation have accelerated due to increasing and combined pressures of agricultural and livestockproduction (over-cultivation, overgrazing, forest conversion), urbanization, deforestation with an estimated 40million tons of soil per year lost through erosion.Climate change acts as a risk multiplier for development, magnifying the root causes of existing challenges. It is well documented that countries currently struggling with gender inequity, poverty, health crises, and limited infrastructure will feel the effects of climate change earlier and harder than countries that can more easily adapt and absorb at least some degree of additional challenges.Lesotho has already undertaken numerous efforts to address the climate change challenge.This is exemplified by, among others, the country's National Strategic Development Plan (NSDP) which identifies: "to reverse environmental degradation and adapt to climate change" as one of the key strategic objectives. Secondly, Lesotho is referenced, worldwide, as a country that uses almost 100% clean national energy, with a steadfastcommitment to do more, as part of national and global efforts to address climate change in the context of sustainable development.The Government of the Kingdom of Lesotho (GOKL) has a Climate Change Strategy. In 2018, the government prepared the Nationally Determined Contribution (NDC) which sets a 35% reduction target in Green House Gases (GHG) emission by 2030. The private sector is expected to reduce net GHG emissions by 10% by 2030. The GOKL developed its National Climate Change Policy (NCCP) 2017-2027 to preserve biodiversity. Lesotho's procurement policies do not include environmental or green growth considerations.Although Lesotho joined the international community in expressing concerns about the negative impacts of climate change by signing and ratifying UNFCCC, the Kyoto Protocol and the Paris Agreement, there is yet no coordinated national policy in place to address the challenge, except reference in a few policies/strategies such as the: NDSP 2012/13-2016/17, NAPA, National Disaster Risk Reduction Policy 2007, National Environment Policy 1998 and Environment Act 2008, Lesotho Food Security Policy 2005, Energy Policy 2015-2025 and Sustainable Energy Strategy, as well as Gender and Development Policy 2014. Despite reference made to climate change issues, these instruments do not yet adequately address climate change.

(D) Public Sector Management and Institutions

Cluster Score: 3.308

12. Property Rights and Rule-based Governance

Criteria Score: 3.625

12.a. Legal basis for secure property and contract rights

Score Type	Value
Draft Score	4.0
Reviewed Score	4.0
Second Draft Score	4.0
Final Score	4.0

Country Notes:

Lesotho has made good progress in creating institutions necessary for good governance in general and political accountability in particular. Indeed, Lesotho is one of the countries selected by the United States, together with 15 2 The mixed-member-proportional electoral system allocated 80 seats under the FRTP method and 40 seats under the proportional representation. 3 IMF, Sixth Review Under PRGF, July 2004. 4 other countries from a list of 77 low-income countries, as eligible for the Millennium Challenge Account assistance. Countries were selected on the basis of democracy, respect of human rights and the rule of law and efforts in human development, as well as implementing policies that promote sustainable economic growth through creating a better legal and regulatory environment.

Although Lesotho has committed itself to strengthening the principles of transparency, accountability and participation in the affairs of government, the country’s democracy remains fragile and is in need for consolidation. The country is still haunted by its history of military and civil society actors and the opposition in Parliament generally lack the muscle to hold politicians and civil servants accountable or do not have access to the means to expose government shortcomings. Worse still is the fact that social consciousness about government use of its power is very low and the Basotho society lacks a formidable ‘civic culture’, which is important in any democracy. There is, thus, need for the consolidation of the democratic process in Lesotho and strengthening of all governance institutions, including civil society organizations (CSOs).

To be more responsive and accountable to the needs of the Basotho, GoL is implementing a program of decentralization (see section 2.3 on participation). The current government is highly centralized in Maseru and nine other districts (Butha-Buthe, Leribe, TeyaTeyaneng, Mafeteng, Mohale’s Hoek, Quthing, Qacha’s Nek, Thaba-Tseka and Mokhotlong). The intention of the government is to further devolve power to local authorities/councils. The policy framework to facilitate implementation of local government is in place. The Local Government Act 1997 (amended in 2004) outlines the institutional framework for the envisaged local government system and the Local Government Elections Act 1998 (amended in 2004) provides the procedures, rules and regulations for the conduct of elections. Elections for the new local government structures took place in April 2005. The Ministry of Local Government is currently making efforts towards preparing communities to participate in the local government structures. However, until now, the government is yet to come up with a comprehensive plan for fiscal decentralization. Since decentralization is meaningful if financial responsibility is also bestowed on the councils, there is, thus, an urgent need for the government to work out modalities of fiscal decentralization, including mechanisms for accountability and transparency for funds to be disbursed to the new institutions.

Lesotho demonstrates a commendable framework for both real property and intellectual property rights. Real property rights are constitutionally protected, and recent reforms, such as the digital platform launched by the Land Administration Authority (LAA) in 2022, have streamlined processes and reduced the time for land title registrations significantly. The steps taken to empower women by granting them the right to hold land titles showcase progressive measures in property rights.On the intellectual property front, Lesotho has established legal structures aligned with international norms. While enforcement may be perceived as weak, explicit infringements are reportedly uncommon. Lesotho's membership in international IP bodies like the World Intellectual Property Organisation (WIPO) and the African Intellectual Property Organisation underscores its commitment to global IP standards. Furthermore, the country has plans to fortify its digital transaction protection, with two bills awaiting parliamentary approval.

12.b. Predictability, transparency, and impartiality of laws affecting economic activity

Score Type	Value
Draft Score	3.5
Reviewed Score	3.5
Second Draft Score	3.5
Final Score	3.5

Country Notes:

One area in which transparency is key is the budget process. The budget is a tool for implementing national policies that affects every Mosotho’s live. Knowledge of the functions of the budget, its impact on the overall economy, and the role each and every Mosotho5 can play in 5 A citizen of Lesotho. 20 the process is thus important. The public could appreciate the budgeting process more by having a general knowledge of the trade-offs and choices the government has to make in allocating resources to the different sectors of the economy. By being fully informed and progressing with every stage of the budget process, every Mosotho would be better placed to influence the budget formulation, implementation, monitoring and evaluation processes.

The annual budget speech is perhaps the most important budget information disclosure instrument in Lesotho. The budget statement is useful in highlighting how the budget can affect the economic and social opportunities of particular social groups in society. Although budget statements are not impartial, they are considered necessary for accountability and transparency. Also available to the public are the budget estimates and appropriation bills from Parliament. Unfortunately, these documents are more often than not too technical and detailed for public consumption.

The media can play an important role in the dissemination of budget information in most countries. Through news items and budget analysis, the media can be a tool for passing on critical budget information to the population. There is in Lesotho a vibrant media which is fairly independent from the state, although it highly concentrated in the Maseru.

Laws and regulations in Lesotho are established and generally not changed arbitrarily. There's evidence of efforts to align the country's regulatory frameworks with international norms, as seen with the Companies Act of 2011 and the Financial Institutions Act of 2012. Additionally, the establishment of digital platforms for registration and the presence of various legal frameworks across sectors indicate a level of predictability.However, there are concerns about the enforcement and efficiency of these regulations. While the country has taken steps to create digital platforms for processes like land title registration, there's mention of websites like the centralised online location for regulatory actions being poorly maintained and rarely updated. Moreover, even with the introduction of specialised courts like the Commercial Court, there are backlogs that delay proceedings. This points to potential issues with transparency and efficiency.The environment also hints at some level of impartiality with the establishment of independent regulatory bodies for telecommunications, energy, and water sectors, and the acceptance of international arbitration mechanisms.Taking all these into consideration, while Lesotho demonstrates a commitment to establishing a predictable legal framework, there are issues with transparency and the consistent enforcement of these laws and regulation.

laws and regulations are not changed arbitrarily, might not be easily accessible to the public, and where courts can be costly and slow, but judicial decisions are sometimes available to the public.

12.c. Difficulty in obtaining business licenses

Score Type	Value
Draft Score	4.0
Reviewed Score	4.0
Second Draft Score	4.0
Final Score	4.0

Country Notes:

Among the important reforms undertaken , GOKL introduced new e-licensing and e-registration platforms that promise to greatly reduce the time for business creation and licensing. New protocols for customs procedures promise to streamline importing and exporting. And at the highest levels GOKL has announced that to help Lesotho recover from the COVID-19 pandemic, GOKL will focus on making Lesotho an attractive destination for FDI.

While GOKL clearly recognizes the importance of FDI and has continued to enact policies to make foreign investment easier, 2020 also saw the rollout of rules intended to protect local entrepreneurs from foreign competition in designated sectors. In recent years, many migrants from Asia and other parts of Africa have started businesses in these designated sectors and the current government has announced aggressive measures to reverse this trend. These sectors—such as small retail food sales and basic auto repair—are dominated by local small and micro enterprises but some do have participation by medium-sized foreign-owned firms.

Although these regulations will have a negative effect on some foreign investors, they will have low impact on overall FDI because most businesses in the designated sectors are relatively small. However, the government has also enacted other regulations, such as requiring foreign investors to renew their business licenses yearly instead of every three years, a condition that many foreign investors describe as onerous to the point of impossibility given the bureaucratic challenges.

Moreover, recent policy debates within the government around proposals to mandate a minimum percentage of local ownership enterprises earmarked for the locals have caused real concern. In February, the government implemented the regulations in the used car motor dealership sector causing barriers to entry for investors. Uncertainty concerning the execution of the regulations in other sectors remains.

Lesotho’s economy and FDI were badly affected by COVID-19 in 2021, with several foreign-owned textile factories closing or cutting back on operations due to the global downtrend in demand. The government introduced measures to reduce the impact of COVID-19 on the private sector. Other challenges included corruption; while not pervasive, corruption is a problem with Transparency International’s Corruption Perceptions Index ranking Lesotho as 83rd out of 180 countries. Foreign investors are requested to adhere to international labor standards, however, there were reported instances of Gender Based Violence and Harassment (GBVH) in some textiles factories. The government, in collaboration with the stakeholders, is working to address GBV. Despite these challenges, GOKL is refining the services it offers foreign investors, and Lesotho retains advantages such as ready access to the South African and regional markets as well as lower labor, electricity, and communications costs than neighboring countries. Lesotho also has a government that remains focused on providing jobs to its citizens, and which has publicly proclaimed its eagerness to work with foreign investors—especially those ready to partner with locals.

Lesotho has taken considerable steps to enhance the predictability, transparency, and impartiality of its laws and regulations affecting business activities. The establishment of the "One Stop Business Facilitation Centre" (OBFC) serves as a centralised platform for streamlining business-related processes. This not only places all essential services for business operations under one umbrella but also provides clear pathways for tasks such as obtaining licenses, permits, and clearances, promoting both transparency and predictability.The launching of e-Regulations and e-Licensing in 2020 further underscores the government's efforts to modernise and simplify business registration processes. These digital platforms not only enhance transparency but also significantly reduce the time required to obtain business and trading licenses, adding to the predictability of the process.While the initiatives are commendable, the score does not reach the maximum of 5, as there's no indication of the availability of low-cost means for pursuing small claims or citizens' ability to pursue claims against the state without fear of retaliation. Still, the descriptor that most closely fits the scenario presented is: "Laws and regulations affecting businesses and individuals are uniformly applied; changes in them are publicly announced. Low-cost means are available for pursuing small claims."Overall, the government of Lesotho has made substantial strides in creating an environment where the laws and regulations are not only available but are applied uniformly, and changes are publicly announced. The implementation of digital platforms also ensures a higher degree of transparency and efficiency in the business registration process.

12.d. Crime and violence as an impediment to economic activity

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

Criminal networks in Lesotho commonly engage in illicit activities such as vehicle theft and smuggling, diamond smuggling, human trafficking, livestock theft and drug trafficking. A moderate level of violence is associated with these activities, particularly in the case of vehicle hijackings. Criminal networks in Lesotho are often affiliated to political parties, and as a result corruption runs rampant in the country. Low-level state-embedded actors are easily corrupted and allow criminal actors to avoid arrest and prosecution. In particular, government officials have been implicated in human trafficking, stock theft and motor vehicle theft.

Most foreign criminal actors in Lesotho are South Africa-based criminal networks that engage in vehicle theft and smuggling and use Lesotho as a hub to re-register stolen cars. However, South African criminals are also known to be involved in cannabis smuggling, stock theft and attacks on farms in Lesotho. Moreover, Basotho and South African criminals are known to collude in various criminal markets. Chinese nationals are believed to be involved in the trafficking of other Chinese nationals for sexual exploitation in Lesotho. Meanwhile, there is no evidence of mafia-style groups operating in the country.

Criminal activity acts like a tax on the entire economy: it discourages domestic and foreign direct investments, it reduces firms' competitiveness, and reallocates resources creating uncertainty and inefficiency.

While Lesotho faces significant challenges from organised crime, including vehicle theft, smuggling, human trafficking, and drug trafficking, and has notable levels of corruption linked to political affiliations, the state still manages to maintain order in various parts of its territory. The involvement of foreign actors, particularly from South Africa, does exacerbate the situation. However, the absence of dominant mafia-style groups and the fact that some sectors of the economy continue to function suggest that the state can provide a basic level of protection against crime and violence, fitting the descriptor that "the state is able to provide a modicum of protection against crime and violence.

13. Quality of Budgetary and Financial Management

Criteria Score: 3.5

13.a. Comprehensive and credible budget

Score Type	Value
Draft Score	4.0
Reviewed Score	4.0
Second Draft Score	4.0
Final Score	4.0

Country Notes:

Lesotho is facing a tough macro-fiscal outlook in the near-to-medium term due to a sharp decline in Southern African Customs Union revenues. Lesotho's fiscal outcomes are mainly driven by volatile SACU revenues. The SACU revenues are highly volatile and unpredictable. In the absence of a mechanism to counteract this volatility, Lesotho's economy is prone to amplified boom and bust cycles due to its highly procyclical fiscal policy. There is an urgent need for reform to bring Lesotho to a higher and sustainable growth path.

Lesotho's macro-fiscal challenges stem from high Government spending that are fueled by large but volatile SACU revenues. High spending in the public sector has not resulted in pro-poor growth, with health and education results far below those of other comparator countries. Although the resource allocation, including allocations to the social sectors, is broadly in line with the NSDP and the country's development needs, resource management remains a challenge. Outcomes fell short of the targets set out in the First NSDP, despite the high level of government spending. Lesotho's macro-fiscal challenges mostly stem from high recurrent expenditures, which are at 38 percent of GDP. The wage bill in Lesotho is its largest expenditure item and one of the highest in the world as a share of GDP. Human Resource Management (HRM) reform is critical to improving not only the wage bill management, but also the performance of the public sector as a whole. Potential fiscal savings of reforms are estimated in the rage of 0.2 to 1.9 percent of GDP.

The volatile macroeconomic situation calls for an improvement of public financial management and better expenditure controls and revenue management. Effective and transparent PFM systems and institutions are critical preconditions for effective macro-fiscal management, fiscal policy and budgeting.

The various PEFA conducted reveal that the budget process does not have a strong policy or strategic focus. Expenditure control, including payroll and procurement controls, and financial reporting are deficient, and the coverage of audits and the independence of the supreme audit institution are questionable.

The government should fast track PFM reforms. These include: the enhancement of the IFMIS; and the introduction of the Treasury Single Account (TSA) to improve budget credibility, procurement and internal controls, cash management, the reliability of the IFMIS information and reporting, and auditing.

Lesotho also has a citizen's budget in the belief that knowledge empowers, and the Government of Lesotho is interested in empowering all Basotho. As such, it wants the fundamentals of the National Budget to be understood by all. Furthermore, it seeks to ensure that all segments of the Basotho population understand the expenditure program that will be undertaken during the financial year beginning on April 1 to further advance the country's job creation.

The Ministry of Finance and Development Planning coordinates the preparation of the budget in collaboration with other line ministries. The Government of Lesotho has prepared a Poverry Reduction Strategy Paper which is aligned to the budget. In preparing the budget, the Ministry takes acoount of budget allocations which have a direct impact on poverty. It gives priority to poverty-reducing expenditures. is

13.b. Effective financial management systems

Score Type	Value
Draft Score	3.5
Reviewed Score	3.5
Second Draft Score	3.5

Final Score	3.5

Country Notes:

The current Public Financial Management Reform Program is a direct response to the need for strengthening and restoring the public's confidence in the government's financial management system. The purpose of this reform agenda is to transform Lesotho's public finance management systems for attainment of long-term sustainable development. The 2012 PEFA Assessment financed by the European Union helped identify a host of key areas (components) in dire need for reform. Notwithstanding the current challenging fiscal state of affairs, the Government of Lesotho is fully committed to adopting a well-coordinated and sequenced PFM reform program and will take essential measures to continually review and align the reforms to fit the country's needs given the evolving nature of PFM. The development partners have likewise pledged their commitment to the cause of successful implementation of the current PFMR agenda by providing funding and technical expertise across a range of PFM components .The PFM reform agenda runs concurrently with the implementation of the NSDP and vision 2020 and also strives to ensure achievement of the goals set-out by the NSDP and Vision 2020.

Lesotho has been experiencing a downward trend in financial management over the past few years. The CPIA governance rating confirmed the trend, with a score of 3.4 in 2020, down from 3.7 in 2014. The decline was mainly driven by the *Transparency, Accountability and Corruption in the Public Sector* component in which the country scored 2.8 compared to an average of 3.5 in SADC region and 3.2 in Africa.

In a bid to improve public finance management, a comprehensive procurement training program (certificate and diploma level) was also delivered. Steps towards automation of the Procurement Processes and moving towards e-Procurement were also initiated, with the aim of informing the ongoing and future reforms in public procurement.

In the area of public finance management, procurement reform has concentrated mainly on revision of existing legal and regulatory framework and capacity strengthening to professionalize the procurement cadre. Procurement performance reports are now prepared and published annually.

Internal audit functions are now being strengthened with coverage reaching 80% and the aim is to further expand this to cover all MDAs. The IT system for internal auditors continues to be rolled out to all 17 MDAs with internal Auditors. External audit coverage has also reached 80% of government expenditure in 2022 compared to 65% in 2020 and professionalization of the Office of the Auditor general has continued during the CSP period.

The strengthening of revenue policy and administration also continues under the ongoing Tax Modernization Project by improving the legal and regulatory framework for taxation. Through the ongoing support, LRA is expected to effectively deliver digital tax services through the procurement and installation of software and hardware to roll out e-taxation, e-payment, and e-invoicing.

The Bank has improved capacity in financial management through its project, **Institutional support and capacity building in financial management and governance**. Internal audit coverage is 80% since 2020 against a target of 100% in 2024. External audit coverage has increased to 80% compared to 65% in

2020 against a target of 85%in 2024**.** An IT Audit manual has been developed and adopted; training on the use of the manual and a pilot audit of the system were also completed. A new internal audit manual was adopted, and an audit committee was established and operational. New audit act and audit regulations were adopted that is aligned with INTOSAI standards. Twenty-three internal auditors completed the Internal Audit Technical training (including 6 Male and 17 female) and 20 auditors were certified; 13 internal auditors enrolled in the General Internal Audit (9 men and 4 women skills of SMEs).

A comprehensive procurement training program (certificate and diploma level) was also delivered. A detailed review of the country public procurement systems and a comparative analysis of the Centralized and Decentralized procurement Regime were carried out. Steps towards automation of the Procurement Processes and moving towards e-Procurement were also initiated, with the aim of informing the ongoing and future reforms in public procurement.

The budgetv execution rae ranges from 14%-20%.

13.c. Timely and accurate fiscal reporting

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

The government does make its enacted budget publicly available within a reasonable period. The government did not, however, publish its budget proposal or end-of-year report within a reasonable period. The government published information on debt obligations, including major state-owned enterprise debt, within a reasonable period. Budget documents provided a substantially full picture of the government's planned expenditures and revenue; however, it did not include financial allocations to and earnings from major state-owned-enterprises. The government broke down expenditures to support executive offices. Budget executions deviated significantly from budget projections and the government did not produce and publicly issue revised budget estimates or pass a supplementary budget. The government maintained off-budget accounts not subject to audit or oversight. Military and intelligence budgets were subject to parliamentary oversight. The supreme audit institution did not meet international standards of independence, although it published audits that covered the entire budget and contained substantive findings. The government specified in law or regulation and appeared to follow in practice the criteria and procedures for awarding natural resource extraction contracts and licenses. Basic information on natural resource extraction awards was not publicly available.

Lesotho’s fiscal transparency would be improved by:

· Publishing a budget proposal and end-of-year report online within a reasonable period;

· Detailing allocations to and earnings from state-owned enterprises;

· Producing and publicly issuing revised budget estimates or passing a supplementary budget when budget executions deviate significantly from projections;

· Eliminating off-budget accounts or subjecting them to adequate oversight and audit;

· Ensuring the supreme audit institution meets international standards of independence; and

· Making basic information on natural resource extraction publicly available

13.d. Clear and balanced assignment of expenditures and revenues to each level of government

Score Type	Value
Draft Score	3.5
Reviewed Score	3.5
Second Draft Score	3.5
Final Score	3.5

Country Notes:

Inclusive and sustainable economic growth is a critical aspect of any country's development strategy. It is characterized by an economy that grows in a manner that benefits all members of society, regardless of their income level or social status, while also being environmentally sustainable. 88. A key driver of such growth is private sector-led job creation and livelihood opportunities by businesses and enterprises. This approach recognizes that a thriving private sector is fundamental to reducing poverty. The economy has to be set on a new a new growth trajectory of at least 5 to 7 per cent per annum.

The government’s aim is not so much to reduce expenditures given the prevailing global and domestic economic conditions. Rather, the aim is to direct resources to productive ventures that stimulate investment by the private sector and away from recurrent spending safe for recurrent spending that strictly supports productive spending directly. Assignment of expenditures and revenues to each level of government will be guided by this principle.

14. Efficiency of Revenue Mobilization

Criteria Score: 3.75

14.a. Tax policy

Score Type	Value
Draft Score	3.5
Reviewed Score	3.5
Second Draft Score	3.5
Final Score	3.5

Country Notes:

Lesotho possesses the core components of a modern tax system. While it has undergone important changes over time, there is still much room for improvement. Furthermore, the COVID-19 pandemic and the ongoing volatility in exogenously determined SACU revenues has reinforced the urgent need to improve domestic revenue mobilization.

The value added tax (VAT) provides the bulk of revenues, followed by the personal income tax (PIT) and corporate income tax (CIT), while excise taxes constitute a small yet nonnegligible portion with potential.

The collection of nontax revenue has been stable at 5 to 6 percent of GDP. Water and diamond royalties account for about three quarters of total nontax revenues , and there remains room for improvement in the mining sector.

In response to the COVID-19 pandemic, the government introduced temporary tax relief measures in 2020 to assist taxpayers to meet their obligations. Specific measures include: • Personal income tax payable by individuals engaged in the public transport business is remitted during the period of the COVID-19 lockdown.

• Instead of following the regular quarterly schedule of CIT collection, the government deferred the CIT payment in 2020. The deferred amount and period vary depending on the size of the taxpayers, and the measures are more lenient towards MSMEs.2

• For businesses closed during the national lockdown, the April, May, and June payments of VAT by the vendors and PAYE (pay-as-you-earn) by employers are deferred. The deferred amounts are payable from July 2020 to March 2021 in 9 equal monthly instalments.

Under the Income Tax Act 1993, the PIT is levied at progressive rates. Employment income is subject to a two-rate structure of 20 percent and 30 percent, while fringe benefits and passive income3 are taxed separately. Low income earners—with a monthly gross salary equal to or less than M4,200—are excluded from PIT by means of a non-refundable tax credit of M840 per month.

The VAT is Lesotho's revenue workhorse, providing 38 percent of total domestic tax revenues in the past decade, or 7.7 percent of GDP. The standard VAT rate of 15 percent is in line with the region, and reduced rates, exemptions, and zero-ratings are applied to certain goods and services.

Value added tax constitutes 38% of total tax revenues, personal income tax constitutes 33%, and corporate income tax constitutes 20.7% of toal tax revenues.

14.b. Tax administration

Score Type	Value
Draft Score	4.0
Reviewed Score	4.0
Second Draft Score	4.0
Final Score	4.0

Country Notes:

The main thrust of income tax reforms has revolved around increasing abatements and exemptions, raising company tax, and improving tax collection. In sales tax, the focus has been a general rise in the rates, the exemption of some basic foods and, again, improvement of tax collection.

AsS far as electronic filling of tax returns is concerned, it is as follows:

Obtain a copy of relevant Income Tax Return Form from the RSL Website.

Complete only those parts of the form that apply to you or your business. Be sure to read the line instructions for guidance and sign the tax return.

In case you send a person to file on your behalf attached should be a copy of that person's identity document and a stamped letter from the company or a letter stamped by your village chief in case of individuals.

Pay tax due on or before due date (30th June) at RSL banking hall in Maseru and any of the commercial banks as shown under number 5 below.

Attach relevant supporting documents to the income tax return form including:Financial statements which indicate business Income and Expenses,

A schedule of withholding Tax certificate where necessary,Tax Certificate(P16) for employees including printouts from insurance companies,

A letter of explanation where a Client has filed a nil return.Sign the Declaration of Taxpayer or Representative on page 7If you paid a person to prepare your tax return, be sure she/ he also signs the declaration of paid preparer

Fill the return on the Interim E-filing Solution on the RSL website and sign. Find the Guide on the attachments below

Value Added Tax (VAT) Return

Obtain a copy of VAT Return from the RSL website/ access the Interim E-filing Solution on the website.Fill in Value Added Tax (VAT) Return /

Fill the return on the Interim E-filing Solution on RSL website and sign and submitPay tax due on or before due date (20th every month) at RSL banking hall in Maseru or the banks (Standard Lesotho Bank, Nedbank Lesotho, FNB, Post Bank).Attach a schedule of purchases and sales.

Obtain a copy of relevant Income Tax Return Form from the RSL Website.Complete only those parts of the form that apply to you or your business. Be sure to read the line instructions for guidance and sign the tax return. In case you send a person to file on your behalf attached should be a copy of that person's identity document and a stamped letter from the company or a letter stamped by your village chief in case of individuals.Pay tax due on or before due date (30th June) at RSL banking hall in Maseru and any of the commercial banks as shown under number 5 below.Attach relevant supporting documents to the income tax return form including:Financial statements which indicate business Income and Expenses,A schedule of withholding Tax certificate where necessary,Tax Certificate(P16) for employees including printouts from insurance companies,A letter of explanation where a Client has filed a nil return.Sign the Declaration of Taxpayer or Representative on page 7If you paid a person to prepare your tax return, be sure she/ he also signs the declaration of paid preparer Fill the return on the Interim E-filing Solution on the RSL website

and sign. Find the Guide on the attachments below Value Added Tax (VAT) ReturnObtain a copy of VAT Return from the RSL website/ access the Interim E-filing Solution on the website.Fill in Value Added Tax (VAT) Return / Fill the return on the Interim E-filing Solution on RSL website and sign and submitPay tax due on or before due date (20th every month) at RSL banking hall in Maseru or the banks (Standard Lesotho Bank, Nedbank Lesotho, FNB, Post Bank).Attach a schedule of purchases and sales.

Obtain a copy of relevant Income Tax Return Form from the RSL Website.Complete only those parts of the form that apply to you or your business. Be sure to read the line instructions for guidance and sign the tax return. In case you send a person to file on your behalf attached should be a copy of that person's identity document and a stamped letter from the company or a letter stamped by your village chief in case of individuals.Pay tax due on or before due date (30th June) at RSL banking hall in Maseru and any of the commercial banks as shown under number 5 below.Attach relevant supporting documents to the income tax return form including:Financial statements which indicate business Income and Expenses,A schedule of withholding Tax certificate where necessary,Tax Certificate(P16) for employees including printouts from insurance companies,A letter of explanation where a Client has filed a nil return.Sign the Declaration of Taxpayer or Representative on page 7If you paid a person to prepare your tax return, be sure she/ he also signs the declaration of paid preparer Fill the return on the Interim E-filing Solution on the RSL website and sign. Find the Guide on the attachments below Value Added Tax (VAT) ReturnObtain a copy of VAT Return from the RSL website/ access the Interim E-filing Solution on the website.Fill in Value Added Tax (VAT) Return / Fill the return on the Interim E-filing Solution on RSL website and sign and submitPay tax due on or before due date (20th every month) at RSL banking hall in Maseru or the banks (Standard Lesotho Bank, Nedbank Lesotho, FNB, Post Bank).Attach a schedule of purchases and sales.

The Lesotho Revenue Authority is responsible for tax administration in Lesotho. It has forged collaboration withy civil society to build a service culture to provide the kind of service needed and deserved by the public. The ultimate objective is to unlock the potential of both tax policy and administration as drivers of economic growth and development as well as tackle Lesotho's current economic development challenges. Financing the government fiscal budget through both domestic and frontier resource mobilization, taxes are also effective instruments of economic policy..

The Bank-funded tax administration project is an Institutional Support designed to address weaknesses and targets areas for improvement that are linked to the main causes of weak tax administration in Lesotho. The Project is focusing on improving efficiency and services delivery, increasing Value Added Tax (VAT) compliance, and broadening tax base. Further, it will support LRA to consolidate and deepen reform by focusing on (a) redesigning and upgrading business process, (b) developing an enabling legal and institutional framework, (c) introduction of modern information and communication technology to increase tax compliance and efficiency in tax administration, and (d) promoting peer learning and experience sharing with similar national revenue authorities in the region. The operation will complement the effectiveness of the Bank's ongoing projects by strengthening Government capacity to raise domestic revenue and providing fiscal space for priority public expenditures including counterpart funding for ongoing operations. The Project has three components: (i) Enhancing tax modernization, (ii) Institutional strengthening, and (iii) Project Management Support. Reflecting the lessons of past support, more emphasis will be given to strengthening national capacity and ownership of the Project as well as adopting innovative approaches to capacity building through peer learning and partnering with other Revenue Authorities in the continent. The estimated total cost is UA 5.56 million (including 10% Government of Lesotho's contribution).

The overall development objective is to promote economic growth and poverty reduction by improving effectiveness of tax administration to create fiscal space (i.e. increased tax revenues) to finance the country's development plan. The specific objective is to strengthen tax administration capacity by expanding the tax base, modernizing collection and compliance procedures, amending and consolidating the legal framework, and strengthening the institutional framework.

Some of the weaknesses of Lesotho's tax administration include lack of adequate legal frameworks in place to ensure that tax regulations are enforceable at Customs and Excise; absenoce of a reward system for performance for revenue collectors at the borders; and lack of adequate information and publicity to ensure that people understand tax policies and compliance. rewarded according to their performsance

Therefore the researcher recommends that Customs and Excise should consider setting the new policies and regulations which are in line with their current operations. When setting the policies they should consider the following: The researcher also recommends that, Customs department should tight up controls in all its operations.

Evidence has shown that Rrevenue collectors are not recognised by rewards, and performance appraisal is not practised at Customs and Excise. The researcher therefore recommends that, performance appraisal and reward system should be taken into consideration.

It has been established that there is no adequate infrastructure, and recommendations are that there should be improvement in the infrastructure to enhance efficiency of employees. Customs and Excise currently has a slot once a week at the national radio station, however publicity is not adequate in that most Basotho are not interested in such station, therefore they are not even aware that there is such information. The researcher recommends that customs has to find another slot in other station at which people have good listener ship.

As far as electronic filling is concerned, it is as follows:

There are various options to increase the fiscal space. These include ifirst options to increasinge VAT rates applied to tobacco and alcohol, growing the tourisim and mining industry, expanding fiscal space for priority sectors is to improve the efficiency of public sector administration and ramping up spending on sectors that matter for children.

15. Quality of Public Administration

Criteria Score: 2.833

15.a. Policy coordination and responsiveness

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

In a country such as Lesotho with high capital mobility and leakages abroad, the relationship between both fiscal, monetary, and exchange rate policy is intertwined, such that public spending and reserves are strongly linked

It is noted in the Bertelsmann Transformation Index (BTI 2022) that coordination in Lesotho is poor, with government ministries often competing for resource to implement policy programs, and this gets in the way of establishing a coherent overall policy coordination program

The Ministry of Development Planning continues to coordinate activities , policies and strategies of the other ministries and departments. Its functions include the following:

i) Improve coordination of planning, policy formulation and results tracking;

ii) Improve resource mobilization and allocation efficiency;

iii) Improve public sector investment efficiency and effectiveness.;

iv) Increase the human resource capacity to perform;

v) Improve internal and external communication; and,

vi) Enhance implementation of policies.

The Office of the Prime Minister continues to coordinate the implementation of all cabinet decisions, and policies. However, politicization of the civil service and frequent changes in managers lead to loss of institutional memory and poor coordination among ministries and departments. However, there is very little , if any, coordination between the different ministries and departments due to lack of commitment to a development agenda as well as high turn over of staff leading to loss of institutional memory.

15.b. Service delivery and operational efficiency

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

The Government of Lesotho believes that without a strong public sector and committed public officers, efficient delivery of expected services to the citizens shall never be realized. The Government has realized that the recipients of public services, the citizens are dissatisfied and have completely lost confidence in the public agencies due to poor quality of services extended to them, manifested by long queues and lack of professionalism in the delivery of such services.

The Minister of Public Services believes that the African Charter on Values and Principles of Public Service shall play a pivotal role in strengthening the capacity and capability of the Public Service for the improved performance and service delivery. He noted that this can be achieved through the introduction of modern and innovative procedures and systems for the delivery of public services as expounded under Article 8 of the Charter, use of modern technologies to support delivery of such services and the Code of Conduct which emphasizes professionalism in the execution of duties by Public Officers. He said that the African Charter on the Values and Principles of Public Service and Administration is the first legally binding regional public service and administration instrument that serves to promote and improve quality of public service delivery, fighting corruption and generally building a capable state for accelerated development in Africa.

The Government also believes that poor service delivery attracts corruption. A fundamental objective of the public sector reform process in Lesotho is to improve public service delivery in the country. Phase 1 of this nascent process is being effected through three components as follows:

· Component 1: Public financial management and accountability program;

· Component 2: Improving service delivery through decentralisation; and

· Component 3: Improving public service management.

The first component is expected to yield critical outputs such as an integrated planning and budgeting process through a Medium Term Expenditure Framework (MTEF), an integrated accounting and reporting information system called the integrated financial management information system (IFMIS) in place of the current financial management information system (GOLFIS), and an improved and transparent procurement system.

The second component is targeted at creating an appropriate environment in which communities can freely and effectively participate in the planning and management of development as well as have access to improved services through decentralised institutions. This component is expected to garner, inter alia, the following outputs: sensitise the public about the decentralisation process, clarify the roles and functions of local authorities, determine community, municipal and district counselsí areas, and develop and implement a capacity-building program.

The third component mainly seeks to formulate, coordinate and operationalise the Human Resource policies and manuals. To develop civil service capacity-building through the provision of quality training programs and creating a HIV/AIDS competent public service. Benefits of Public Sector Reforms to the Lesotho Economy

The benefits of the broad public sector reform process will go beyond government. The overall benefit will be an efficient and effective civil service with high levels of accountability and improved outreach to the local communities. More specific advantages encompass the following:

·The new financial management system would allow for commitments to be made automatically upon issuance of every Government order or contract;

· The system will eliminate unnecessary delays that are commonly experienced in paying suppliers;

·A successful completion of the reform process will ensure strong training institutions in Lesotho and a professionalised public service. For example, certified qualifications would be obtained such as the Chartered Institute of Purchasing and Supply (CIPS) and the Chartered Institute of Public Finance and Accountability (CIPFA) from IDM and Centre for Accounting Studies, respectively.

What are the Challenges of the Reform Process? Despite the fact that the public sector reform process is important, it does not come without challenges. Since the reform process hinges on effective and efficient civil service machinery, there is a need to build human capital. It is important to invest in the training of the labour force and improving the morale of the public service. Another challenge is to invest in physical capital to enhance productivity of the civil service. For instance, technology can help build a viable, efficient, and effective civil service with the necessary dynamism to respond to the demands of the citizen.

Decentralization can improve the quality of decision making through better information flows and participation from the local level. In view of this, the reform process would empower the communities through strong local governments with respect to finance and personnel management. Furthermore, training on rights and obligations of the relevant units where possible in Sesotho, would be offered. Moreover, tools centred on local accounting, budgeting and financial analysis would be established to encourage and achieve sound management and transparency in the local financial systems. Needless to say, lack of legal instruments, codes of conduct and regulations that promote ethics and accountability can also be counterproductive. This challenge relates to issues of corruption which should be eliminated to fully unleash the civil service potential to deliver services efficiency.

Conclusion and Recommendations It is evident from the foregoing discussion that the main vehicle in Government is the public service and personnel. Hence, it is imperative to harness this resource. Building of critical institutional capacities for good governance, economic growth and development is a pre-requisite. Nonetheless, any reform to this end should be carefully formulated and implemented taking into account the specific needs of the country. At this vantage point, the article provides the following menu of recommendations:

· Government should invest in human capital, institution building and process improvement to facilitate capacity building;

· The private sector and civil society should be involved in policy formulation, monitoring and evaluation to achieve quality policy management;

· A performance-oriented civil service should be created. That is, managers should reach a reasonable level of agreement on strategic goals and strategies for attaining the goals. The development and implementation of a performance management system to monitor performance and support decision-making is critical; and

· Efficiency should be improved through a customer-driven civil service. In this case, a primary focus should be on creating a culture of commitment to identifying and meeting customer requirements throughout the civil service within the available resources.

The Lesotho Government is a constitutional monarchy. The Prime Minister, Sam Matekane, is head of government and has executive authority. The King serves a largely ceremonial function; he no longer possesses any executive authority and is proscribed from actively participating in political initiatives. According to the constitution, the leader of the majority party in the assembly automatically becomes prime minister; the monarch is hereditary, but, under the terms of the constitution which came into effect after the March 1993 election, the monarch is a "living symbol of national unity" with no executive or legislative powers; under traditional law the college of chiefs has the power to determine who is next in the line of succession, who shall serve as regent in the event that the successor is not of mature age, and may even depose the monarch.

For administrative purposes, Lesotho is divided into 10 districts, each headed by a district administrator. Each district has a capital known as a camptown. The districts are subdivided into 80 constituencies, which consist of 129 local community councils.

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15.c. Merit and ethics

Score Type	Value
Draft Score	2.5
Reviewed Score	2.5
Second Draft Score	2.5
Final Score	2.5

Country Notes:

Lesotho has adopted a Westminster model of public administration in which recruitment to the public service is supposed to be merit-based. However, the recruitment of top officers such as Principal Secretaries is politically motivated and this has consequently resulted into a highly politicized public service; literature points that there is a relationship between politicization of the public service and corruption. The highly politicized public service in Lesotho contributes to the corruption scourge that is besieging the country. Administrative reforms are therefore recommended in view of depoliticizing the public service by removing the authority to appoint, promote and dismiss high-ranking public officers from the Prime Minister to a special Parliamentary committee that is inclusive of members from the ruling and opposition parties.

The politicized public service is contributing to the scourge of corruption especially nepotism in Lesotho. The evidence points to the prevalence of nepotism in the security sector. This suggests that the politicians probably find the sector to be essential to help them stay in power or help them to destabilize the government when in opposition. It could also suggest that the security sector is a convenient source for nepotism. A factor that stimulates nepotism is the fact that the Prime Minster is able to appoint their loyalists to leadership positions in the public sector. The Constitution of Lesotho 1993, the Public Service Act 1995 as amended by the Public Service Act 2005, the Defense Force Act 1996, the Police Service Act 1998 and the DCEO Act 2006 among others confer the powers to appoint such officers on the PM. As a result, the top public servants owe their jobs to the political masters. Consequently, these have enabled politicians to control the top public officers and order them to manipulate the recruitment procedures in favor of the people they prefer. Evidence indicates that they prefer those with ties to the ruling politicians. The politicians engage in these acts in order to appease the supporters to safeguard the ruling parties` stay in power in a country where unemployment is high. In order to arrest the scourge of corruption particularly nepotism in the country it is recommended that some administrative reforms be put in place. The aim of the reforms should be to depoliticize the appointment of top public servants. In order to achieve this, the powers to appoint top public servants such as PSs and heads of agencies should be removed from the PM. There should be a committee in the national assembly with a mandate to recruit and dismiss such officers. It should be inclusive of the ruling and opposition parties. The committee should employ the top public servants on a five-year performance contract based on merit, in an open and competitive setting. The contract should be renewable once so that the effective performers may hold office for ten years to address issues of continuity and administrative

15.d. Pay adequacy and management of the wage bill

No score data available for this subcriteria.

16. Transparency, Accountability, and Corruption in the Public Sector

Criteria Score: 2.833

16.a. Accountability of the executive to oversight institutions

Score Type	Value
Draft Score	2.5
Reviewed Score	2.5
Second Draft Score	2.5
Final Score	2.5

Country Notes:

The Afrobarometer team in Lesotho, led by Advision Lesotho, interviewed 1,200 adult Basotho in December 2017. A sample of this size yields country-level results with a margin of error of +/-3 percentage points at a 95% confidence level.

The key findings include the following:

A majority (57%) of Basotho say the government should be accountable to the people, even if that limits its efficiency. But a growing number of citizens are prioritizing a government that can “get things done.”

? Basotho support limits on executive power. Majorities say the prime minister should be accountable to Parliament (62%) and must always obey laws and courts (86%). More than half of citizens say that in practice, the prime minister “rarely” or “never” ignores Parliament and the courts.

? Six in 10 Basotho (62%) also favour limiting the prime minister to a maximum of two terms in office.

? A majority (57%) of Basotho say that information held by public officials should be accessible to the public. But about four in 10 believe they would have trouble obtaining information about development plans and school budgets.

As far as accountable and efficient government is, a majority (57%) of Basotho say it’s more important that the government be accountable to the people than that it “get things done,” a modest decrease from 62% in 2014 . Four in 10 disagree, arguing that having an efficient government is more important, even if citizens “have no influence over what it does.

A preference for accountability over efficiency is stronger among rural residents (59%), senior Basotho (64%), those with no formal education (61%) or only primary education (59%), and poorer respondents (60% of those with high lived poverty.

When asked who should hold the prime minister accountable for doing his job, Basotho divide the responsibility between other elected officials (38% say Parliament or community councils) and the voters (36%). These views have been fairly stable since the first Afrobarometer survey in 2008.

Parliamentary power to hold the executive accountable is also endorsed by a majority (62%) of Basotho who agree that “Parliament should ensure that the prime minister explains to it on a regular basis how his government spends taxpayers’ money.” This continues an upward trend in public support for executive accountability to Parliament, from about four in 10 in 2008 and 2012 . The proportion of respondents who say the prime minister shouldn’t have to “waste his time justifying his actions” to Parliament continued its decline from more than half to 36%.

Judicial oversight and controls are also important limits on executive powers in a democracy. Almost nine out of 10 Basotho (86%) share the view that the prime minister must always obey the laws and courts, even if he thinks they are wrong. This represents a 20-percentage-point increase from 66% in 2014 Conversely, the share of Basotho who feel that the prime minister, as the elected leader of the country, should not be bound by laws and courts dropped by about half, to 12%.

A fundamental objective of the public sector reform process in Lesotho is to improve public service delivery in the country. Phase 1 of this nascent process is being effected through three components as follows: ? Component 1: Public financial management and accountability programme; ? Component 2: Improving service delivery through decentralisation; and ? Component 3: Improving public service management. The first component is expected to yield critical outputs such as an integrated planning and budgeting process through a Medium Term Expenditure Framework (MTEF), an integrated accounting and reporting information system called the integrated financial management information system (IFMIS) in place of the current financial management information system (GOLFIS), and an improved and transparent procurement system. The second component is targeted at creating an appropriate environment in which communities can freely and effectively participate in the planning and management of development as well as have access to improved services through decentralised institutions. This component is expected to garner, inter alia, the following outputs: sensitise the public about the decentralisation process, clarify the roles and functions of local authorities, determine community, municipal and district counselsí areas, and develop and implement a capacity-building program. The third component mainly seeks to formulate, coordinate and operationalise the Human Resource policies and manuals. To develop civil service capacity-building through the provision of quality training programs and creating a HIV/AIDS competent public service

16.b. Access of civil society to information on public affairs

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

Section 14 of the Constitution speaks to each citizens right to “receive ideas and information without interference”, but it does not speak directly to the access of public information. Lesotho has no Access to Information law, although the Law Reform Commission drafted an Access to and Receipt of Information Bill in 2002 that was not tabled in Parliament. Accessing public information is difficult for both citizens and the media. “Even simple information is hard to get.” “We have information officers in different ministries; but why do we have them if, when we need to get information, they ask us to write letters to the CEO to provide them with permission?” “They are there, but they are inactive.” Panellists noted that in the Ministry of Public Service’s Information Dissemination Strategy, only Principal Secretaries may provide authorization for information disclosure to the public. “So even in the Bill there are limitations. Information officers can’t freely provide information.” A media practitioner on the panel noted an example, whereby an interview was conducted with a Senior Education Officer in a district, where, after the Junior Certificate exams, it had been discovered that some exam papers had been leaked and some children had cheated. The Officer provided extensive information during the interview such as the names of the schools implicated, and so forth. However, before the story could be publicized, she called and asked for a retraction, fearing that she would face negative consequences for speaking to the media. “Even the Principal Secretary can’t go on air without consulting the Minister.” 21 SECTOR 1 AFRICAN MEDIA BAROMETER LESOTHO 2015 Accessing detailed information on the national budget is also difficult. “The Ministry of Information in the budget speech, said that government would build eight bridges during the financial year. We asked for information on where these bridges are being built, but were told that they could not disclose this, because it would cause infighting between the parties. They do not want to be accountable.” “Also, Ministries are supposed to report to the Portfolio Committees every quarter, but no reporting is done.” Panellists felt that government officials are only open with information “when they want to prove their mandate and want to lie to the public” Another access issue for citizens is language. Most public official documents are written in English, and although literacy rates in Lesotho are relatively high, it is at a very basic level. Exacerbating this fact, Lesotho’s reading culture is weak, and “our people sometimes are not very interested in reading these documents, even when they are accessible.” While government has done well in making speeches available on its websites (albeit occasionally late), sometimes there is a cost to accessing information. “If you want information from the Government Gazette, you have to pay. And sometimes it is out of print.” The Hansards are available for free, but can only be accessed at Parliament. The Lesotho Legal Information Institute also makes a great deal of law-related information available on its website.

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The civil society in Lesotho helps to consolidate democracy through the aggregation of interests and advocacy. Through these techniques, it contributes immensely to policy dialogue and policy change. It provides checks and balances to hold policymakers accountable. It represents the interest of the voiceless marginalized groups and creates platforms for the vulnerable to express themselves. Civil society in the country has the right mechanisms in place hence it is in the right direction to assist in democratic consolidation. However, the government has to reconsider its activities and review the way it manages protests and handle human rights issues. The state apparatus tends to infringe on civil and political freedoms and disrespect democratic norms. This hampers the efforts and results that civil society is supposed to achieve hence democracy remains sluggish in Lesotho.

For democracy to consolidate in Lesotho, the government has to be responsive to unions’ demands. The government should refrain from being adamant until the unions resort to protests. Equally, it has to discipline the police, so that they refrain from unleashing disproportionate force on protesters. Also, unions should prioritize nonviolent measures and preserve social order. They can attain this by avoiding illegal demonstrations and making sure that there are no confrontations between citizens and security forces during demonstrations as this will reduce causalities and deaths. Lastly, they have to encourage their members to refrain from looting during protests.

16.c. State captured by narrow vested interests

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0

Final Score	3.0

Country Notes:

State capture can be defined as the actions of individuals or groups both in the public and private sectors, influencing the formation of laws, regulations, decrees and other government policies to their own personal advantage. It is important to note that when discussing state capture, the state and the economy cannot be conceived as two separate entities. Economic and political power is therefore fused.

It is being argued that some rich Chinese businessmen have captured the state by sponsoring the elections of politicians and financing their weddings, among others. This is not surprising as the Chinese dominate the textile sector, one of the country's main export sectors. The Chinese have established very strong links with the politicians and the local community and know the internal dynamics of the country. Therefore, they are able to navigate their way through. However, the anti-corruption agency has not forwarded any cases for corruption.

The Government should set up a state capture commission to avert any attempts at state cpture

(E) Infrastructure and Regional Integration

Cluster Score: 3.209

17. Infrastructure Development

Criteria Score: 2.667

17.a. Sector strategy/policy

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0

Final Score	3.0

Country Notes:

Lesotho's infrastructure development policy seeks to build new and expand (maintain) the existing infrastructure that will help the productive sectors to achieve their goal. Strong infrastructure enables economic growth and is the bedrock for better living conditions. .

Infrastructure in Lesotho is relatively undeveloped with poor coverage and low-quality services common to many African countries that have low per capita incomes and government fiscal limitations that constrain infrastructure investment.

In an effort to revive the economy, the government of Lesotho through the Ministry of Foreign Affairs has identified a number of infrastructure development projects.

The projects include the construction of roads, bridges, hydropower stations and rural electrification amongst others and this is proposed through Public-Private Partnership (PPP).This will create a number of jobs to compensate for the job losses due to COVID-19 .The Bank-finaced **ICT – e-Government infrastructure and innovation technology** has helped increasebroadband penetration by 56% against a target of 57.5%. It has increased government digital services in rural areas by 50% against a target of 150%. It has increased electronic financial transactions by 40% against 90%. It has constructed 420 mobile towers in unserved areas against a target of 468 by 2024. In terms of installing fibre optic cable, the study necessary for the deployment of the 96km OPGW fiber is progressing well, and an inception report is expected soon

Lesotho Government adopted an ICT strategy; The ICT strategy supports, underpins and aligned to the Government business objectives and priorities as well as the overarching vision of the Lesotho National ICT Vision. The objective of the ICT strategypolicy is to aimsed at strengthening coordination, capacity development and guiding decision for technology adoption in the country. and Mission statements, which have been stated as: To create a knowledge- ...

The total consumer spending in ICT equipment in Lesotho is estimated to amount US$6.17m in 2023.

The objectives of the Lesotho Water and Sanitation Policy (LWSP) are to promote: a) the proper management of the country's water resources and its sustainable utilization; b) adequate and sustainable supply of potable water and sanitation services to all of the population of Lesotho; c) coordination and coherence in in the management and development of water and other related natural resources, in order to maximize the resultant socio-economic benefits without compromising the sustainability of vital ecosystems; and d) harmonisation of processes and procedures followed by different development partners and other stakeholders in order to optimise available internal and external resources as well as ensure timely implementation of sector programmes.

Royalties from water exorts to South Afric amaoun to USD 1.33 billion rand ($77m) in the management and development of water and other related natural resources, in order to maximize the resultant socio-economic benefits without compromising the sustainability of vital ecosystems; and d) harmonisation of processes and procedures followed by different development partners and other stakeholders in order to optimise available internal and external resources as well as ensure timely implementation of sector programmes.

Lesotho Energy Policy 2015-2025 is a framework policy that sets out the strategic direction of the country's energy sector developments. It is aligned to the Vision 2020 and the NSDP and promotes development of environmentally cleaner renewable energy and increasing its share in the country's energy mix.

According to AFREC's According to AFREC’s energy balance 2020, most of the electricity is consumed in the households at 35% and industry at 31% of the total electricity consumed in Lesotho. Like most countries in sub-Sahara Africa, Lesotho’s fuel share of total final consumption is dominated by biofuels and waste at 57% followed by oil, 26%, electricity at 7% and coal at 7%. The energy balance is dominated by biomass energy resources, which is closely associated with environmental degradation in the form of deforestation and soil erosion, a phenomenon likely to continue until renewable energy technology becomes economically viable in the country.

The The overall transport sector policy of the government is that the, “the government will provide an enabling environment for efficient, cost effective and safe transport, within Lesotho, regionally and internationally, to facilitate the sustainable development of the economy, social services and of the population in ... is to provide an enabling environment for efficient, cost effective and safe transport, within Lesotho, regionally and internationally, to facilitate sustainable development of the economy, social services and of the population in general.

In 2022, In 2020, expenditures for passenger transport items for Lesotho was 1 million US dollars

17.b. Legal and regulatory frameworks for infrastructure

Score Type	Value
Draft Score	2.5
Reviewed Score	2.5
Second Draft Score	2.5

Final Score	2.5

Country Notes:

Infrastructure in Lesotho is relatively undeveloped with poor coverage and low-quality services common to many African countries that have low per capita incomes and government fiscal limitations that constrain infrastructure investment. The Government of Lesotho (GOL) recognizes the need to expand coverage, improve quality, and ensure efficient delivery of infrastructure services and has embarked on a series of reforms in the telecommunications, power, water, and transportation sectors. It appreciates the benefits of private participation as an element of these reforms, albeit with a normal degree of prudence. Nevertheless, the level of private participation at this phase in the evolution of the reforms is considerable, given the country's small size, limited institutional capacity, and lack of public and private investment capital.Telecommunications has recorded the most significant reform of any of the infrastructure sectors. A private consortium purchased the government-owned telecommunications company and has achieved a sixfold increase in teledensity in a six-year time frame. Direct domestic investment is now evident in the vibrant telebureau segment of the market. The telecommunications sector has a well-developed legal and regulatory framework, and the government is preparing guidelines for a Universal Service Fund to expand coverage in the underserved rural and peri-urban areas. Despite these sectoral gains, Lesotho's telecommunications sector could make even greater progress if reforms were deepened and competition for advanced communications services were expanded. Other than telecommunications, reforms in other sectors have not significantly advanced. Progress in the electricity, water, and transportation sectors is lagging and reflects the considerable obstacles the government faces to incorporate private participation into the ongoing sector reforms. The sale of the government-owned Lesotho Electricity Corporation (LEC) to private investors has been delayed while the government considers a shift in private participation strategies. Water sector reform has been hampered by the lack of an adequate legal and regulatory framework and institutional conflicts. Private participation in the transportation sector has produced some private contracts for road construction and operation, but additional opportunities for private investment in the small rail and aviation subsectors appear limited.The government has several challenges ahead to hasten these reforms and expand the use of private participation to help achieve its poverty reduction goals. The most difficult is to accelerate economic growth that reaches the poor and reduces the considerable current income distribution disparity.3Although economic growth is healthy, about 6% per year in the 1988-1998 decade,4 income levels of the poor will continue to restrict the ability to set cost recovery tariffs and will therefore limit private participation projects that are completely financed by the private sector. In the near and medium term, private participation in infrastructure (PPI) projects will mostly entail investment partnerships with the GOL or projects that require government subsidies for private operations. Another critical challenge is to rapidly develop the government's capacity to prepare, evaluate, and monitor private participation projects, and to establish adequate and enforceable regulatory institutions to ensure that the benefits of private participation are realized and that its potential negative consequences are avoided. Foreign firms may fully participate in government procurement; however, they have to first register as legal entities, apply for trading licenses, and register with the Lesotho Revenue Authority for tax purposes. Lesotho is not a signatory to the WTO Agreement on Government Procurement, which means that it is not bound by conditions prohibiting specification of locally made products in tenders. The Public Procurement Regulations 2007 and Public Procurement Amended Regulation, 2018 have decentralized public procurement to line ministries, with each contracting authority operating its own tender panel, which is responsible for the decision on the award of contract. The Procurement Policy and Advisory Division (PPAD), under the Ministry of Finance, is the regulatory body with overall responsibility on Lesotho's public procurement regime. In evaluating proposals, the procurement unit grants a margin of preference for nationals as follows: 15 percent to a local business with a majority shareholding of at least 51 percent; 10 percent to (a) a business owned between 30 percent and 50 percent by Lesotho nationals, (b) a tenderer bidding to supply goods of Lesotho origin, (c) a tenderer performing at least 50 percent of the contract in Lesotho and using and developing the capacity of Basotho staff, (d) a tenderer subcontracting at least 50 percent of the contract to one or more Basotho businesses, (e) a tenderer that has the largest use of locally produced goods, materials, and services, or (f) a tenderer employing the largest share of local labor; and, five percent to a business owned between 10 percent and 30 percent by Lesotho nationals. Key areas of opportunities for tenders include: Infrastructure Development, Energy sector, Water sector, Education and Health

The ICT sector is regulated by the Lesotho Commuication Authority. ItT he regulator for the sector shal monitors market demand and supply capacity ofservice providers and intervenes to correct imbalances or market distortions in favour of users. The regulator though accountable to the Ministry ofCommunications, Science and Technology, hasshall have the necessaryindependence from stakeholders to ensure impartiality, flexibility and transparency.

The mandate of the regulator iswill be limited to the regulation of Telecommunications, Information and Communication Technologies as well asBroadcasting, Radio frequency and Postal Services.

Regulation in the tarnsport subsector is through the Road Transport Act of 1981 as amended in 2001, together with the Road Transport Regulations of 2004. Under the act, there is a Road Transport Board constituted of the Traffic Commissioner, a technical advisor, representatives of the commuters, motor dealers and of passenger and freight transport operators. The Board’s mandate is to administer the regulatory provisions relating to the daily administration of the act. The mandate includes investigations into matters relating to operations of public motor vehicles, and hearing as well as determining applications for different classes of permits and their amendments. The competition provisions are not addressed in these pieces of legislation though. Instead the regulatory environment inhibits competition with the high level of entry barriers that come in the form of a limited number of permits. This is very 14 significant in the passenger transport segment where entrepreneurs are unable to enter into the market because of the limited access to the permits. Another significant part of the Board’s functions entrenched in the law is in the price setting of commuter fares in the passenger transport tier of the market. This in itself inhibits competition in the sector. While this may be justified from the public welfare stand point, the same result can be achieved if the price setting is left to the market and collusive behaviour is outlawed.

ASSs far as energy is concerned, gradual reform and regulation of the electricity sector in Lesotho has been witnessed over the last decade in line with global energy-sector reform in many developing countries (World Bank, 1993, World Bank, 1999, Jamasb and Pollitt, 2000). The reforms by the Government of Lesotho (GoL) have included among others, opening of the market to private-sector participation in 2002, the establishment of an independent regulatory agency (Lesotho Electricity Authority – LEA1) in August 2004, and incorporation of the incumbent service provider (Lesotho Electricity Company or LEC2) in 2006. The electricity sector in Lesotho during the commencement of regulation by LEA in 2004 had three main players. The first player was the government's Department of Energy (DoE), which was responsible for overall policy guidance for the electricity sector. DoE established the Rural Electrification Unit (REU) in 2004 to carry out rural electrification projects outside the LEC's service territory (where electrification is expected not to be commercially viable). LEC was the second institution, established in 1969 as a single buyer with the core business of transmission, distribution, and supply of electricity while also importing power from Eskom (South Africa) and running several small generation facilities that were below the 5 MW licensing threshold.

The Lesotho Highlands Development Authority (LHDA), which owns the relatively large generating facility (Muela Hydropower station at 72 MW capacity), came on board in 1998 as the third player. On average, LHDA produces about 500 GWh per annum and this must be supplemented by imports from South Africa and Mozambique to meet the growing national energy demands that reached over 800 GWh in 2013, with peak demand of 148 MW in winter. Prior to LEA, technical management was undertaken by the utility, LEC, while the government regulated prices. By 2001, after 31 years of LEC's existence, the household electrification level stood at a mere 5%. Moreover, electricity tariffs had not been allowed to increase since 1993 due to a government moratorium, with LEC effectively not collecting enough revenue to meet its obligations and maintenance costs. This necessitated the restructuring of the LEC under a management contract with the view toward bringing it to cost recovery in preparation for privatization and regulation (Eberhard and Shkaratan, 2012).

Reforming small electricity systems in developing countries (with peak demand less than 150 MW) has its own systemic and regulatory constraints (Jamasb, 2006). Many such systems as Lesotho's appear too small to be unbundled into several competing firms and, in many cases, institutional arrangements to support well-functioning regulatory authorities are weak. Furthermore, Nagayama (2007) found that factors such as the establishment of a regulatory agency, entry of independent power producers (IPPs), and unbundling of generation and transmission have had a variety of impacts in many developing countries, some of which were not always consistent with expected results (such as reduction in real electricity prices). Improvement of electricity sector efficiency through reforms has also been found to be statistically significant but limited by country-specific variables, including development level and region (Erdogdu, 2011). However, Pollitt (2008) argues that evidence from Argentina's comprehensive electricity reform in the 1990s shows that regulation can work in developing countries unless it is undermined by undue political interference, especially in the pricing of electricity. Independent regulation has also been found to significantly improve the governance of monopoly utilities in many countries (Pollitt, 2012).

After ten years of reform and regulation, in an effort to inform regulatory policies that will promote the efficiency of the electricity sector in Lesotho and avoid unanticipated problems and unintended consequences of regulation on the power sector's performance (Brown et al., 2006), this study undertakes an evaluation and benchmarking exercise. The main aim is to empirically quantify and measure the performance of the electricity sector regulator in Lesotho for the period 2004–2014. The assessment is carried out by determining a regulatory governance index (RGI) and an index of regulatory substance (IRS), and using regulatory impact measures and metrics to assess overall performance of regulation. The study further seeks to identify strengths and weaknesses of the regulatory framework in Lesotho with respect to experiences in other African electricity regulatory agencies, and to identify associated challenges and provide recommendations towards achieving the expected sector outcomes.

Regarding water, the mandate of the Department of Water and Sanitation (DWS), as set out in the National Water Act of 1998 and the Water Services Act of 1997, is to ensure that the country's water resources are protected, managed, used, developed, conserved and controlled by regulating and supporting the delivery of effective water .

The Minister (i)The Minister may make regulations for carrying into effect the purposes of this Act.

(2) Without limiting the generality of subsection

The Minister may— (a) prescribe a procedure for determining a reserve; (b) provide procedure for allocating water; or (c) prescribe a procedure for determining a reserve for purpose of giving effect to the provisions of this Act; (d) prescribe a procedure for the protection of Government waterworks and the safety of and security of the people; or (e) provide for a procedure for classifying dams with a safety risk or a category of dams with a safety risk.

17.c. Public resource management and accountability in the infrastructure sector

Score Type	Value
Draft Score	2.5
Reviewed Score	2.5
Second Draft Score	2.5
Final Score	2.5

Country Notes:

The Ministry of Local Government has line responsibility for service delivery for solid waste collection and disposal through local government structures. Neither the ministry nor any other local government structure except the Maseru City Council (MCC) has operational capacity for solid waste collection and disposal, so most garbage is either burned or dumped at convenient sites. Only the MCC has any formal involvement in solid waste collection and disposal at this time, and this has been run down to a barely functional condition. The MCC's Department of Health and Environment is the executing agency responsible for solid waste services. Currently, the Ministry of Tourism, Culture and Environment (MTCE) has responsibility for solid waste legislation and policy, and for overseeing activity in the sector. However, in the recent past, other ministries have in turn been in charge, namely the Ministry of Energy and Environment and, before that, the Ministry of Environment, Gender and Youth Affairs. Within the MTCE, the National Environmental Secretariat (NES) holds the responsibility for generating environmental legislation and solid waste management policy. However, to better integrate the various ministries, departments, local governments, and other stakeholders involved in the sector, the GOL created a steering committee called the Committee on Waste Management (COWMAN). COWMAN functions on an ad hoc basis to deal with solid waste issues as they arise. It also meets to discuss solid waste policy and service-related plans.

mResponsibilities for policy and regulation should ideally lie with separate groups, as appears to be the case in Lesotho (see Figure 3) where the Power Sector Policy Commmittee (PSPC), the top policymaking body, was established in 1997 with overall responsibility for “formulation and implementation of policy related to electricity production, distribution, and use, and to promote cooperation and coordination of power sector activities.”23 However, policy implementation responsibility lies with several government bodies (DOE, LEC, LHDA, LEA, etc.).

Since the PSPC is not an operating entity but an interministerial advisory body, responsibility for policy decisions and subsequent implementation gets somewhat diffused, and consequently, accountability is diluted

The Department of Energu (DOE) in the Ministry of Natural Resources has the mandate to establish medium- and long-term national energy plans, determine feasible energy strategies, promote new and renewable sources of energy, and monitor energy sector activities. According to the Energy Policy Framework of GOL, “a number of Government ministries participate in energy sector issues, but primary responsibility for the sector lies with the DOE.” Since the DOE is explicitly expected to operate in collaboration with other ministries and agencies in the implementation of energy strategies and serve as the secretariat to various committees,24 its primary mandate gets sidetracked. This is evidenced by the lack of adequate manpower in the DOE.

Overlapping mandates and responsibilities of government departments can dilute accountability and consequently affect sector performance. This perhaps explains why the parastatal monopoly, LEC, has not been able to provide the number of connections demanded by the market over a long period of time. The performance records of parastatals in many comparable countries have been better, probably because of their simpler organizational structures and clearer mandates. Several new organizations (National Rural Electrification Board, National Rural Electrification Fund) or programs (rural pilot projects) that are in the pipeline now may add further complexity to the situation, if not structured properly.

Monitoring of infrastructure projects both during and post-construction allows key stakeholders to improve decision making, manage risks, increase safety, increase productivity, optimize designs, and reduce costs. Monitoring systems are an integral component of construction projects that have complex geotechnical challenges, risk to the public or adjacent infrastructure, and when observation methods will be used to confirm design performance.Monitoring can be used on the asset under construction and also on adjacent assets that may be impacted by construction efforts. This is especially applicable in dense urban environments, where surface and sub-surface assets are in close proximity to each other.· By implementing instrumentation programs, key stakeholders, such as the asset owner, the engineer of record, and prime and sub-contractors, and adjacent asset owners can monitor geotechnical parameters during construction. If site parameters change during construction or are unexpected in comparison to the project design, action plans can be implemented to mitigate risks to protect public safety and the health of all of the assets involved.· Instrumentation can be monitored long-term to confirm the performance of the structure over time.· Monitoring instruments provide insight to key areas of concern such as: o Ground displacement (settlement or lateral movement),o Groundwater levels, ando Load, stress, and tilt of structures. o The 2020 objectives of the Transport Infrastructure and Connectivity Project for Lesotho are to: (a) improve access to social services and markets in targeted rural areas of Lesotho; (b) strengthen road safety management capacity; and (c) improve the Recipient’s capacity to respond promptly and effectively to an Eligible Crisis or Emergency. There are four components to the project, the first component being improving infrastructure access. This component will improve access of rural population to agricultural and job markets and social services in targeted isolated areas of Lesotho. It will do so through construction of approximately 35 footbridges (US$4.2 million, including contingencies) in communities located in areas that are cut off from road access, especially in the heavy rain season when river water levels increase. The locations of 19 footbridges have been identified through a prioritization exercise carried out by the Government. The remaining 16 footbridge sites will be selected during implementation in accordance with the criteria set forth in the Project Operational Manual. The second component is the improving road safety. This component will support activities to address road safety in a more integrated manner to achieve the Government’s objective to meet the global decade of road safety aim of halving road deaths between 2010 and 2020. To do so, this component will finance two sub? components: Strengthening Road Safety Management Capacity, and Establishing Lesotho Integrated Transport Information System. The third component is the institutional strengthening support to the transport sector. This component seeks to continue institutional strengthening18 support to the transport sector and building the capacity of the staff of the RD and MoPWT, through the following activities: Provision of technical advisory services for preparation of the National Transport.

18. Regional Integration

Criteria Score: 3.75

18.a. Movement of persons and labor and right of establishment

Score Type	Value
Draft Score	4.0
Reviewed Score	4.0
Second Draft Score	4.0

Final Score	4.0

Country Notes:

Free movement of persons and goods is guided by the Protocol of Facilitation of movement of persons, SADC Labour Migration Policy Framework, SADC Labour Migration Policy and SADC;s 2016-2019 Labour Action Plan and SADC's 2014 Labour Migration Framework adopted as a result of the Tripartite Dialogue.

The overall objective of this Protocol of Facilitation of Movement is to develop policies aimed at the progressive elimination of obstacles to the movement of persons of the Region generally into and within the territories of State Parties. (c) establishment of oneself and working in the territory of another State Party.   The Labour Migration Action Plan (2016-2019) is aimed at promoting labour migration for regional integration and development in the SADC Region.

The SADC Labour Migration Action Plan requires Member States to have developed national labour migration policies by 2019 and extended to 2024

Lesotho is a member of the SADC and has signed a number of protocols including the SADC Protocol on the Movement of People, SADC Protocol on Employment and Labour, and SADC Labour Migration Framework. Lesotho scored 0.302 in the 2023 Visa Openness Index, ranking 37 place out of 53 countries. Lesotho scored 0.30 in the 2023 Africa Regional Index, ranking 10 in SADC. These impressive scores reflect Lesotho's actions to improve free movement of people and integrate with other regions in Africa.The 2023 Freedom House Report indicates that Lesotho's constitution protects the freedom of movement, which has been upheld. In recent years, a high incidence of rape on a path near the Ha Lebona and Ha Koeshe villages has prompted some women to reduce travel in the area.Lesotho also signed the AfCFTA which amongst other things promotes the free movement of capital and labour. In terms of investment, FDI flows to Lesotho has been declining between 2020 and 2022. Lesotho foreign direct investment for 2022 was $-0.01B, a 36.8% decline from 2021. Lesotho foreign direct investment for 2021 was $-0.01B, a 144.18% decline from 2020.Lesotho is open to foreigners and has an effective system for the issuance of work permit and residence permit to foreigners. Lesotho has made significant efforts in implementing the Labour Migration Action Plan allowing nationals of SADC to obtain work and reside in Lesotho with less restrictions.

The Committee on the Protection of the Rights of All Migrant Workers and Members of Their Families this morning concluded its consideration of the initial report of Lesotho on its implementation of the provisions of the International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families. Lesotho has made significant progress in the protection of the rights of migrant workers and their families, as evidenced by the number of laws pertaining to this issue. The Government had signed a Memorandum of Understanding on Labour Cooperation with South Africa to regulate and address issues relating to semi-skilled migrant workers. The Anti-Trafficking in Persons Act 2011 had been adopted, and a team of law enforcement officials had, since its establishment in 2015, managed to rescue 20 victims of trafficking. Lesotho had been vulnerable to the effects of the global financial crisis, and efforts had been undertaken for job creation and poverty elimination. Despite efforts made to assist farmers, productivity had not responded positively due to ever changing weather conditions and climate change. Pursuant to this, a state of emergency on food insecurity had been declared by Lesotho, calling for assistance from the international community. During the dialogue, experts noted the particular geographic situation of Lesotho, and asked a number of questions with regard to its cooperation with South Africa on migration-related issues. Committee Members raised a number of concerns with regards to abuses against workers in the mining industry, xenophobia against the Chinese population, and discrimination against lesbian, gay, bisexual and transgender persons. They noted that Lesotho had a high prevalence of HIV/AIDS, and asked how this affected its migration policies. They encouraged Lesotho to strengthen its efforts for the implementation and dissemination of the Convention.

18.b. Regional financial integration

Score Type	Value
Draft Score	3.5
Reviewed Score	3.5
Second Draft Score	3.5
Final Score	3.5

Country Notes:

he most commonly used methods of payment in Lesotho are: Cash. Direct Bank Transfers. Credit cards. Under the CMA and SACU arrangements, the most important benefit that Lesotho reaps is the bulk of imports of goods and services from other members especially South Africa, motivated by the one-to-one exchange rate between member countries. These imports have a positive spillover effect on the rest of the economy.Under the CMA and SACU arrangements, the most important benefit that Lesotho reaps is the bulk of imports of goods and services from other members especially South Africa, motivated by the one-to-one exchange rate between member countries. These imports have a positive spillover effect on the rest of the economy.Under the CMA and SACU arrangements, the most important benefit that Lesotho reaps is the bulk of imports of goods and services from other members especially South Africa, motivated by the one-to-one exchange rate between member countries. These imports have a positive spillover effect on the rest of the economy.Evidence suggests that regional integration through the protocol on trade had a positive and significant impact on size and efficiency of the banking sector. There is also Study findings also pointed to an improvement in global financial integration indicators as a result of the trade protocol, which in turn also contributed to an increase in the level of monetization of regional financial markets. The finance and investment protocol had a positive and significant impact on private sector credit for both estimators and largely insignificant relationship with broad money. The impact of the finance protocol was not significant enough to be detected in global integration measures, implying their implementation may not have significantly improved global integration for SADC countries. The study also uncovered the complimentary relationship between institutional quality and social capital in the financial development process.

According to GCR Ratings, Lesotho’s financial sector comprised four commercial banks, 10 insurance companies, 46 insurance brokers, 118 microfinance institutions, two asset management firms, six stockbrokers and two money transfer institutions. There are no secondary financial markets (stocks, bonds, options, and futures) in the country. The financial sector is dominated by the banking industry with total assets constituting 67.1% of the total financial sectors assets and 58.2% of GDP at end-

2021.According to the IMF 2023 Press Release on Lesotho, the banking sector in Lesotho is dominated by foreign banks, liquid and well capitalized, but intermediates limited credit to micro-, small-, and medium-sized enterprises (MSMEs). High credit and setup costs, skill shortage, gaps in legal frameworks, dispute resolution, insolvency resolution, and property rights continue to inhibit business development and limit the country's capacity to attract foreign investment.The Central Bank of Lesotho is coordinating monetary policy with other banks in SACU.

Lesotho is a member of the Common Monetary Area (CMA) of the South African Customs Union (SACU) comprising South Africa, Lesotho, Namibia and Swaziland. It is also implementing custom tariff and regulations of the SACU.Lestho introduced its National Payment Switch in October 2022 linking all payments through a single switch system. Its payment system is safe and secure with less reports of fraud and inoperability.

Lesotho, with a population of 1.88 million, is geographically surrounded by and economically integrated with South Africa, from which it receives approximately 80 percent of its imports for final consumption.

Lesotho is heavily dependent on imports from South Africa which make up about 80% of total imports, followed by China (at 11%). The main export destinations are South Africa (56.4%) and the United States (35.4%), (underlining the role of AGOA). The rest of the exports go to the countries in the region (Botswana, Eswatini, Mauritius, and Zimbabwe.

The most common paymnet systems are cash, direct bank transfers and credit cards