ANNEX 2

KINGDOM OF LESOTHO

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APPENDIX TABLES

I. ECONOMIC ENVIRONMENT

(1) MAIN FEATURES

1. The Kingdom of Lesotho is a small, mountainous, landlocked country of 30,355 square km, entirely contained within the geographical territory of South Africa.[1] Lesotho's population, estimated at around 1.9 million, is about three fourths rural and one fourth urban; it grew by 0.6% in 2006. Some 59.7% of the population are between 15 and 64 years old, 35.3% are in the 0-14 age group, and only 5% are 65 years or over. Maseru, the capital and main centre of non-agricultural economic activities, is the most densely populated area and the biggest city (over 225,000 people).[2] Lesotho ranks 155th (out of 177 countries) in the UNDP Human Development Index.[3]

2. Lesotho is a least developed country, with a per capita income of US$796 in 2007 (up from US$457 in 2000).[4] It is also classified as a food deficit country by the World Food Programme, importing 50% of its staple grain needs.[5] Food insecurity, unemployment (estimated at around 22% of the labour force in 2008)[6], poverty (56% of the population live with less than US$2 a day)[7], and HIV are profoundly interrelated.[8] Several factors have increased food insecurity, including severe droughts in recent years and encroachment of building on the limited arable land (about 60% of the cultivable land is planted).[9] Water and diamonds are Lesotho's major natural resources (Chapter IV(3)).[10]

3. Services, led by education[11], is the most important sector in terms of contribution to real GDP (41.8% in 2006); Lesotho is a net importer of services. Manufacturing, notably the textiles and clothing subsector, accounted for 16.4% of real GDP in 2006 (18.3% in 2003), and over 80% of the total value of merchandise exports. Agriculture is a key sector of the economy, contributing 14% to real GDP in 2006 (down from 16.4% in 2003), and employing almost 60% of the labour force. The mining and quarrying sector, with a share of 7.6% in 2006, contributed roughly 65% to real GDP growth during 2004-06 due to the re-opening of diamond mines in 2004 (Table I.1).

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[1] Basutoland became the Kingdom of Lesotho upon independence from the United Kingdom in 1966.

[2] UNdata online information, "Country Profile: Lesotho". Viewed at: http://data.un.org/CountryProfile.aspx?crName=Lesotho.

[3] UNDP (2008).

[4] UNdata online information, "Country Profile: Lesotho". Viewed at: http://data.un.org/CountryProfile.aspx?crName=Lesotho.

[5] WFP online information, "Countries: Lesotho". Viewed at: http://www.wfp.org/countries/lesotho.

[6] Figure provided by the authorities on the basis of Lesotho's Labour Force Survey 2008.

[7] In purchasing power parity terms (World Bank online information, "Country Brief". Viewed at: http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/LESOTHOEXTN/0,,menuPK:356039~pagePK:141132~piPK:141107~theSitePK:356029,00.html).

[8] According to UNAIDS estimates, 254,000 adults and 16,000 children are infected by HIV. The current prevalence rate of 23.2% is the third highest in the world, while the prevalence of tuberculosis is the second highest. The pandemic has resulted in 110,000 orphans in Lesotho, nearly 6% of the population. The Government of Lesotho, with the assistance of its development partners, formulated and launched the national AIDS strategic plan in 2001 (UNAIDS online information, "Country Responses: Lesotho". Viewed at: http://www.unaids.org/en/CountryResponses/Countries/lesotho.asp).

[9] In July 2007, the UN called on the international community to help Lesotho cope with food shortages and the worst drought in 30 years.

[10] Lesotho is almost completely self-sufficient in electricity production and generated about US$24 million from the sale of electricity and water to South Africa in 2007. In recent years, diamonds have generated more revenues than water (section (3)(i) below).

[11] The Government attaches great importance to the development of education, at the primary level, through the expansion of free primary education, and at university level.

Table I.1
Sectoral breakdown of GDP, 2003-06
(Constant 1995 prices, per cent)

	2003	2004	2005	2006[a]
Agriculture	16.4	15.5	14.7	14.0
Crops	8.9	8.7	8.3	8.1
Livestock	6.9	6.3	5.9	5.4
Other	0.6	0.5	0.5	0.5
Mining and quarrying	0.0	2.6	5.9	7.6
Manufacturing	18.3	18.0	15.9	16.4
Construction	16.1	14.8	13.9	13.0
Electricity and water	6.8	6.5	6.9	7.2
Services	42.3	42.5	42.7	41.8
Wholesale and retail trade	8.5	8.2	8.0	8.1
Transport and communication	4.9	5.1	5.5	5.6
Public administration	7.2	7.2	7.1	6.8
Education	9.5	9.5	9.4	9.9
Financial intermediation	7.9	7.3	7.5	8.0
Other	4.3	5.2	5.2	3.4

a Estimates.

Source: IMF (2008), *Kingdom of Lesotho: Selected Issues and Statistical Appendix*.

4. With the aim of, *inter alia*, accelerating sustainable growth, improving food security, and reducing unemployment/poverty/HIV, the long-term Vision 2020 and the Poverty Reduction Strategy (PRS) are being implemented with the support of international institutions such as the World Bank, UNDP, and the IMF, including through the Diagnostic Trade Integration Study (DTIS) (Chapter II(4)).[12] In addition, the Government is developing a Growth Strategy Paper with the objective of achieving broad-based and sustainable growth. It emphasizes the need to remove legal and regulatory impediments to private-sector growth and public-sector performance, such as enhanced property rights, land reforms, and targeted infrastructure investment.[13] Moreover, in September 2008, the compact with the Millennium Challenge Corporation (MCC) for US$362.6 million (about 21% of GDP) entered into force. It is to be implemented over five years and covers water, health, and private-sector development.[14]

(2) RECENT ECONOMIC DEVELOPMENTS

5. Lesotho's development strategy has resulted in a positive economic performance in the past few years, with recent high GDP growth, relatively low inflation, and surpluses in both its overall fiscal position and external current account. After growing sluggishly in earlier years, real GDP grew by 8% in 2006 and 5.1% in 2007 (compared with an annual average of 4% during 1990-99), mainly driven by booming diamond production and a recovery of the textiles and clothing industry (Chapter IV(3)(i) and (4)), and despite the negative contribution of agriculture due to the severe

[12] Lesotho's Information and Communication Technology Policy Paper, published in March 2005, was also formulated as a tool to achieve the development goals of both Vision 2020 and PRS (Kingdom of Lesotho, 2005).

[13] IMF (2008a).

[14] The MCC is a U.S. Government corporation designed to work with some of the poorest countries in the world. A compact is a multi-year agreement between the MCC and an eligible country to fund specific programmes for reducing poverty and stimulating economic growth (MCC online information, "About MCC". Viewed at: http://www.mcc.gov/about/index.php).

drought in 2007 (Chapter IV(2)).[15] Real GDP growth rates of 3.5% and 0.6% are estimated for 2008 and 2009, respectively, partly due to moderate growth in mining and manufacturing.[16]

6. The annual average inflation rate in Lesotho, as measured by the consumer price index (CPI), was 6.9% during 2000-07 (down from 11.1% over 1990-99). However, inflation rose to 8% in 2007 owing to rapidly increasing food and energy prices (Table I.2), and an inflation rate of 10.8% is estimated for 2008.[17] Given Lesotho's participation in the CMA, its inflation, exchange rate, and interest rates closely track those in South Africa (Main Report, Chapter I(2)). The Central Bank of Lesotho (CBL) was first established as the Lesotho Monetary Authority in 1978. In August 2000, the CBL Act of 2000 entered into force, conferring the CBL more autonomy.[18] The main goal of monetary policy is price stability and maintaining the peg of the loti, the national currency, against the South African rand.[19]

7. Since 2004, Lesotho has achieved an important turnaround in its fiscal position, mainly because SACU receipts jumped from 23.2% of GDP in 2004/05 to around 40% in 2008/09, and the limited execution of capital expenditure projects. The overall public sector balance (including grants), as a percentage of GDP, improved from a surplus of 0.8% in 2003 to 9.1% in 2007 (Table I.2). This fiscal progress was the result of, *inter alia*, improved domestic revenue collection mainly due to the establishment of an independent Lesotho Revenue Authority (operational since 2003), and the introduction of VAT in Lesotho on 1 July 2003, replacing the general sales tax (GST) (Chapter III(2)(i)).[20] Nevertheless, a fiscal deficit of 0.1% of GDP is estimated for 2008 partly because Lesotho's wage bill (13.4% of GDP) is one of the highest in Africa and consumes 27% of total domestic expenditure. Overall Lesotho, like other BLNS members, has to plan for the real threat of a decline in SACU import duty revenue, which currently accounts for over 50% of budget revenue (section (4) below).[21]

8. SACU receipts increased from US$143 million in 2003 to US$494 million in 2008, after peaking at US$605 million in 2007. Part of this revenue windfall has been used to retire non-concessional debt.[22] As a result, Lesotho's debt sustainability indicators improved significantly, with ratios of external debt to GDP and debt service to exports of goods and non-factor services falling, respectively, from 56.4% and 5.8% in 2003 to 49.9% and 3.9% in 2008 (Table I.2). Similarly, gross official reserves reached the highest level in Lesotho's history, i.e. US$1 billion in 2007 (7.1 months of imports) from US$501.6 million in 2003 (5.6 months of imports).

[15] The sharp decline in agricultural production, coupled with narrow recent GDP growth which has been largely confined to sectors such as mining and manufacturing with limited linkages to the rest of the economy and capacity to increase employment, may have exacerbated poverty and worsened income distribution.

[16] IMF (2009).

[17] On 1 April 2008, tariffs for electricity, water, and public transportation were increased in line with higher international energy prices and the increased price of imported electricity from South Africa (IMF, 2008a).

[18] The Lesotho Monetary Authority started functioning on 2 January 1980; its name was changed to CBL in 1982. It is fully state-owned, and the Governor is appointed by the King on the advice of the Prime Minister (CBL online information, "About Central Bank of Lesotho". Viewed at: http://www.centralbank.org.ls/about/default.htm).

[19] The rand can circulate freely in Lesotho but this is not the case for the loti in South Africa.

[20] Total VAT collected at the end of 2003/04 was 50% higher than the GST collected in the previous year (Central Bank of Lesotho, undated).

[21] In October 2008, SACU revenues for 2009/10 were revised downward by about 10% of GDP, and the medium-term targets have also been lowered sharply (IMF, 2008a).

[22] IMF (2008c).

Table I.2
Main economic indicators, 2003-08

	2003	2004	2005	2006	2007[a]	2008[a]
Miscellaneous						
GDP at current prices (M million)	7,862	8,513	9,065	10,120	11,358	12,941
Real GDP growth (% change)	2.7	5.0	0.7	8.0	5.1	3.5
Consumer price inflation (period average; % change)	7.3	5.0	3.4	6.1	8.0	10.8
Consumer price inflation (end of period; % change)	5.9	4.8	3.5	6.4	10.5	10.6
Monetary sector						
Broad money (% change)	6.0	3.3	9.1	35.4	11.4	13.8
Interest rate[b]	9.83	7.86	6.95	6.76	8.82	10.05
Government finance (% of GDP)						
Overall balance (excluding grants)	-1.5	6.1	2.0	11.9	6.9	-1.7
Overall balance (including grants)	0.8	8.8	2.9	12.8	9.1	-0.1
Government debt[c]	71.1	55.9	51.4	51.2	47.1	55.0
Domestic debt	14.7	7.6	7.1	6.6	5.9	5.1
External debt[c]	56.4	48.3	44.3	44.6	41.2	49.9
External debt-service ratio[d]	5.8	11.6	17.0	7.0	10.9	3.9
External sector						
Nominal effective exchange rate[e]	11.7	0.5	-1.8	-3.6	..	..
Real effective exchange rate[e]	17.1	0.7	-0.1	-2.2	0.5	..
Exports + imports (% of GDP)	158.5	164.0	149.7	149.0	153.0	141.0
Current account (% of GDP)	-12.3	-5.7	-7.5	4.3	12.7	-3.2
Gross official reserves (US$ million)	501.6	513.3	556.5	747.7	1,012.4	..
Gross official reserves (months of imports)	5.6	4.4	4.7	6.1	7.1	..

.. Not available.

a Estimates.
b End of period 91-day treasury bill rate.
c The appreciation of the loti had a significant impact on the debt to GDP ratio in 2003.
d As percentage of goods and non-factor services.
e End of period; a minus sign indicates depreciation.

Source: IMF (2008), *Kingdom of Lesotho: Preliminary Conclusions 2008 Article IV Consultation*; and IMF (2008), *Kingdom of Lesotho: Staff Report for the 2007 Article IV Consultation*; and information provided by the Lesotho authorities.

(3) TRADE PERFORMANCE AND INVESTMENT

(i) Trade in goods and services

9. Lesotho's trade deficit rose from US$517.8 million in 2003 to around US$769 million in 2008, while income and transfers, particularly SACU receipts, increased significantly during the period (Table I.3). Lesotho's external current account, as percentage of GDP, moved from a deficit of 12.3% in 2003 to surpluses of 4.3% in 2006 to 12.7% in 2007 (Table I.2) mainly due to the big jump in SACU receipts. Nonetheless, the external current account is estimated to have shifted to a deficit of 3.2% of GDP in 2008 largely as a result of reduced demand for exports of textiles, lower prices for diamonds, and reduced remittances.[23]

10. Lesotho's economy is highly dependent on international trade: the ratio of exports and imports in goods and services as a percentage of GDP averaged 155.3% during 2003-06 (Table I.2). In 2007, Lesotho ranked 121st among world merchandise exporters and importers (considering the EC member

[23] IMF (2009).

states together and excluding intra-EC trade). In services trade, Lesotho ranked 152nd among exporters and 153rd among importers.[24]

Table I.3
Balance of payments, 2003-08
(US$ million)

	2003	2004	2005	2006	2007[a]	2008[b]
Current account	**-135.05**	**-75.66**	**-98.99**	**66.69**	**211.42**	**196.63**
Goods, services, and income	-304.73	-322.88	-399.35	-322.47	-415.07	-311.72
Trade balance	-517.81	-592.43	-656.63	-667.38	-799.02	-768.60
Exports, f.o.b	470.26	701.80	650.70	699.49	803.97	866.19
Imports, f.o.b	-988.07	-1,294.23	-1,307.32	-1,366.87	-1,603.00	-1,634.79
Services (net)	-34.69	-32.26	-46.56	-35.28	-33.95	-43.06
Income (net)	247.78	301.81	303.84	380.18	417.92	499.95
Labour income (net)	246.94	310.68	302.20	345.18	408.45	416.37
Other (net)	0.83	-8.87	1.64	35.01	9.47	83.58
Current transfers (net)	169.68	247.22	300.36	389.16	626.48	508.35
Government, net	161.46	238.09	289.73	371.52	625.36	507.88
SACU non-duty receipts	143.00	216.15	274.43	358.03	604.99	494.14
Other	18.46	21.94	15.28	13.50	20.37	13.74
Other	8.22	9.13	10.63	17.63	1.12	0.47
Capital and financial account	**122.88**	**94.69**	**63.07**	**12.63**	**118.86**	**104.94**
Capital account (transfers received)	27.51	33.48	20.96	11.15	32.13	12.82
Financial account	95.37	61.20	42.11	1.48	86.72	92.12
Special financing - LHWP[c]	73.00	70.77	35.25	20.28	24.44	21.23
Reserve assets	**68.34**	**-11.70**	**-43.20**	**-191.14**	**-265.08**	**-247.71**
Errors and omissions	**2.90**	**18.25**	**64.95**	**58.33**	**-47.81**	**-166.67**
Valuation adjustment	**-59.06**	**-25.56**	**14.61**	**53.49**	**-17.39**	**112.83**

a Revised estimates.
b Central Bank of Lesotho projections.
c Lesotho Highlands Water Project.

Source: WTO Secretariat estimates, based on data provided by the Lesotho authorities.

11. The direction of Lesotho's trade remains highly concentrated (Table I.4): in 2008, around 40% of total merchandise exports were destined to the SACU area, notably South Africa, followed by 35.4% to North America (especially the United States), and 24.4% to the EC. The U.S. share is largely due to textile and clothing products benefiting from the U.S. African Growth and Opportunity Act (AGOA) preferential trade arrangement (Chapter IV(4)). Lesotho's export structure is shown in Table I.5. Imports originate largely from SACU (although its share has declined during the review period), followed by Asia and the EC (Table I.6).

Table I.4
Destination of exports, 2003-08
(US$ and per cent)

	2003	2004	2005	2006	2007	2008
World (US$ million)	**470.4**	**716.6**	**649.5**	**698.6**	**854.9**	**865.6**
			(per cent)			
Africa	19.6	14.5	19.7	26.3	30.7	39.8
SACU	19.4	13.7	17.3	24.2	27.4	38.1
SADC	0.0	0.0	0.0	0.3	0.1	0.3
Other	0.2	0.8	2.4	1.8	3.1	1.4

Table I.4 (cont'd)

[24] WTO Statistics database, "Trade Profiles: Lesotho". Viewed at: http://stat.wto.org/CountryProfiles/LS_e.htm.

	2003	2004	2005	2006	2007	2008
Europe	0.1	15.3	17.2	13.3	20.9	24.4
EC	0.1	15.3	17.2	13.3	20.9	24.4
Other	0.0	0.1	0.0	0.0	0.0	0.0
North America	80.1	69.9	62.8	60.0	47.8	35.4
Asia	0.2	0.3	0.3	0.4	0.5	0.3
Oceania	0.0	0.0	0.0	0.0	0.0	0.0

Source: WTO Secretariat estimates, based on data provided by the Lesotho authorities

Table I.5
Structure of exports, by SITC Rev.3 section, 2003-08
(US$ million and per cent)

	2003	2004	2005	2006	2007	2008
Total (US$ million)	**470.4**	**716.6**	**649.5**	**698.6**	**854.9**	**865.6**
			(per cent)			
Food and livestock	3.3	2.2	2.4	2.7	3.6	4.4
Beverages and tobacco	2.7	2.2	3.3	3.1	2.7	2.3
Crude materials, inedible	2.6	12.5	16.1	12.7	20.7	24.7
Minerals fuels and related products	0.0	0.0	0.0	0.0	0.0	0.0
Chemicals and related products	1.4	0.5	0.3	0.5	0.1	0.1
Manufactured goods	1.6	4.8	1.3	2.8	5.1	2.4
Machinery and transport equipment	10.5	6.0	8.0	8.3	10.3	14.2
Miscellaneous and manufactured goods	77.6	71.4	68.3	69.6	57.4	51.7
Commodities and transactions not classified elsewhere	0.3	0.3	0.5	0.4	0.2	0.3

Source: WTO Secretariat estimates, based on data provided by the Lesotho authorities.

Table I.6
Origin of imports, 2003-08
(US$ and per cent)

	2003	2004	2005	2006	2007	2008
World (US$ million)	**1,112.4**	**1,428.4**	**1,434.0**	**1,498.5**	**1,873.0**	**1,791.6**
			(per cent)			
Africa	86.1	73.4	82.9	78.1	78.4	75.5
SACU	86.0	72.9	82.5	77.3	77.7	74.8
SADC	0.0	0.4	0.4	0.6	0.6	0.6
Other	0.1	0.1	0.0	0.1	0.1	0.1
Europe	0.1	0.8	0.6	0.7	0.7	2.2
EC	0.1	0.8	0.6	0.5	0.5	1.7
Other	0.0	0.0	0.0	0.2	0.2	0.6
North America	0.2	1.1	0.4	0.3	0.2	0.6
Asia	13.2	24.2	16.0	20.7	20.3	21.1
Oceania	0.4	0.6	0.1	0.3	0.3	0.6

Source: WTO Secretariat estimates, based on data provided by the Lesotho authorities.

12. Balance of payments data indicate that Lesotho is a net importer of services, with a deficit averaging US$37.7 million per year during 2003-08, and peaking at US$46.6 million in 2005 (Table I.3). From the sale of electricity and water to South Africa, Lesotho's royalties increased from US$14.7 million in 2003 to US$18.4 million in 2006 (30.8% of total services receipts).[25]

[25] In 2007, Lesotho's royalties from the sale of electricity and water to South Africa reached 23.3 million (38.5% of total services receipts) (IMF, 2008c).

(ii) Investment

13. Lesotho's average annual inflow of foreign direct investment (FDI) almost tripled from US$24 million during 1990-00 to US$70 million over 2003-07; FDI inflows in 2007 reached US$106 million. This was largely the result of the positive developments in the economy, and the reopening of diamond mines in 2004 (Chapter IV(3)). As a percentage of GDP, the stock of inward FDI increased from 36.4% in 2003 to 45.9% in 2007 (Table I.7). According to the authorities, FDI inflows reached US$89.8 million in 2008.

Table I.7
Foreign direct investment, 2003-08
(US$ million)

	2003	2004	2005	2006	2007	2008
FDI inflows	42	53	57	92	106	89.8
FDI inflows (% of gross fixed capital formation)	7.6	9.6	11.2	15.5	16.7	..
FDI inward stock	431	484	537	629	735	..
FDI inward stock (% of GDP)	36.4	32.0	40.2	43.5	45.9	..

.. Not available.

Source: UNCTAD (2008), *World Investment Report 2008: Lesotho*; and information provided by the Lesotho authorities.

14. Over the last few years, Lesotho has taken steps to improve its investment climate, notably through the establishment of the trade and investment facilitation centre to serve as a one-stop-shop to speed up the licensing process. Nonetheless, in general, FDI in Lesotho has been inhibited by structural constraints, such as high transport costs; underdeveloped legal, judicial, and regulatory framework; labour market rigidities; limited access to bank financing; and prohibition on land ownership by foreigners. Lesotho ranks 123rd (out of 178 economies) in the World Bank's Ease of Doing Business 2009 Index[26]; the Bank's ongoing Private Sector Competitiveness Programme should help reduce the cost of doing business and enhance Lesotho's regional and global competitiveness.

15. Under Lesotho's Vision 2020 and PRS, a key aim is to attract more FDI inflows as well as to promote domestic investment. A number of measures are envisaged such as: further reducing administrative impediments for investors; providing water supply and other basic infrastructure; improving workers' productivity and labour stability; and identifying industries, other than textiles and clothing, to add value to local products and diversify the economy (e.g. agri-business, mining, and tourism).[27]

16. About 90% of Lesotho's FDI inflows have gone into export-oriented manufacturing industries, notably textiles and clothing.[28] The telecommunications subsector has also attracted FDI (Chapter IV(5)(ii)). FDI in the mining sector has been revived through the reopening of diamond mines since 2004, such as the mines in Letseng, and in Liqhobong (both jointly owned by a British company and the government of Lesotho).[29] By country of origin, the United States and South Africa are the largest sources of FDI into Lesotho.

[26] The index is based on ten topics (Lesotho's ranking), i.e. starting a business (125); dealing with construction permits (150); employing workers (63); registering property (135); getting credit (84); protecting investors (142); paying taxes (54); trading across borders (141); enforcing contracts (104); and closing a business (69) (World Bank Group online information, "Explore Economies: Lesotho". Viewed at: http://www.doingbusiness.org/ExploreEconomies/?economyid=110.

[27] Kingdom of Lesotho (undated).

[28] Lesotho's apparel subsector is almost entirely East Asian and South African-owned.

[29] South African companies are currently prospecting the mine in Kolo.

(4) OUTLOOK

17. Lesotho's annual economic growth is expected to be 3-4% over the next few years[30], i.e. well below the GDP growth rate of 7.5% per year needed to reach the Millennium Development Goal of halving the incidence of poverty by 2015.[31] This is despite increased construction activity due to scaled up public investments, including via the MCC compact. Lesotho is to accelerate the pace of its structural reforms, with a focus on promoting private-sector development, as stipulated in its Vision 2020 and PRS.

18. The main risks to Lesotho's economy include the negative impact of the persistent drought on agriculture and the deterioration of the external environment. A further slow-down in South Africa's economic growth, and developments in the global regime for trade in textiles, in particular the erosion of trade preferences on the United States market[32], will greatly affect Lesotho's export sector. Moreover, the uncertainty of SACU revenue poses a challenge to fiscal management, as these receipts account for the bulk of government revenue[33]; hence, the authorities recognize the need to strengthen fiscal policy.

[30] IMF (2009).

[31] Kingdom of Lesotho (undated).

[32] Significant risks to Lesotho's textile and clothing industry include the increased competition from low-cost Asian countries (e.g. China and India) as well as the expiry of AGOA third-party fabric provisions in 2012 and of AGOA itself in 2015 (IMF, 2008a).

[33] South Africa has called for a review of SACU's revenue-sharing arrangement that may result in lower SACU shares for member countries. In addition, SACU revenues could be affected by the global economic crisis and the reduction in SACU's CET rates due to trade liberalization. Remittances from workers in South Africa are anticipated to increase in nominal terms, although diminishing as a ratio to GDP, as the rise in average pay should more than offset the decline in the number of workers resulting from structural changes in South African mines. The coming implementation of the Economic Partnership Agreements (EPAs) with the European Communities, the ongoing liberalization under the Trade, Development, and Cooperation Agreement (TDCA), and the SADC customs union in 2010 will also have revenue implications for Lesotho (IMF, 2008c).

II. TRADE AND INVESTMENT REGIMES

(1) GENERAL

19. Lesotho has been a SACU member from the inception of SACU, and thus most of its trade policies have been shaped at the SACU level. On issues not covered by the SACU Agreement, Lesotho's trade-related policies are mainly the responsibility of the Ministry of Trade and Industry, Cooperatives and Marketing (MTICM). This overall responsibility is undertaken in coordination with all government ministries and departments. To facilitate regular consultations, the Ministry has set up a number of forums where all government ministries are represented. These include the National WTO Network Forum, which brings together all ministries and departments as well as the private sector and academia to consider policy on WTO-related matters, and the Inter-Ministerial task team, which is responsible for dealing with industry problems.

20. Other ministries and agencies involved in trade-related policy making include the Ministries of Finance and Development Planning, Foreign Affairs and International Relations, Agriculture and Food Security, and the Central Bank of Lesotho. The 2002 SACU Agreement provides for a national body to be established in each member country to be in charge of SACU issues (including tariff changes) at the national level and to make recommendations to the Customs Union Commission (Main Report, Chapter II(2)(ii)).

21. The wider business community has also become more involved in trade policy making in Lesotho.[34] A National Steering Committee (NSC) was established in February 2002 as part of the Government's poverty-reduction strategy, and pursuant to the Integrated Framework for Trade-Related Technical Assistance (IF). As an LDC, Lesotho has a number of IF-related initiatives. The NSC comprises the Principal Secretaries of the Ministries of Trade and Industry, Cooperatives and Marketing, Finance and Development Planning, Foreign Affairs and International Relations, and senior representatives of the Lesotho Chamber of Commerce and Industry, the Lesotho Council of NGOs, the Lesotho Manufacturers' Association, Lesotho Association of Exporters, Association of Lesotho Employers, National University of Lesotho, the Mohloli Chamber of Business, and the national office of the United Nations Development Programme (UNDP).

22. Under the NSC, an IF Task Force was established, also led by the MTICM with the participation of the Ministries of Foreign Affairs, Finance and Development Planning, the National University of Lesotho, the Lesotho National Development Corporation (LNDC), the Central Bank, and the Chamber of Commerce, as well as the UNDP national office. Under the Task Force, a Trade Sector Working Group for Lesotho's Poverty Reduction Strategy Paper (PRSP) was set up to address pro-poor trade policies and strategies for the PRSP process. With specific reference to intellectual property issues (see Chapter III(4)(iv)), an inter-ministerial subcommittee on TRIPS-related issues has been established under the National WTO Network Forum.

23. Lesotho's overall trade vision is to achieve a pre-eminent position in the sub-region, and in Africa, as an investment destination of choice, and be competitive in the multilateral trading system while maintaining the highest consumer protection standards. Lesotho hopes to achieve this through development of policies conducive to promotion of entrepreneurial skills and transfer of appropriate technology, and through smart partnership of the public and private sectors.

24. Pursuant to this overall objective, Lesotho seeks "to create and maintain a more equitable and enabling environment for industrial, agri-business and commercial development".

[34] WTO (2003), Annex 2, p. 118.

25. In this regard, the MTICM undertakes to: formulate, and monitor the implementation of appropriate commercial, marketing, and industrial development policies, and enforce supporting legislation; establish institutional frameworks that promote foreign direct investment and domestic participation in terms of the country's commercial, marketing, and industrial activities; and foster the global competitiveness of Lesotho's economy.

26. MTICM seeks to attain these goals by: attracting foreign investment in order to broaden the country's industrial base and improve employment opportunities for the local population; identifying and assisting local entrepreneurs and the farming community to utilize export opportunities in order to improve the country's foreign exchange earnings, and create growth in the industrial, commercial, and agriculture sectors; facilitating the creation of a conducive and appropriately regulated environment for commercial and marketing activities in order to improve the performance, and to support the growth, of local entrepreneurs and farmers; fostering Lesotho's effective participation in international and regional trade organizations and maximizing its benefits from treaties to which it is a signatory; and increasing market shares, profit margins, and on-farm income.

27. Lesotho's main trade-related laws have remained largely unchanged since the last TPR of SACU (Table II.1).

Table II.1
Main trade-related legislation, 2009

Area	Legislation
Air transport services	Aviation Act, 1975
Customs matters, including anti-dumping and countervailing measures	Customs and Excise Act, 1982 (Act No.10 of 1982); Customs and Excise Regulations, 1984; and Customs and Excise (Amendment) Act, 1984
Export finance	New Export Finance and Insurance Scheme, 2001
Financial services	Central Bank of Lesotho Act 2000 (Act No.2 of 2000); Financial Institutions Act, 1999 and related legal notices (Act No.6 and Legal Notices Nos.110-113 of 1999); Money Lenders Order, 1989; Building Finance Institutions Act, 1976; and Insurance Act, 1976
Government procurement	Act 4 of 1965; and Financial regulations for the Central Tender Board
Health and sanitary regulations	Proclamation 57,1952 (Importation of livestock and livestock products); Stock Diseases Proclamation (Amendment), 1954; Stock Diseases Regulations, 1973; Stock Diseases (Amendment) Act, 1984; Notes of the Chief Veterinary Officer, May 2000, relating to the Stock Diseases Proclamation of 1896, as amended; Agricultural Marketing (Distribution of Dairy Products) Regulations,1992; Proclamation 45, 1951 – Fishing Regulations; and Act to Provide Protection to Agricultural Plants from Damage by Pests and Diseases, 1985
Import and export controls	Agricultural Marketing Act, 1967; Export and Import Control Act, 1984 (amended 1996); Export Control Regulations, 1972 (cereals and legumes); Export Control Regulations, 1975 (preparation of sunflower); and Export Control Regulations, 2001 (AGOA textiles and apparel)
Intellectual property rights	Industrial Property Order, 1989, amended 1997 (Order No. 5 of 1989 and Act No. 4 of 1997); and Copyright Order, 1989 (Order No. 13 of 1989)
Mining and mineral operations, including sales of diamonds	Mining Rights Act, 1967; and Precious Stones Order, 1970
Privatization	Privatization Act, 1995 (Act No.9 of 1995); and Privatization Regulations, 1997
Road transport services	Road Transport Act and Regulations, 1981; and Road Transport (Amendment) Act, 2001
Sales tax/VAT	Sales Tax Act, 1995 (Act No.14 of 1995); and Value Added Tax Act, 2001 (Act No.9 of 2001)
Telecommunications services	Lesotho Telecommunications Authority Act, 2000
Tourism services	Tourism Act, 2002 (Act No. 4 of 2002)
Trade development	Lesotho National Development Corporation Act, 1967; and Lesotho National Development Corporation Order, 1990 (effective 1993)

Source: Information provided by the Lesotho authorities.

(2) TRADE AGREEMENTS

28. Lesotho is an original member of the WTO; it has been an active participant in the on-going DDA negotiations, as well as in other aspects of the WTO's work programme. Lesotho is a member of the Informal LDC Consultative Group in the WTO, and of the WTO African Group, and the African, Caribbean and Pacific (ACP) Group of countries. Lesotho was, until 31 October 2008, Coordinator of the LDC Consultative Group, which required leadership and advocacy on matters affecting LDCs in the DDA negotiations, and on overall WTO issues.

29. Since the last TPR of SACU, Lesotho has made a number of notifications to the WTO (Table II.2).

Table II.2
Notifications to the WTO, 2003-09

WTO Agreement	Description of requirement	Periodicity	Most recent notification	Comment
Agreement on Import Licensing Procedures				
Article 7.3	Questionnaire on import licensing procedures	Annual	G/LIC/N/3/LSO/1 6 June 2008	Replies to the questionnaire
Agreement on Rules of Origin				
Article 5 and Annex II(4)	Non-preferential and preferential rules of origin	Within 90 days of the Agreement	G/RO/N/56 27 May 2008	Notification of non-preferential and preferential rules of origin
Agreement on Implementation of Article VII of the GATT 1994 (Agreement on Customs Valuation)				
Article VII	Decision on interest charges	Ad hoc	G/VAL/W/5/Rev.19 25 April 2008	Notification of the date from which it will apply the Decision
Agreement on Safeguards				
Article 12.6	Safeguards	Once, then changes	G/SG/N/1/LSO/1 16 October 2000	No laws and/or regulations
Agreement on Sanitary and Phytosanitary Measures				
	Membership in world standard-setting bodies	Ad hoc	G/SPS/GEN/49/Rev.8 9 October 2007	World Organization for Animal Health (OIE) and Codex Alimentarius
Agreement on Technical Barriers to Trade				
Articles 10.1 and 10.3	Enquiry point	Once, then changes	G/TBT/ENQ/33 26 June 2008	Ministry of Industry, Trade, and Marketing

Source: WTO documents.

30. Lesotho has limited administrative capacity at the MTICM. In addition to the WTO, the country is a member of the SACU, SADC, and the African Union.[35] Within SACU, Lesotho, Namibia, South Africa, and Swaziland (but not Botswana) form the Common Monetary Area (CMA) under which the Lesotho loti is maintained at par with the South African rand, which circulates freely in Lesotho. Lesotho's membership of SACU means that it is also directly affected by the Trade, Development and Cooperation Agreement (TDCA) between South Africa and the EC. Lesotho also benefits from preferential access to the markets of most developed countries under the Generalized System of Preferences (GSP).

31. South Africa has hitherto set the main trade policy instruments for the whole SACU area. Furthermore, the revenue available for Lesotho and other smaller SACU members may, in the long run, be affected by the revision of SACU's revenue-sharing formula and the TDCA.[36] Lesotho has

[35] All the SACU members participate in these trade arrangements.

[36] Goods imported into South Africa, and hence into the SACU area, from the EC will, by the end of a transition period, be free of import duty, improving their competitive position *vis-à-vis* SACU-produced goods and reducing the amount of import duties charged and earned by the SACU countries.

been dependent on the SACU revenue pool for a large proportion of government revenue and GDP; and is particularly dependent upon the contribution of customs duties to this pool.[37]

32. Lesotho has been an active member of SADC and is committed to its regional integration processes (Main Report, Chapter II). By virtue of its small size, Lesotho also views the broader market of SADC as critical to the development of its economy.

33. Lesotho, as an LDC, benefits from unilateral duty-free access to the EC market under "Everything But Arms" (EBA).[38] Like other ACP countries, Lesotho is engaged in negotiations towards the Economic Partnership Agreements (EPA) with the EC as part of the SADC Group (SACU plus Angola and Mozambique). In June 2009, Lesotho, along with Botswana, Mozambique, and Swaziland signed an interim EPA on goods with the EC. It is Lesotho's view that the EPA route could bring large benefits for the country. The authorities believe that EPA negotiations are intended to cover much more than goods, and that the economic adjustment resulting from a more liberal trade in services regime, investment or procurement environment would bring more substantial benefits to Lesotho.[39]

34. Lesotho was the first of the BLNS countries, the second in SACU (after South Africa), and the fifth of the 35 originally qualifying sub-Saharan African countries, to qualify for AGOA benefits, as from 23 April 2001.[40] The major advantage for Lesotho from the AGOA was access to the U.S. market for textiles and clothing. Countries with per capita GDP below US$1,500 in 1998 (defined as lesser developed beneficiary countries) enjoyed, until 2007, duty-free access for clothing made from fabric originating anywhere in the world; in contrast, the general AGOA rule provided unlimited access for clothing made from U.S. fabric, yarn, and thread, and permits up to 3.5% of overall U.S. imports of clothing originating in AGOA beneficiaries (in quantity terms, measured in square metre equivalents) to be made from African fabric and yarn until 2015, while the third-country fabric sourcing rule was extended to 2012.

35. The increase in imports into the United States of textiles and clothing from Lesotho was remarkable during 1999-02. However, the AGOA did not generated trade from Lesotho in other areas during the period.[41]

(3) INVESTMENT FRAMEWORK

36. Lesotho has no foreign investment law, but is in the process of developing a policy paper for legislation. Lesotho's regime for foreign investors remains generally liberal and non-discriminatory; this situation has changed little since the last TPR of SACU in 2003.[42] Restrictions relate mainly to small-scale industries, with less than ten employees, which require a reserved trading licence and are reserved for citizens.[43] There are no limitations on ownership shares. Up to 5% of an enterprise's employees may be expatriate staff.

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[37] See Government of Lesotho (2007), p. 3.

[38] WTO document WT/COMTD/N/4/Add.2.

[39] Government of Lesotho (2007).

[40] See Lesotho National Development Corporation online information. Viewed at: www.lndc.org.ls/AGOA-benefits/agoabenefits.htm.

[41] WTO (2003), Annex 2, p. 121

[42] WTO (2003), Annex 2, p. 121.

[43] Small-scale industries fall primarily in the category of artisan and include agent of a foreign firm, barber, Basotho beer shop, butcher, snack bar, domestic fuel dealer, dairy shop, general café, general dealer, hawker, street photographer, broker, mini-market, hair and beauty salon, petrol dealer, and tentage dealer.

37. As noted in the 2003 TPR, the Lesotho Constitution forbids foreign investors from owning land. Only commercial entities under the majority control of Lesotho citizens may hold land. Foreign investors may only lease land for limited periods (generally 30 years); generally the LNDC leases, on their behalf, land on which to locate industrial estates. The LNDC manages a facilitation service for foreign investors, helps to raise finance for investors, and assists with the necessary licences. It provides foreign investors with land sub-leases and factory shells (though investors can build their own shells).

38. A Land Policy Review Commission report in 2000, recommended a complete overhaul of the land tenure system, and that foreign investors be allowed to hold freehold land in designated industrial areas and for commercial property development. A draft Land Bill was approved in 2009 and is currently under review by the office of the Attorney General, before it can be forwarded for discussion at cabinet level.

39. Lesotho is a member of the International Centre for the Settlement of Investment Disputes and the Multilateral Investment Guarantee Agency (MIGA). The Government is willing to accept international arbitration, though no disputes have arisen so far.

40. Lesotho has bilateral investment treaties with the United Kingdom (since 1981), Germany (1985), OPEC (2003), and Switzerland (2004).

(4) TRADE-RELATED TECHNICAL ASSISTANCE

(i) General

41. Like many other LDCs, Lesotho has wide-ranging trade-related technical assistance needs. These relate to implementation of WTO agreements, participation in the WTO and trade negotiations, human and institutional capacity limitations, and supply-side constraints. However, Lesotho has the advantages of membership in a customs union with economically more advanced countries, and access to one of the largest and most developed markets in Africa. This needs to be considered when prioritizing Lesotho's trade-related technical assistance needs, which are now mainly covered within the context of the Enhanced Integrated Framework (IF).

42. Lesotho has difficulties in implementing WTO Agreements and participating in the WTO, and fulfilling commitments under other trade agreements. The new SACU structure may offer an opportunity for regional regulatory cooperation, which would allow for economies of scale in policy implementation, including implementation of some WTO Agreements.[44] Such benefits will also depend on the possible extension of the scope of the SACU Agreement, still limited to import duties and related measures (Main Report, Chapter III), to other areas of regulatory cooperation. In areas where regional cooperation does not sufficiently cover its national economic interests (such as services), the DTIS proposes that Lesotho should consider formulating and undertaking sovereign actions.[45]

43. Since the last TPR of SACU, the WTO has organized a number of national activities for Lesotho, including on general MTS capacity building, trade and environment, trade facilitation, and upgrading of the WTO Reference Centre in Lesotho. There have also been a number of IF-related missions to Lesotho, in which WTO has participated. Lesotho participated in dozens of regional

[44] The DTIS also suggests that, while not related to WTO commitments, a similar argument would apply to harmonization of VAT/sales tax rates, as different tax structures encourage smuggling and distort trade flows.

[45] Lesotho's commitments under the GATS are relatively extensive and substantially liberal.

activities covering the whole WTO technical assistance programme. During this period, Lesotho also hosted two regional WTO activities, and is scheduled to host a regional SPS activity in 2009. Lesotho has had seven participants in the Geneva Regular Trade Policy courses between 2003 and 2008. For the 2008-09 TA Plan, Lesotho requested four national activities in the areas of agriculture, services, trade remedies and SPS; the services component has already been delivered. Lesotho has also requested assistance from the WTO and the International Centre for Trade and Sustainable Development (ICTSD) to undertake the TRIPS Needs Assessment, with the aim of ensuring full compliance with the TRIPS Agreement. This will also enable Lesotho to source technical assistance from other WTO Members who have already attained full compliance with the TRIPS Agreement.

44. The last TPR of SACU noted that in order to participate effectively in international trade negotiations, Lesotho needed to enhance its capacity in data collection (e.g. setting up a modern statistical system) and policy analysis, and to create an institutional setting that supports the implementation of trade policies. In this regard, Lesotho has established a Policy and Regulatory Analysis Unit (PRAU) within MTICM.

(ii) Supply-side constraints

45. Lesotho, as an LDC, is a beneficiary of the Enhanced Integrated Framework (EIF), through which most of its supply-side constraints are addressed. The Enhanced IF is not a new initiative but is improving on operations of the original IF mechanism, from which Lesotho has benefited since 2001. The EIF is being phased in during the first half of 2009, and its facilities will be available to all existing IF beneficiary countries.

(a) IF process, milestones, and achievements in Lesotho

46. As the first step in implementation of Lesotho's IF programme, a Diagnostic Trade Integration Study (DTIS) was prepared by the World Bank, as lead agency, in cooperation with the Government and the other five IF core agencies.[46] The DTIS sought to identify Lesotho's constraints in integrating into the multilateral trading system and the global economy, and to draft an Action Matrix.

47. The DTIS identifies five major challenges for Lesotho: the pervasive level of poverty, especially rural poverty; the HIV/AIDS pandemic, which affects mainly the economically active population; the lack of positive spill-over so far from investment by foreign firms in the garment industry, and their low contribution to tax revenue; the mounting pressures on infrastructure caused by the rapid development of the clothing sector; and the risk that the preferential advantages that Lesotho currently gains under AGOA may evaporate.

48. The DTIS also identifies various parallel, and mutually reinforcing, trade policy strategies for Lesotho: (i) the active pursuit of gains from participation in regional trade agreements, focusing on reducing the "costs of trading" with the other SACU partners by removing various remaining barriers to trade and to movement of capital and labour within SACU, and aligning tax and regulatory conditions on the South African norms; (ii) using its integration in the SACU region as a springboard to greater integration into the world economy, *inter alia*, by using the new, democratic SACU structure to encourage greater liberalization of the common external tariff and to limit non-tariff barriers, as well as encouraging regional cooperation on trade-facilitating measures; and (iii) taking actions to improve Lesotho's investment climate for foreign and domestic investors, by removing various administrative barriers that impede the conduct of business activities.

[46] ITC, UNCTAD, UNDP, IMF, and WTO.

Trade mainstreaming

49. Lesotho's penultimate Poverty Reduction Strategy Paper (PRSP) was finalized in 2005. Since the IF and PRSP processes ran concurrently, most of the priority actions identified in the IF Action Matrix were fully recognized in the PRSP. Issues relating to institutional capacity and business environment fall under the employment-creation priority in the PRSP. This priority area consists of actions to enable rapid employment-creation through the establishment of an operating environment that facilitates private-sector-led economic growth. Other actions identified in the Matrix relating to physical infrastructure and environment conservation were also incorporated into the PRSP.

50. The latest, interim 2008/09-2009/10 PRSP underscores that economic growth needs to be driven by the private sector. It defines the appropriate role of Government as an "enabler", through sound macroeconomic management and providing a conducive investment climate, complementary physical infrastructure and support services, and a sound financial system. There are many ongoing Government initiatives in these areas, supported by donor partners, including a Trade Facilitation and Investment Centre, support for SMMEs and developing the Metolong dam to provide water to industrial firms.[47]

DTIS Action Matrix Implementation

51. The DTIS Action Matrix has only been partially implemented, due to limited implementation capacity and limited financial support from development partners.

52. However, some donor programmes, most notably the DFID Priority Support Programmes (PSP) Job Creation component, and the up-coming World Bank Private Sector Development (PSD) programme (with funding also from the Millennium Challenge Account), address a number of issues outlined in the DTIS Action Matrix without explicitly labelling those as IF support. Similarly, there are infrastructure projects, such as those on utilities and transportation funded by the development banks, that address supply capacity constraints but are not branded as IF or trade projects.

53. Lesotho benefits from two IF Trust Fund (IFTF) Window 2 (W2) projects: Product and Market Development of Agro-based Products (targeting mushrooms and peaches); and Strengthening Capacity for an Integrated Approach to Trade Enhancement and Wealth Creation in Lesotho, which has, amongst other activities, supported recruitment of an IF Coordinator. The Coordinator, supporting the IF Focal Point (Director of Trade, MTICM), is instrumental in managing projects and in preparing Lesotho to benefit from the Enhanced IF.

(b) Preparing to benefit from the EIF

54. The EIF is just becoming operational and the national preparations in Lesotho are still in progress. Lesotho has, however, indicated great commitment to the EIF both at the capital and Geneva level; Lesotho has served as the Chair of the IF interim Board from its establishment in 2007. As a result of Lesotho's commitment, development partners also appear to be interested in supporting EIF implementation in the country: Lesotho is one of the eight countries for which UNIDO is piloting support of the IF Action Matrix implementation.

[47] Ministry of Finance and Development Planning (2008).

III. TRADE POLICIES AND PRACTICES BY MEASURE

(1) OVERVIEW

55. Lesotho continues to apply customs-related measures harmonized under SACU, including the Common External Tariff (Main Report, Chapter III(2) and (3)). All goods imported into Lesotho are subject to customs control. The Customs Trade Programme is being introduced to, *inter alia*, computerize the customs system. On 1 July 2003, the VAT replaced the GST; VAT is applied to all imported and locally produced goods and services. All goods imported into Lesotho from outside the SACU area require import permits.

56. A new government procurement regime entered into force in 2007; a maximum 15% price preference is granted to "Basotho business". Lesotho continues to rely on the South African Bureau of Standards as it does not have its own standards bureau. However, a draft law to establish a standards bureau has been submitted to the Government law office. The only tax concessions and interest rate subsidies available are associated with the Comprehensive Export Financing Scheme (section (4)(i) below).

57. The Government of Lesotho is committed to reforming at least four state-owned enterprises (SOEs) a year, based on certain priorities; nonetheless, there are still a considerable number. The major parastatal enterprise is the Lesotho National Development Corporation (LNDC). Lesotho currently has no competition policy, although under the Privatization Act the Government is to use privatization to introduce competition in all areas of the economy and reduce monopolistic behaviour. Lesotho's legislation on IPRs has not changed since its last Review in 2003.

(2) MEASURES DIRECTLY AFFECTING IMPORTS

(i) Registration, documentation, import duties, and related measures

58. Under Lesotho's Export and Import Control Act No. 16 of 1984 as amended, all importers are required to register with the Ministry of Trade and Industry, Cooperatives, and Marketing (MTICM) in order to be eligible for import permits. Clearing agents must register with the Lesotho Revenue Authority (LRA) and submit a bond of between M 25,000 and M 50,000 on the basis of the Customs and Excise Act 1982. The LRA was established in 2001, as an autonomous body, to strengthen tax administration and increase revenue collection; it became operational on 1 January 2003.[48] The LRA is principally responsible for the assessment, collection, and remittance of all taxes due, in order to provide funding for delivery of goods and services.

59. All goods brought into Lesotho are subject to customs control. The declaration form used is the Single Administrative Document (SAD), introduced in 2006 in the context of the Southern African Development Community (SADC). The SAD applies to all imports and exports regardless of their origin or destination. Goods imported into Lesotho from within the SACU, are cleared (for VAT collection purposes) at the land borders (all shared with South Africa), the international airport or the parcel post; these goods are not subject to customs duties. In general, goods imported from outside the SACU pass through South Africa. Customs clearance on SACU imports takes only a few minutes as they are processed instantly on submission of declaration documents; non-SACU imports take two days to clear.

[48] The LRA was established by an Act of Parliament in 2001 to incorporate the functions of the income tax, customs and excise, and sales tax departments, previously under the Ministry of Finance.

60. In November 2006, the LRA commenced the Customs Trade Programme (CTP), aimed at, *inter alia*, computerizing customs systems, in collaboration with the South African Revenue Service (SARS).[49] Once fully implemented, the CTP will be a major step towards the establishment of a one-stop border arrangement with SARS. The LRA is also taking steps to tackle smuggling and tariff evasion in Lesotho. The main form of evasion concerns the importation of second-hand motor vehicles (mostly from Japan and Singapore), through misclassification and undervaluation (double invoicing). To reduce smuggling, controls have been tightened and courses have been provided for customs officials under the auspices of WCO/WTO. Nonetheless, further technical assistance is needed in this regard (Chapter II(4)(ii)).

61. Visitors from Botswana, Namibia, South Africa and Swaziland are not permitted to bring liquor into Lesotho. Goods provided in the context of foreign aid to the Lesotho Government, or as part of technical assistance programmes, are exempted from duties. There are also provisions for duty rebates on goods imported for use by the Government. There are no other duty or tax concessions provided on imports beyond those granted by all SACU member states (Main Report, Chapter III(3)).

62. The LRA is responsible for registration for tariff concessions or rebates, and for control of eligible goods. Importers must lodge a bond guarantee to cover the duties on rebatable goods; it takes at least one month for refunds to be paid to exporters.

63. VAT was introduced in Lesotho on 1 July 2003[50], to replace the general sales tax (GST).[51] The LRA administers the VAT, which is applicable on goods and services, whether locally produced or imported.[52] There are four rates of VAT: 14% (the standard rate) on most goods and services; 15% on all alcoholic beverages and cigarettes; 5% on electricity and telephone services; and zero on certain goods (e.g. maize and pulses) as well as exports of goods and services (except exports of diamonds for which the VAT rate is 14%). VAT is levied on all imports based on the c.i.f. price, plus duties and storage fees on board. VAT does not include storage fees at destination. The following goods and services are exempted from VAT: education; financial services; passenger transport services; public postal services; supply of unimproved land; leasing or letting of immovable property (for manufacturing purposes); water supply; supplies to diplomats and diplomatic missions upon identification; sales or transfer of second-hand motor vehicles already registered in Lesotho; services of doctors and dentists; sporting activities (non professional); cultural activities; supply of charity arrangements; and sale/lease of residential property.

64. Under Lesotho's Customs and Excise Act No. 91 of 1964 as amended, customs regimes are classified into imports for home use, inward processing, temporary imports, and warehousing. For imports under free circulation or home use, Customs examines the import declaration, and customs and excise duties, as well as VAT, are collected before the goods are released. Imports for manufacturing purpose, processing or repair before re-export, are relieved of applicable duties and

[49] The first phase of the CTP, completed in 2007-08, involved the computerization of the State Warehouse in Maseru, and the intra-SACU trade at the five commercial border posts (Maseru Bridge, Maputsoe Bridge, Caledonspoort, Qacha's Nek, and Van Rooynens Gate). The CTP is also aimed at improving efficiency at the border posts and enabling the effective sharing of information between LRA and SARS (Lesotho Revenue Authority, 2008).

[50] Value Added Tax Act No 9 of 2001, as amended by Act No. 6 of 2003. The Act is complemented by VAT Regulation No. 95 of 2003.

[51] The GST *ad valorem* rate was 10%; 20% was charged on alcoholic beverages; and 5% on electricity and telecommunications. Major exemptions included exports, inputs used in exports, and capital goods (WTO, 2003).

[52] Sales by private individuals and some small traders are not normally subject to VAT. All businesses with turnover above the M 500,000 threshold must register as VAT taxpayers. Below this threshold registration is voluntary.

taxes.[53] For temporary imports, i.e. for re-export in the same state, a security fee is lodged by the importer (the security is refunded once Customs is satisfied that the goods have been exported).[54] Warehouse facilities are available and may be used to store imported goods without payment of duties or taxes for a maximum of seven days until required for use or re-export.[55]

65. Applied customs tariffs, excise duties, valuation methods, origin rules, and contingency trade remedies are, to date, the only trade policy measures harmonized throughout SACU (Main Report, Chapter III).

(ii) Import prohibitions and licensing

66. Import prohibitions are applied on illegal drugs; ammunition and dangerous weapons, including swords, cutlasses, bayonets, daggers, and certain knives with cutting edges of 30 cm or more; and blasphemous material, indecent or obscene works; articles of an inflammatory nature; certain flora and fauna; and counterfeit coins or notes.

67. All goods imported into Lesotho from outside the SACU area require an import permit. In general, Lesotho's import permit system aims to monitor imports of goods and guarantee a statistical database. Imports and exports from and to all sources (including SACU), of all agricultural produce, except cereals and cereals products, require a permit under the Agricultural Marketing Act of 1967.[56] Import permits on other products are issued by the MTICM. Special permission is required from the Ministry of Health for the importation of brand and generic named sera, vaccines, and drugs for human and veterinary use. Lesotho maintains no import quotas.

(iii) Government procurement

68. A new government procurement regime entered into force on 1 January 2007, on the basis of the 2007 Public Procurement Regulations. [57] The Procurement Policy and Advisory Division (PPAD), under the Ministry of Finance and Development Planning (MFDP), is the regulatory body with overall responsibility for the development of Lesotho's public procurement regime.[58] Individual ministries, districts councils, state-owned enterprises, and other government bodies have their own procurement units. Each of these "contracting authorities" now operates its own tender panel as the Central Tender Board was abolished in December 2006.[59] Each tender panel is responsible for the public opening of tenders and for the decision on the award of contract.

[53] There is a time limit for imports under inwards processing, but this may be extended for certain reasons, such as expiry before the goods are ready to be re-exported. This procedure is mostly used for textile and clothing products.

[54] The security is equal to the value of the taxes payable on the goods if they were imported permanently. Temporary importation is common for machinery used for construction-related projects.

[55] All imports in contravention of any laws administered by Customs are stored in State warehouses. However, goods may be deposited into the State warehouse pending fulfilment of customs formalities. Goods may remain within the State warehouse for up to three months, then may be disposed of according under the Customs and Excise Act.

[56] Cereals (except wheat) and products thereof have been deregulated since 1996. See also WTO (2003), Chapter III(2)(ii).

[57] Legal Notice No. 1 of 2007. In addition, the Procurement Manual and the Government Code of Good Practice Procurement have been issued.

[58] The PPAD aims to secure legality, rationality, efficiency, and transparency in the implementation of public procurement, while providing contracting authorities and the business sector with policy advice, guidance, and assistance (Article 6 of Legal Notice No. 1 of 2007).

[59] The Central Tender Board, an independent statutory body, was under the responsibility of the Minister of Finance (WTO, 2003).

69. In general, government procurement of goods, services, and contracts in Lesotho involves one of three methods: (i) direct purchase for goods and services up to M 30,000; (ii) three quotations from three different providers for goods and services between M 30,000 and M 100,000; and (iii) the open tender method for goods and services above M 100,000.[60] However limited tendering[61], the comparison method[62], or non-competitive procurement may be used in certain circumstances.[63] Foreign suppliers are entitled to participate in any tender process.

70. The invitation to tender must be made available publicly, through the mass media and on the procurement unit's website, on the issue date.[64] The submission deadline for tenders is a minimum of 30 working days from the date of initial announcement. Except in direct tendering, the procurement unit invites the successful tenderer to enter into a contract; if the tenderer declines a contract, its tender security will be forfeited and the unit will offer the contract to the second most favourable tenderer.[65] The procurement unit must offer tenderers a debriefing, after which a waiting period of 30 working days is required, to allow any aggrieved bidder may lodge a written complaint.

71. Under Article 12 of Legal Notice No. 1 of 2007, in evaluating proposals, the procurement unit grants a margin of preference of: (i) 15% to a "Basotho business" (the majority of directors are Lesotho nationals, and the majority of shares or ownership is held by Lesotho nationals) with a majority shareholding of at least 51%; (ii) 10% to (a) a business owned between 30% and 50% by Lesotho nationals, (b) a tenderer bidding to supply goods of Lesotho origin, (c) a tenderer performing at least 50% of the contract in Lesotho and using and developing the capacity of Basotho staff, (d) a tenderer subcontracting at least 50% 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 labour; and (iii) 5% to a business owned between 10% and 30% by Lesotho nationals.

72. Lesotho is neither an observer nor a member of the Plurilateral Agreement on Government Procurement.

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[60] For goods, works or services above M 100,000, a tender security of 1% to 2% of their tender price is required from tenderers. A legal entity of Lesotho may submit a bank guarantee and government treasury bonds, while a foreign legal entity may submit a guarantee from a Lesotho or a foreign bank, government treasury bonds, or securities authorized by the Government. The registration fee for participating in procurements above M 100,000 is between M 2,000 and M 5,000 depending on the complexity of the tender documentation (Schedule 1 of Legal Notice No. 1 of 2007).

[61] Limited tendering is applied when a limited number of suppliers are capable of executing complicated goods, works or services requiring high qualification, expertise, equipment, and technology; or the requirement can only be secured from the single source due to ownership of exclusive design rights or patents. There must be convincing reasons for competition to be avoided (Article 34 of Legal Notice No. 1 of 2007).

[62] Under the comparison method, a contractor is selected by comparing prices for low value products and services; the contractor offering the most economic advantages is selected. The procurement unit must document the prices offered by the different contractors to justify the selection (Article 35 of Legal Notice No. 1 of 2007).

[63] Non-competitive contracting may only be used in certain cases, such as those involving patents and intellectual property rights (Article 36 of Legal Notice No. 1 of 2007).

[64] The tender documents and invitation to tender must be prepared in either of the official languages; where Sesotho does not have technical terms to convey the requirement accurately, English can be used.

[65] In the absence of a second most favourable tender, the unit must seek permission from PPAD to adopt the direct contracting method of procurement.

(iv) Standards and other technical requirements

73. Lesotho does not have its own Bureau of Standards, and continues to rely on the South African Bureau of Standards for its needs. A draft law on the establishment of a standards bureau, submitted to the government law office at the time of the previous review is still under discussion. Under the SADC, harmonization of standards and technical regulations is in process (Main Report, Chapter III(5)). Lesotho is the only country within SADC without any metrology infrastructure. The Weights and Measures Order of 1970 and the Weights and Measures (Metrological Supervision) Regulations of 2007 aim to provide the legal framework for the establishment of the basic metrology infrastructure covering the regulation of weighing instruments used for trade, the labelling and sale of goods, and the use of legal units of measurement.

74. The Standards and Quality Assurance Department, within the MTICM, was established in 2004 as a SADC initiative. It is the enquiry point to the WTO TBT Agreement.[66] Its main objectives are to promote fair trading practices, contribute to consumer protection, enhance the competitiveness of Lesotho's products through quality and productivity improvement, and promote adoption and application of national, regional, and international standards. The department is a subscriber member of the International Organization for Standardization (ISO)[67], the focal point for SADC efforts on standards and quality assurance management, and the contact point for the WHO/FAO Codex Alimentarius Commission. Through an FAO project, the department has established a food control system and microbiology laboratory. It has also been instrumental in preparing standards and food control bills. Lesotho has not yet accepted the TBT Code of Good Practice.[68]

75. In respect of sanitary and phytosanitary regulations, the key provisions covering livestock are Proclamation 57 (1952) – Importation of livestock and livestock products; the Stock Diseases Proclamation (Amendment) 1954; and the Stock Diseases Regulations of 1973. In addition, proclamation No. 10 of 1957 states that animals or animal products may be imported or exported only under a permit issued by the Department of Livestock Services to a person designated by the Department. The Stock Diseases (Amendment) Act of 1984 is targeted at preventing the introduction of and spread among livestock in Lesotho of any disease that is specified in the regulations. It regulates the importation of livestock from outside the country and controls the movement of livestock within the borders of Lesotho. The Act also provides for the notification of disease outbreaks within the country and gives power to the Minister of Agriculture to appoint inspectors to carry out inspection of livestock. Under this Act, inspectors can detain, isolate, test, inoculate, remove, brand, dip, or remove livestock, and levy charges on livestock owners.

76. The Agricultural Marketing (Distribution of Dairy Products) Regulations 1992 (Legal Notice 241 of 1992) empowers the Lesotho National Dairy Board to issue permits to dairy producers and processors and to charge a levy on all invoiced products. Lesotho accepts certifications by veterinary authorities of exporting countries.

77. Lesotho currently maintains import prohibitions on grounds of avian flu and classical swine fever. A health certificate is required upon importation of animal and animal products.

[66] WTO document G/TBT/ENQ/34, 30 October 2008.

[67] ISO subscriber membership has been established for countries with very small economies. Members in this category pay reduced membership fees that allow them to maintain contact with international standardization (ISO online information, "Subscriber members". Viewed at: http://www.iso.org/iso/about/iso_members/subscriber_members.htm).

[68] WTO document G/TBT/CS/2/Rev.14, 20 February 2008.

78. Lesotho has not yet notified its enquiry point nor its national notification authority to the WTO SPS Committee.[69] Lesotho is a member of Codex Alimentarius, and the World Organization for Animal Health (OIE).[70]

(v) Other measures

79. Lesotho has never used countertrade or offset arrangements. It does not maintain any arrangements with foreign governments or enterprises designed to influence the quantity or value of goods and services exported to Lesotho, or any surveillance measures on imports. Lesotho has never imposed trade sanctions except under United Nations resolutions. Lesotho does not currently have compulsory reserve stocks.

(3) MEASURES DIRECTLY AFFECTING EXPORTS

(i) Registration and taxes

80. Lesotho's registration procedures are set out in the Export and Import Control Act No. 16 of 1984. Exports that require certification of origin must be declared to the Customs Office, which operates a one-stop shop for registration, licensing, and export processing. Customs only verifies compliance with the requirements as there are no duties or taxes applicable to exports. The only special export registration or documentation requirements relate to exports of diamonds, for which the exporter must obtain an export permit and pay export duties (Chapter IV(3)). Firms seeking to benefit from the country's export credit scheme must be registered with the MTICM and approved by the Central Bank of Lesotho.

(ii) Export prohibitions, controls, and licensing

81. Some livestock and livestock products are subject to export controls.

82. Only licensed diamond dealers or producers, or their accredited agents, may export diamonds.

(iii) Export subsidies and assistance

83. Lesotho has no general export subsidy scheme. However, there are provisions for rebates or refunds of import duty paid on raw materials/components used as inputs in goods for export. Except for diamonds, exports are not subject to VAT.

84. The Export Finance and Insurance Scheme, administered by the Central Bank of Lesotho (CBL), covers against commercial and political risks, rather than just export finance. It applies to large, medium-sized and small exporters, but large exporters may be assisted only if they establish linkages with small and medium-sized exporters.[71] The exporter is expected to put up collateral for the uninsured component of the lending.[72]

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[69] WTO document G/SPS/GEN/27/Rev.18, 1 October 2008.

[70] WTO document G/SPS/GEN/49/Rev.8, 9 October 2007.

[71] Under the scheme, 50% of the loan to the exporter is guaranteed. Under the Export Development Fund (EDF), small and medium-sized local exporters are guaranteed up to 50% of their export loans, and export finance and insurance are guaranteed. See WTO (2003).

[72] The security may comprise the exporter's assets, irrevocable letters of credit, any bills insured by the buyer's bank or advance payments or any other form of security that may be agreed upon between the bank and the exporter.

85. The Trade Promotion Unit (TPU), within the MTICM, is responsible for supporting manufacturers' and exporters' endeavours to market their products outside Lesotho. TPU was established in 1978 to promote, coordinate and develop Lesotho's foreign trade with a view to accelerating its full industrial and agricultural potential. TPU offers technical assistance and advice to Lesotho's trade sector, promotes and publicise its exports abroad, undertakes research and studies on specific exportable products, and assist foreign buyers. The Unit also facilitates participation of local manufacturers and exporters at regional and international trade fairs and exhibitions. The Government provides marketing assistance, but does not provide direct financial support for costs associated with trade fair participation.

(iv) Other measures

86. Lesotho has no legal provisions for export processing zones, although several studies have been undertaken by the MTICM. In practice, all regions of the country are treated as an export processing zone, since all duties on imports are rebated in full for goods used in export production.

87. Lesotho does not maintain any voluntary export restraints.

(4) MEASURES AFFECTING PRODUCTION AND TRADE

(i) Incentives

88. The only tax concessions and interest rate subsidies are still associated with the Comprehensive Export Financing Scheme.[73] Investors in the mining and quarrying sector are offered some incentives, such as exemption from taxes on capital items during mine evaluation and construction, and from withholding taxes on dividends and interest payments (Chapter IV(3)).

89. Lesotho maintains no specific incentives for regional development.

(ii) State trading, state-owned enterprises, and privatization

90. Lesotho has pursued its privatization programme, under World Bank auspices, on the basis of the 1995 Privatization Act[74], and the 1997 Privatization Regulations. Under the Act, the Privatization Unit (PU) was established in the Ministry of Finance to: reduce the budgetary burden on the Government and release funds for other essential expenditures; inject capital, technology, and managerial skills through private-sector participation and by enhancing management and supervisory structures in the case of retained enterprises; eliminate the administrative burden of Government participation in commercial activities and services which can best be undertaken by the private sector; develop entrepreneurial skills among Lesotho citizens; provide adequate compensation and relevant retraining opportunities for any retrenched workers; facilitate technical partnerships with foreign investors where essential for the enhanced management and performance of formerly state-owned enterprises (SOEs) or parastatals; and increase efficiency and growth of the economy. The PU monitors individual privatization projects on a regular basis to judge whether various objectives have been realized. In pursuing privatization, the Government is also advised by the Private Sector Advisory Committee (PSAC), comprising Government, trade unions, women's associations, and private-sector representatives.

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[73] WTO (2003).
[74] Act No. 9 of 1995.

91. In prioritizing SOEs, the Government is committed to reform at least four parastatals a year.[75] There remain a considerable number of SOEs, the largest being the Lesotho National Development Corporation (LNDC) (Chapter IV(4)).[76]

92. The privatization methods envisaged are: (i) public offer of shares; (ii) private placement; (iii) trade sale through competitive bid; (iv) sale of assets; (v) management/employee buyout; (vi) management contract, lease, and concession; (vii) joint-venture; and (viii) capitalization (Table AIII.1). Table AIII.2 shows the privatizations since 1995 and the methods used, indicates the shareholding structure of the privatized enterprises, the companies in the privatization portfolio, as well as the companies recommended for liquidation. As required by the Privatization Act, proceeds from the privatization programme are deposited in special accounts held at the CBL. These funds may only be used for private-sector development.

93. Lesotho has not made any notification to the WTO regarding state-trading enterprises. Nonetheless, some SOEs and joint ventures such as Lesotho Electricity Company (LEC) and Lesotho Highlands Water Development Project (LHWDP) are still operating under monopoly or hold exclusive rights (Chapter IV(3)(ii)).

(iii) Competition policy and price controls

94. Lesotho currently has no competition policy. Nonetheless, under the Privatization Act it is envisaged that the Government will use privatization to introduce competition in all areas of the economy and reduce monopolistic behaviour. Competition will be created by separating monopoly producers into competitive business units and selling these separately (when this is possible), and by allowing market entry by substitutes, imports, or similar (or same) products supplied by different producers.[77] Where the local market is not sufficiently large[78], some monopolies will be privatized as monopolies. After privatization, the Government will perform a regulatory oversight role for the privatized enterprise to ensure that the national interests are protected from unfair commercial measures.

95. Some laws in Lesotho (e.g. Price Control Act No. 25 of 1974; Hotels and Restaurants Act No. 11 of 1984; and Export and Import Control Act No. 16 of 1984), appear to encourage and promote anti-competitive practices, such as abuse of dominant position and restrictive agreements or arrangements. The Government is in the process of enacting legislation on consumer protection.[79]

96. Over the last few years, some legal cases on competition issues have arisen in Lesotho. In 2006, an investigation by the MTICM revealed restrictive practices (agreement between firms with

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[75] The reform priorities are firms that: offer scope for reducing the need for support from the Treasury; require major capital investment that the Government is unlikely to raise without private-sector participation; offer scope for improved profitability but are constrained by a lack of skills or of ready access to markets for their products; and firms that are known to be attractive to private sector investors and could therefore generate both revenue and momentum for the privatization effort.

[76] The LNDC, originally established in 1967, is 90% owned by the Government and 10% by the German Finance Company for Investments in Developing Countries (DEG).

[77] Where it is not in the national interest to create competition in the market by privatizing the underlying assets (e.g. mail delivery, telecommunications, water delivery and sewerage systems, and power generation facilities), the Government will pursue other options to create competition by contracting certain aspects of the operation of the entity to the private sector or by granting contracts to the private sector to build, operate and then transfer to the Government new assets, such as power generation stations.

[78] For example, a cement company, which produces a non-transportable commodity for which the market is too small to support more than one producer.

[79] Makara (undated).

respect to prices to reduce competition) by the biggest bakeries in Lesotho. The MTICM intervened and introduced minimum and maximum bread prices pursuant to the Price Control Act No. 4 of 1979.[80]

97. Oil products and electricity are subject to price control to maintain prices at affordable levels. The Fuel and Services Control Act of 1983 (No. 23 of 1983) gave the Minister responsible for water, energy, and mining broad powers to regulate the supply and price of fuel, including electricity.

(iv) Intellectual property protection

(a) Overview

98. Lesotho's intellectual property legislation has not changed since its last Review in 2003.[81] The Registrar General's office in the Ministry of Law and Constitutional Affairs is the focal point for all intellectual property issues.

99. Lesotho is a signatory to the WIPO Convention; the Paris Convention on Industrial Property; the Berne Convention on Literary and Artistic Works; Article 3 bis of the Madrid Convention on Registration of Marks; the Rome Convention on Protection of Performers; and Patent Cooperation Treaty. Lesotho is also a member of the African Regional Industrial Property Organization (ARIPO).

100. As a least developed country, Lesotho is not required to notify its legislation under the WTO TRIPS Agreement until 1 July 2013.[82] Lesotho benefits from the waiver for least developed countries in respect of the obligation under Article 70.9 of the TRIPS Agreement (protection of existing subject matter).

101. The Government has established an interministerial committee to review intellectual property issues and the TRIPS Agreement. It comprises representatives of the Ministry of Law and Constitutional Affairs; MTICM as the focal point for all WTO issues; Ministry of Agriculture and Food Security; Ministry of Science and Technology; and the Lesotho Association of Inventors.

(b) Patents, industrial designs, trade marks, and utility models

102. The Industrial Property Order (IPO) of 1989, as amended in 1997, covers patents, industrial designs, marks, collective marks, trade names including marks "well known in Lesotho", and utility models. Patents are granted for 15 years, extendable by five years; industrial design marks for five years, extendable for two successive periods of five years; and trade mark rights for ten years, extendable for consecutive periods of ten years. Utility model certificates are not extendable. The IPO of 1989 provides for compulsory licences. There are no explicit restrictions on parallel imports since they are not covered under the IPO.

(c) Copyright and related rights

103. Copyright protection covers works of Lesotho-based resident authors, and works first published in Lesotho regardless of the nationality or residence of their authors; performers who are nationals of Lesotho, and performances taking place, fixed in a phonogram or broadcast in Lesotho; performers, phonograms, and broadcasts originating in foreign countries prescribed by the Minister of Law and Constitutional Affairs; unpublished works and works first published by foreign authors or in

[80] Price Control (Minimum and Maximum Bread Price) Legal Notice No. 143 of 2008.
[81] WTO (2003).
[82] WTO document IP/C/40, 30 November 2005.

foreign countries if the country in question grants similar protection to Lesotho; and expressions of foreign folklore, foreign authors, performers, phonograms, and broadcasts.

104. The IPO defines the substance of copyright as the economic and moral rights of the author of a protected work (original or derivative). Works are protected for the life of the authors plus 50 years; cinema and audiovisual works for 50 years from the making of the work or its communication to the public. Other provisions include authorization and contract for the use of works, use of works in the public domain, expressions of folklore, neighbouring rights, authorization by performers, protection of phonograms, and other relevant procedures. The Order created a Society of Authors and Artists and a register (and registrar) of works, and established civil remedies and sanctions, including fines and imprisonment.

(d) Geographical indications, integrated circuits, and new plant varieties

105. A Bill on geographical indications, based on the WIPO Model Law, has received Government approval and is before Parliament. Conditions for protection of integrated circuits and undisclosed information are under discussion, as is legislation on new plant varieties, on the basis of the UPOV Model Law. Lesotho has no specific legislation concerning genetically modified organisms, although it has accepted GM foodstuffs as part of food aid.

(e) Enforcement

106. The IPO contains provisions for both civil and criminal remedies for owners of patents and other rights, including fines ranging up to M 10,000 and imprisonment for up to ten years or both. Lesotho still has fragmented laws dealing with enforcement of IPR and lacks well trained law-enforcement officials. Lesotho encounters many IPR enforcement difficulties, notably pirated and counterfeit goods, mostly related to the music industry, such as CDs and DVDs. According to the authorities, an IPR coordination unit on enforcement is to be established.

107. Lesotho requires technical assistance on IPR issues, including for training of officials and amendment of its legal framework (Chapter II(4)(ii)).

IV. TRADE POLICIES BY SECTOR

(1) OVERVIEW

108. Lesotho's economy remains dependent on subsistence agriculture. It is a net importer of agricultural products, notably wheat, maize, sorghum, potatoes, and pulses; it also relies on foreign food donations. The National Action Plan for Food Security 2007-17 is aimed at achieving food security and reducing poverty in rural areas by, *inter alia*, improving farm productivity through intensification, diversification, and commercialization of farming systems; and promoting sales of agricultural produce. Agriculture in Lesotho is threatened by various factors, notably drought.

109. Mining and quarrying in Lesotho have been revived with the reopening of diamond mines since 2004. Nevertheless, reductions in the price of rough diamonds combined with increased production costs for energy and the global economic downturn have recently affected the sector. In an attempt to attract foreign and local investors to the sector the Government offers a number of incentives. Development of exports of water to South Africa through the Lesotho Highlands Water Development Project (LHWDP) has contributed significantly to Lesotho's foreign earnings.

110. Manufacturing is the staple contributor to the growth of Lesotho's formal GDP, and the textiles and clothing is the key subsector. Lesotho is eligible for the African Growth and Opportunity Act (AGOA) and is counted as a lesser developed beneficiary country. Nonetheless, exports of garments and apparel to the United States have fallen over the last few years. The Industrialization Master Plan 2007-10 is being implemented, with the private sector expected to be the main engine of growth and the Government creating an enabling environment.

111. Services, notably tourism, makes up a crucial component of Lesotho's overall policy of economic diversification. The Government is promoting the development of the sector, and several state-owned enterprises (SOEs) have been privatized, such as Lesotho Bank and Telecom Lesotho. Fixed-line and mobile telecoms services in Lesotho are currently offered by Telecom Lesotho, while VodaCom Lesotho only provides mobile services. Lesotho is implementing its Transport Sector Policy, which sets out a strategy for achieving an efficient, cost effective, and safe subsector.

(2) AGRICULTURE AND RELATED ACTIVITIES

(i) Main features

112. Agriculture employs around 57% of Lesotho's labour force, mostly on the basis of subsistence farming[83]; provides livelihood to over 70% of its population; and contributes about 15% to export earnings.[84] Some 25% of Lesotho's land area has potential for agricultural development.[85] Smallholder farmers dominate production, with farms averaging 1.9 ha.[86] Agricultural practices mainly comprise draught animal power for seedbed preparation, manual husbandry operations,

[83] Subsistence farming, based on mixed farming of crops and livestock, is the most common form of farming. Some (small-scale) commercial farming has gathered momentum recently, as commercial farmers lease land from the small holders on a seasonal/annual or long-term basis. The Government sees commercial farming as one of the avenues for increasing agricultural production and household food security. Commercial farmers involved in market-oriented production account for about 10% of total output (FAO/WFP, 2007).

[84] Encyclopedia of the Nations online information. Viewed at: https://www.nationsencyclopedia.com/economies/Africa/Lesotho-AGRICULTURE.html.

[85] The inaccessible mountain region makes up more than 60% of the country. Approximately 40% of Lesotho's population are landless, and 70% of the plots are share-cropped informally (IMF, 2008b).

[86] Encyclopedia of the Nations online information. Viewed at: https://www.nationsencyclopedia.com/economies/Africa/Lesotho-AGRICULTURE.html.

on-farm produced inputs, and household labour. Lesotho is a net importer of agricultural products, notably wheat, maize, sorghum, potatoes, and pulses[87]; it also relies on foreign food donations. Major imports include tobacco products, maize flour, chicken meat, sheep, cattle, milk, maize, apples, refined sugar; its main exports are wool, maize flour, cattle, vegetables, hides, and horses. Lesotho produces about 30% of its total food requirements; South Africa supplies approximately 70% of Lesotho's food imports.

113. As a result of the worst drought in the last 30 years, the sector is estimated to have registered an annual growth rate of -39.3% in 2007 (-1.9% in 2004, -1.7% in 2005, and 1.7% in 2006).[88] Drought reduced the production of maize to less than half the previous year's crop: only 72,000 tonnes of cereal was produced. A third of Lesotho's boreholes and wells, and many small dams and reservoirs on which livestock and gardens depended, dried up; and around 30% of the population needed humanitarian assistance. In July 2007, the Government declared a state of emergency and requested international assistance; as part of its own national emergency response, it spent US$19 million, of which US$12 million were allocated to large cash-for-work projects through land reclamation, and US$6 million to agricultural activities.[89]

114. Crop production, mostly rain-fed and characterized by low input, accounts for 70% of the agricultural GDP.[90] The total area under cereal cultivation has declined over the past few years, with only some 10% of Lesotho's 30,000 km^2 classified as arable. Because of traditional customs, many farmers grow maize and sorghum, though these are not the best crops for Lesotho's conditions; as a result, land productivity is declining. There is a need to find crops that suit the country's soil types and weather.

115. Livestock production contributes 30% to Lesotho's agricultural GDP.[91] The majority of rural households own livestock, mainly cattle, sheep, and goats; many also have a horse, donkeys, and chickens. Much of Lesotho's terrain is suited to animal production, although the subsector has suffered from drought in recent years. While livestock production is a substantial contributor to rural income, and the only revenue source at higher elevations, the uncontrolled animal numbers have had an adverse effect on rangeland and water resources. There have been some improvements in terms of controlling grazing systems (rotation of grazing areas to allow growth) and patterns, which have resulted in proper numbers (only a certain number of animals is allowed for a certain area) per grazing area and vegetal cover.[92]

116. Lesotho is one of the least forested countries in Africa; forest cover is very fragmented as neither the arid lowlands nor the colder highlands favour tree growth. Forest and other wooded land represent around 1.3% of total land area (down from 3.6% in 1990 and 2% in 2000).[93] Planted forest trees, mainly eucalyptus, covered about 7,000 ha in 2005 (2.5% of the total area under arable

[87] Lesotho imports up to 65% of its annual maize requirements and 80% of its annual wheat needs (FAO online information, "Aquastat: Lesotho". Viewed at: http://www.fao.org/nr/water/aquastat/countries/lesotho/index.stm).

[88] Lesotho's agriculture is highly vulnerable to chronic drought. In 2007, there was a combination of extremely high temperatures and low rainfall (IMF, 2008b).

[89] UNOCHA (2007).

[90] FAO/WFP (2007).

[91] FAO/WFP (2007).

[92] FAO online information, "Aquastat: Lesotho". Viewed at: http://www.fao.org/nr/water/aquastat/lesotho/index.stm.

[93] FAO online information, "Forestry country profiles: Lesotho". Viewed at: http://www.fao.org/forestry/18308/en/lso.

production). Almost all sawn wood and other industrial forest products are imported; there are no exports of forest products.

(ii) Policy developments

117. The Ministry of Agriculture and Food Security (MAFS) is responsible for the overall running of the sector, such as formulating policies and providing advisory services to farmers. Lesotho's key policy objective for agriculture is food security. To achieve this, agricultural production and marketing policies are being moved away from a highly regulated inward-looking strategy, towards a liberalized outward-oriented market environment within an integrated regional economy.[94] Maize-driven food self-sufficiency is being replaced by a policy that promotes the interest of farmers and facilitates the growth of a sustainable, efficient, and competitive sector that reflects comparative advantage, such as certain vegetables and fruits. The key elements of this policy include: development of a national land policy, intensification of agricultural production, a block farming approach for grain, horticulture, and fruit trees, and strengthening and decentralization of the extension service.[95]

118. The National Action Plan for Food Security 2007-17, launched in October 2006, is aimed at achieving food security and reducing poverty in rural areas by, *inter alia*, improving farm productivity through intensification, diversification, and commercialization of farming systems; and promoting marketable sales of agricultural produce.[96] The objective is to improve food security by, *inter alia*, increasing maize production to 140,000 tonnes, and wheat and sorghum output to 30,000 tonnes each in order to reduce the proportion of households with food insecurity from 36% to 32% within three years. In addition, some vegetables and fruits have been identified for diversification, such as various types of squash, green beans, broccoli, apples, paprika, asparagus, and cherries. The cost of the plan is estimated at US$435 million.[97]

119. Agriculture is also a key priority in Lesotho's Vision 2020 and its Poverty Reduction Strategy (PRS): both documents identify increased agricultural productivity and sustainable food security as one of the country's primary challenges. The objectives, set by the Information and Communication Technology (ICT) Policy for Lesotho[98], include improved agricultural productivity, protection of investment of livestock farmers and prevention of disease spread, better access to agri-related information for farmers and other stakeholders, linking rural agricultural producers to markets, and monitoring the sustainable utilization of natural resources in agricultural production. The ICT can also be used to improve crop planning and forecasting, and to track and locate livestock throughout the country.

120. Among the key challenges envisaged in Lesotho's PRS 2004/05-2006/07 are: (i) adopting appropriate farming policies, with focus on crop diversification and substitution; (ii) encouraging

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[94] Until the mid 1990s, the Government participated directly in producing, marketing, and processing most agricultural inputs and outputs, thereby limiting private-sector involvement in these activities. The policy measures included protection for local farmers from foreign competition, subsidies on inputs, and intervention by Government marketing output (WTO, 2003).

[95] IMF (2008b).

[96] The plan also aims to enhance the nutritional and health status of the most vulnerable (particularly those living with HIV and affected by the AIDS epidemic). The UN system, under the leadership of FAO, is helping the Government in resource mobilization for the plan.

[97] FAO/WFP (2007).

[98] The ICT Policy paper, published in March 2005, was formulated by the Ministry of Communications, Science and Technology as a tool to enable Lesotho to achieve its development goals stipulated in its Vision 2020 and PRS documents (Kingdom of Lesotho, 2005).

field crops in agri-ecologically suitable areas; (iii) exploring opportunities for block farming, especially in lowland areas; (iv) introducing improved agricultural technologies; (v) developing appropriate irrigation; (vi) incorporating agri-forestry practices into all scales of farming systems; (vii) strengthening and decentralizing extension services; (viii) ensuring an efficient and standardized land tenure system; and (ix) encouraging appropriate animal husbandry and fodder production, including the introduction of milk goats and indigenous poultry. Targets were set to bring cereal crop production from the base level of 185,000 tonnes to 200,000 tonnes; increase crop yields for maize, sorghum, and wheat; almost double the irrigated area; and reduce by one third the share of households with food insecurity, and increase livestock product exports (wool and mohair).[99]

121. Lesotho's soil conservation programme is one of the most advanced in Africa; it uses terracing, grass stripping, and the construction of dams and irrigation canals. Nonetheless, the vulnerability of much of the land to soil erosion and the continuing soil degradation, associated with the region-wide process of desertification, are key factors in food insecurity. Several UN agencies are involved in soil conservation programmes, but there is a growing recognition that low farm productivity cannot be solved solely through soil conservation measures, improved seed, and chemical fertilizers. The MAFS sees irrigation as a key avenue for increased agricultural production and household food security, as it would enable farmers to intensify and diversify their crop production base.[100]

122. Land in Lesotho traditionally belongs to the people; the King, as Head of State, is responsible for allocating land on behalf of the nation. The 1979 Land Act grants Village Development Councils authority to administer allocation of arable land to individuals by issuing a permit, which guarantee exclusive rights for a specified period; these licences do not constitute officially registered title. The 1992 Land Regulation (Agricultural Lease) allows for 90 year-leases on land, but this is rarely applied to agricultural holdings.[101] The drafting of a Land Bill to replace the 1979 Land Act was initiated in 2002, and the Bill is to be finalized in 2009. The legal and institutional aspects of the Bill cover the broad land tenure conditions necessary for successful farming and urban-based livelihood and economic activity.[102]

123. As part of its response to the state of famine declared in 2002, the Government introduced block farming (to encourage commercial farming within the sector), and a crop input subsidy scheme, with the objective of increasing the purchasing power of farmers and enabling them to recover from the crisis, while ensuring that all fields in the country were ploughed, fertilized, and planted. All farmers were entitled to seed, fertilizers, and machinery at subsidized rates; the quantities were based on field size. Seeds and fertilizers were subsidized at 50% and distributed to farmers either for payment in cash or on a credit basis. Field machinery operations (e.g. ploughing, cultivating, and planting) were also subsidized 50% (100% subsidy upfront with 50% repayment at the end of the season). Funds distributed for the provision of machinery and the purchase of seed and fertilizers amounted to more than US$7.5 million. According to the World Bank, "the programme was untargeted, operated on a first come first serve basis, was fiscally unaffordable, had an adverse private sector impact on fertilizer and seed distribution, encouraged production in marginal lands and perpetual farmer dependency".[103] The provision of input subsidies was to end in 2005/06 as it largely failed to contribute to the subsector's productivity.[104] However, due to the 2006/07 drought and subsequent crop failure, the Government provided a 30% subsidy on agricultural inputs and a 20%

[99] Kingdom of Lesotho (undated).
[100] FAO/WFP (2007).
[101] FAO online information. Viewed at http://www.fao.org/DOCREP/005/AC849E/AC849E00.HTM.
[102] World Bank (2004).
[103] World Bank (2004).
[104] Central Bank of Lesotho (2005).

subsidy on grains.[105] A food price subsidy was available, from 1 October 2007 to 31 March 2008, on selected food items, including maize meal, fresh and sour milk.[106] Input fairs, a system through which households are provided with vouchers for the purchase of seed and other agricultural inputs from local vendors, have also been organized in areas of highest vulnerability.[107]

124. The 2008/09 Budget provides guarantees of M 105 million to farmers for "block farming" to purchase inputs, lease machinery, and for ploughing. An Agricultural Development Fund is being considered for continued assistance to farmers, and a supplementary budget is being assessed, to provide M 40 million for a cash-for-work programme that reclaims land due to soil erosion. Moreover, the Government is evaluating a programme to boost food production over time and provide additional relief to the poor. It includes scaling-up input subsidies for "block farming" and irrigation development, and broadening eligibility for this assistance.[108]

125. Pursuant to the 1984 Export and Import Control Act, as amended in 1996, permits are required for imports of agricultural products from countries other than SADC members. Permits are granted by the Ministry of Trade and Industry, Cooperatives and Marketing (MTICM) and are valid for 12 months. Non-tariff measures apply to agricultural products imported from South Africa (fresh vegetables).[109] According to the authorities, this is in order to manage local supply. A permit system applies to all consignments imported from non-SACU members. Manufacturers can obtain a "blanket permit" valid for 12 months and an additional grace period of 3 months.

126. In recent years, Lesotho has undertaken structural reforms in the agriculture sector, including removal of price subsidies and import controls on maize and wheat produce in favour of market-determined prices. However, the 1967 Agricultural Marketing Act continues to control imports of bread, legumes, sugar, eggs, meat, dairy products, fruits, and vegetables. With the exception of eggs, sugar, and legumes, import restrictions allow a limited exemption for consumer purchases outside the country. The Department of Marketing, under the MTICM, monitors local production of consumer goods and issues import licenses for goods that are in short supply.[110]

127. Availability of finance and credit is a constraint to agricultural development, since rural family incomes do not generate enough surpluses for investment in working capital. The risk involved in dry-land agriculture and the high cost of credit to scattered small farmers in remote areas discourages banks from investing in agriculture. Before its collapse in August 2000, Lesotho Agricultural Development Bank provided agricultural credits; its closure made crucial the development of an appropriate institutional framework to address the provision of financial services for farming communities largely dependent on agriculture. The involvement of the financial sector was needed for a successful agricultural diversification and privatization strategy.[111] Since 2005, the Central Bank of Lesotho has undertaken several activities including on sensitization campaigns, monitoring, and facilitation of operations under the Rural Savings and Credit Scheme.[112]

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[105] USTR (2008).

[106] *Afrol News*, "Lesotho launches price subsidy campaign", 25 October 2007. Viewed at: http://www.afrol.com/printable_article/27054.

[107] The system is considered more effective than providing input subsidies, since most farmers do not have any cash, and is also used during droughts.

[108] IMF (2008a).

[109] WTO document G/LIC/N/3/LSO/1, 6 June 2008.

[110] USTR (2008).

[111] Kingdom of Lesotho (2006).

[112] Central Bank of Lesotho (2007).

128. The privatization of agricultural enterprises is being implemented under the Privatisation Act of 1995 and the 2000 Agricultural Sector Adjustment Programme. The objective is to eliminate the fiscal burden on Government and to improve efficiency. All state-run agricultural enterprises have been advertised. However, privatization in the sector has moved very slowly, mainly because the local private sector does not have the resources to purchase enterprises.[113]

129. In November 2007, the UN International Fund for Agricultural Development (IFAD) launched a US$8.7 million programme aimed at helping about 37,000 poor rural households in Lesotho through, *inter alia*, better access to capital for investment purposes.[114] Other programmes financed by the IFAD and the Lesotho Government aim to increase farmers' incomes through better use/management of natural resources, improved agriculture and livestock production techniques.[115]

130. Lesotho's agriculture is relatively open to external influence, principally from South Africa. Where the Government of Lesotho does not restrict imports, price trends and changes in South Africa directly affect prices in Lesotho. Thus, there is a strong direct link between prices in South Africa and Lesotho and a direct interdependence of trade policies. As an LDC, Lesotho enjoys duty-free, quota-free market access to the markets of most developed countries and certain developing countries. According to the authorities, however, Lesotho has not been able to benefit owing to the stringent rules of origin applied.

131. The simple average applied MFN tariff in agriculture (ISIC Rev.2 definition) is 3.7%, with rates ranging from zero to 44% (Main Report, Table AIII.2). Specific, mixed, and variable (formula) duties apply mainly to agricultural products (Main Report, Chapter III(3)(i)).

(iii) Selected subsectors

(a) Cereals

132. Lesotho's annual domestic cereal production averages around 110,000 tonnes, i.e. about 30% of its annual cereal requirements, estimated at 360,000 tonnes. Crop production is a high-risk, low-yield activity due to poor soil quality and a harsh climate. Mono-cropping predominates throughout the country and accounts for about 90% of areas planted with cereals. Sharecropping offsets the constraints related to access to land, labour, and farm inputs. A good portion of current crop production is uneconomical, requiring farmers to cross-subsidize production from other sources of income. Lesotho's cereal production is around 27 kg per person, far below the FAO standard of 180 kg. Lesotho produces around 30% of the total food required to feed its population in a normal year.[116] MFN tariffs on cereals average 0.5%, with rates ranging up to 5% (Main Report, Table AIII.1).

133. Maize constitutes some 80% of the rural diet, and accounts for some 60% of the cropped area; sorghum accounts for between 10% and 20%, wheat for about 10%, and beans for a further 6%. Imports of maize represent 60-65% of national requirements.[117] Beans and peas, important field

[113] FAO/WFP (2007).

[114] *UN News Service*, "Lesotho: UN Agriculture Fund Announces $8.7 Million Programme for Support", 7 November 2007. Viewed at: http://allafrica.com/printable/200711070727.html.

[115] Other UN Agencies are also active in Lesotho to alleviate the consequences of recurrent droughts and increasing land degradation, which are among the major causes for food insecurity and famine. Among the programmes intended to make the country less dependent on precipitation, are several dam projects and efforts to restore agricultural productivity and infrastructure.

[116] FAO/WFP (2007).

[117] FAO/WFP (2007).

crops, are grown extensively, largely for home consumption, but also for cash (Table IV.1). Other crops include potatoes, sunflower, pumpkins, citrus, fruit trees, groundnuts, lentil, oats, barley, alfalfa for dairy cows, and other vegetables. Sunflower, soya beans, and potatoes grow well in Lesotho, but have no market in the country.[118]

Table IV.1
Main crops, 2002-07

Commodity	2002/03	2003/04	2004/05	2005/06	2006/07
Maize					
Area planted (hectares)	137,583	129,435	120,012	180,078	190,598
Share harvested (%)	92.65	98.60	93.58	93.72	90.35
Production ('000 tonnes)	85.03	81.00	100.72	100.82	72.64
Average yield (100 kg/hectare)	6.18	6.26	6.60	5.11	..
Sorghum					
Area planted (hectares)	26,441	29,378	30,646	42,175	48,190
Share harvested (%)	95.32	99.37	96.88	81.61	84.66
Production ('000 tonnes)	11.95	11.48	18.53	11.33	7.82
Average yield (100 kg/hectare)	4.52	3.91	6.00	1.59	1.90
Wheat					
Area planted (hectares)	15,999	16,031	11,795	10,367	17,546
Share harvested (%)	45.27	98.37	88.27	99.81	98.23
Production ('000 tonnes)	19.2	11.65	2.05	1.98	1.55
Average yield (100 kg/hectare)	8.19	7.27	1.70	5.11	0.89
Beans					
Area planted (hectares)	12,363	6,261	11,467	30,975	33,781
Share harvested (%)	90.35	136.88	76.62	89.57	88.14
Production ('000 tonnes)	3.70	4.83	2.46	0.75	1.31
Average yield (100 kg/hectare)	2.99	5.22	2.15	0.24	0.39
Peas					
Area planted (hectares)	5,462	3,275	2,709	2,038	1279
Share harvested (%)	85.01	92.00	96.94	66.64	98.91
Production ('000 tonnes)	1.30	1.50	0.95	0.88	0.25
Average yield (100 kg/hectare)	3.98	5.53	3.37	4.31	1.96

.. Not available.

Source: Information provided by the Lesotho authorities.

134. In an attempt to source grain for its national feeding programme from local farmers and avoid the high transport costs and grain prices in the region, the World Food Programme (WFP) promotes a new approach of conservation agriculture, whereby the soil does not have to be ploughed.[119] The methodology is being spread to farmers living in the most insecure areas and has a beneficial effect on local communities.[120] The Government supports the effort, with a US$4 million budget to subsidize larger producers using conservation agriculture techniques. NGOs have also been popularizing intensive, no-dig horticulture plots as a way of increasing vegetable production; plants grown include leafy vegetables, root vegetables, legumes, and onions.[121]

[118] FAO/WFP (2007).

[119] Minimizing disturbance of the topsoil helps to protect it from Lesotho's heavy rains and preserve organic matter. Where possible, planting holes are covered with compost.

[120] In 2007, the WFP was able to buy over 7,000 tonnes of surplus maize directly from farmers, which saved around US$45 per tonne compared with grain bought from South Africa.

[121] See *African Agriculture*, "No-tillage farming improves yields, reduces soil erosion in Lesotho", 16 July 2008. Viewed at: http://africanagriculture.blogspot.com/search/label/Lesotho).

(b) Livestock

135. Livestock theft seriously affects Lesotho's farming communities, in terms of household assets and seasonal land preparation practices. Stock Theft (Livestock Registration and Markings) Regulations were made in 2004 under the Stock Theft Act of 2000. The regulations established the office of the Registrar of Livestock, whose duties include keeping a register of livestock, marks, stock numbers and groups, their identification, location and movements, grazing areas, livestock owners, and herdsmen. This function has since been transferred to the Ministry of Home Affairs.[122]

136. Despite cases of theft and pasture degradation, from 2004/05 to 2005/06 cattle numbers increased from 677,214 to 729,327; sheep from 984,177 to 1,041,313; goats from 768,332 to 821,717; and pigs from 111,699 to 135,266. There were also 348,104 cows; 40,250 horses; 153,716 donkeys; 1,969 mules; 196,171 dogs; and 70,000 chicken.[123] Unlike in the previous drought years, the effects of the 2007 drought on livestock were minimal. Cattle exports have traditionally accounted for around one third of agricultural exports and a number of projects are under way to improve the cattle herd for stock rearing. Lesotho also exports wool and mohair, each of which contribute around 30% to total agricultural exports. The national abattoir in Maseru, which created the capacity for meat exports to the regional market, is to be privatized due to management problems. Meat imports include mutton, beef, pork, and chicken.[124]

137. Standards of production, storage, packaging, processing, and distribution of dairy products are set out by the Lesotho National Dairy Board, which also grants or withdraws permits for production, processing, and distribution. The MTICM is exploring ways to maximize the production potential of the poultry and dairy sub-sectors.

138. Imports of live animals and products of animal origin are duty free, while the tariff rate is 17.4% for meat products and 23% for dairy products (Main Report, Table AIII.2). Pursuant to Legal Notice No. 196 of 1991, a livestock importation levy is collected by the Department of Livestock Services of the Ministry of Agriculture and Food Security (when import permits are issued, to cover printing costs). The rates levied are M 39 and M 15 for each head of large and small stock, respectively (for private persons); M 10 for meat in bulk quantities; and M 7.50 and M 3.75 for each head of large and small stock, respectively (for licensed butchers).[125]

(c) Forestry

139. The Ministry of Forestry and Land Reclamation (MFLR) is responsible for the overall administration of the subsector and provides, *inter alia*, services in forestry, soil and water conservation, range resources, and management and nature conservation to address the problem of land degradation.[126]

140. Under the current National Forestry Policy, adopted in 1997, communities play a major role in forestry management. Tree ownership is in the hands of the individual or group who planted the tree, according to the 1998 Forestry Act, which also empowers the authorities (currently the MFLR) to transfer ownership of trees, forest plantations or indigenous forests/woodlands to groups or individuals for a certain number of years. The Government has initiated wood-lot development; the

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[122] Central Bank of Lesotho (2007).
[123] Lesotho Bureau of Statistics online information. Viewed at: http://www.bos.gov.ls.
[124] Lesotho Bureau of Statistics online information. Viewed at: http://www.bos.gov.ls.
[125] IMF (2008b).
[126] Government of Lesotho online information, "Ministry of Forestry and Land Reclamation". Viewed at: http://www.lesotho.gov.ls/forestry.

project also involves development of a forest policy[127], establishment of a forest service, and provision of plants for conservation purposes.[128]

141. The indigenous vegetation at the Masitise National Reserve, the Sehlabethebe National Park, and the Tsehlanayane Nature Reserve is under protection. The importance of protection provided by the forest against land degradation, and the use of shrub and tree planting in land reclamation is growing, given the severe land erosion in the mountainous and hilly areas as a result of heavy grazing. Very little is done in the rural areas to enforce conservation of indigenous trees and forest patches, and due to aggressive wood collection for cooking, warmth, and home construction trees do not reach commercial size.[129]

142. MFN tariffs on forestry products average 4.3%, with rates ranging up to 25% (Main Report, Table AIII.2).

(3) MINING, WATER, AND ENERGY

143. Mining and quarrying accounted for 7.6% of Lesotho's real GDP in 2006 (up from almost zero up to 2003), while water and electricity contributed 7.2% (up from 6.8% in 2003) (Table I.1). The Ministry of Natural Resources is responsible for coordinating development and operational activities in mining, quarrying, energy and water. Specific programmes and projects are carried out by its departments (Geological Survey, Mines, and Water Affairs) and parastatals, notably the Lesotho Electricity Company (LEC). The average MFN tariff in mining and quarrying (ISIC Rev.2 definition) is 0.8%, with rates ranging from zero to 10% (Main Report, Table AIII.2).

(i) Mining

144. Mining and quarrying in Lesotho were revived with the reopening of the diamond mine in Letseng in 2004.[130] This was followed by the opening of diamond mines in Liqhobong (2006), Kao (2007), Mothae (2006), and Kolo (2006).[131] As a result, diamond production rose from 45,378 carats in 2005 to 216,446 carats in 2008.

145. Exports of diamonds represented 13.1% of total merchandise exports in 2006 (up from 0.1% in 2003). The reduction in the price of rough diamonds, combined with increased production costs for energy, has reduced earnings in the industry; together with the global economic downturn, this is

[127] FAO (2003).

[128] DTI online information, "Economic overview: Lesotho". Viewed at: http://www.thedti.gov.za/econdb/raportt/lesothoOverview.html.

[129] Few people in rural areas are connected to the nation's electrical grid, and wood is the only affordable fuel source.

[130] The Letseng mine remained abandoned after De Beers ceased operations in 1982. The mine is now owned by Gem Diamonds from the United Kingdom (70%), and by the Lesotho Government (30%). Letseng doubled its plan capacity from 50,000 carats in 2004 to 105,000 carats in 2009 (Gem Diamonds online information, "Our business: Our Operations: Lesotho: Letseng". Viewed at: http://www.gemdiamonds.com/b/o_ls_letseng.asp). In 2006, the fifteenth largest diamond in the world was found in the Letseng mine. It weighed 603 carats, and was sold for US$12.4 million (Central Bank of Lesotho, 2007).

[131] Kopane Diamond Developments, from the United Kingdom, owns 75% of Liqhobong Mining Development Company (LMDC), the licence holder and operator of the project; the Lesotho Government owns the remaining 25% (*Rapaport News*, 1 December 2008).

expected to affect exports of diamonds significantly. Some mines have either delayed their planned expansion projects or stopped operating, while awaiting a significant injection of new funds.[132]

146. Remittances by Basotho workers employed in mining in South Africa fell from around 90% of GDP in the early 1980s to less than 50% by the beginning of the 1990s, and 31.3% in 2008. The number of Lesotho workers in South Africa's mines fell from 127,000 in 1990 to around 52,000 in 2008.[133]

147. Other than diamonds, Lesotho's mining sector produces limited amounts of coal, galena (sulphite of lead), quartz, agate, sandstone, and uranium. Clay is extracted for manufacture of bricks, quality ceramics, and tiles.

148. The Mines and Minerals Act No. 37 of 2005, which replaced the Mining Rights Act No. 43 of 1967, deals, *inter alia*, with the allocation of prospecting and mining licences and leases, transfer and revocation of mineral titles, granting of incentives to local and foreign investors, conditions for possession of and dealing in rough or uncut precious stones or unwrought precious minerals, and limitation of output, control, and disposal of precious stones. It also established the Commissioner of Mines and Geology and the Mining Board.[134] The Commissioner, *inter alia*, must keep and maintain a register of all mineral concessions issued under the Act. The Board, *inter alia*, investigates, negotiates or consults in all mineral right concessions. Trade in precious stones is regulated by the Precious Stones Order No. 24 of 1970.

149. Under the Constitution, all rights of ownership in minerals are vested in the Basotho nation. On the basis of the Mines and Minerals Act, the Board issues prospecting licences, mining leases, and mineral permits for any mineral other than diamonds (Table IV.2), provided the applicant (national or foreign) has adequate financial resources, technical competence and experience, and makes proper provisions for environmental protection. The holder of a mineral right must give preference to citizens of Lesotho in terms of employment, use products and equipment made in Lesotho, as well as services available in the country.[135]

150. The Government offers a number of incentives to attract investors to the sector. Mining companies, local or foreign, are, *inter alia*, exempted from taxes on capital items during mine evaluation and construction, and there are certain exemptions from withholding taxes on dividends and interest payments. Under the Mines and Minerals Act No. 37 of 2005, the Government requires payment of a 10% royalty on precious stones (previously 8%) and 3% on other minerals or mineral products.[136]

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[132] In December 2008, Kopane Diamond Developments announced it was suspending production at Liqhobong due to the current economic crisis, which has caused diamond prices to fall between 30-50% since October 2008 (*Rapaport News*, 1 December 2008).

[133] Central Bank of Lesotho (2008).

[134] The Board consists of: the Principal Secretary of the Ministry of Natural Resources (the chairman), the Commissioner, the legal officer of the Ministry of Natural Resources, a representative of the Ministry of Finance, two other members with knowledge and experience in mining matters, appointed by the Minister, and a representative of the Chamber of Commerce (Article 11 of the Mines and Minerals Act No. 37 of 2005).

[135] Article 11 of the Mines and Minerals Act No. 37 of 2005.

[136] Royalty is defined in the Act as the gross sale value receivable at the mine gate. The Minister may, in the public interest, remit all or part of any royalty payable on any mineral product for a period he/she may determine. Failure to pay royalties is punishable by a fine of not less than M 50,000 or imprisonment for not less than one year or both.

Table IV.2
Mining licences, permits, and leases, 2009

	Prospecting permit	Mining lease	Mineral permit
Area			
	Not more than 25 km^2 Reduced by not less than half of the initial area at the end of the first term	Not defined	Not more than 100 m^2
Duration			
	Initially for up to two years, renewable for up to one year	Initially for up to ten years, renewable for ten years	Initially for one year, renewable for another year
Fee			
	M 5 per km^2 or part thereof, subject to a minimum of M 500 for industrial minerals and M 1,000 for all other minerals	M 100	M 0.05 per km^2
Holder's main obligations			
	Start operations within three months or such further period as the Minister may allow, from the date of issue of the licence Notify the Commissioner of the discovery of any mineral within 14 days Take all reasonable steps to secure the safety, welfare and health of the persons employed Submit to the Commissioner every financial year an audited report and statement of the expenditure incurred Keep a full record on, *inter alia*, any geographical or geophysical data, minerals discovered, and persons employed	Start operations on or before the date referred to in the programme of mining operations as the date by which work for profit is intended Submit a diagram of the mining area Keep a complete technical record of the operations or a copy of all maps and geological reports Permit an authorized officer to inspect the books and records Furnish the Board with a copy of the annual audited financial statements within six months of the end of each financial year In the case of mining lease for diamonds, a government representative is required to oversee the operations	Submit a report to the Commissioner, each financial year Submit a report of the production in the preceding year and its value Submit a brief description of the plant, vehicles, and equipment Submit an average number of employees during the preceding year
Government shares or investment			
	Not defined	The Government may, through the Ministry of Natural Resources, acquire not less than 20% shareholding in a proposed mine	Not defined

Source: Mines and Minerals Act No. 37 of 2005.

151. Under the Precious Stones Order, only licensed diamond dealers or producers, or their accredited agents, may export diamonds. Exporters of diamonds must apply for an export permit and pay export duties (Chapter III(3)(i)). Exports of diamonds are subject to VAT (Chapter III(2)(i)).

(ii) Water and energy

152. The development of water exports to South Africa, through the Lesotho Highlands Water Development Project (LHWDP), has contributed significantly to Lesotho's foreign earnings, as well as creating a major destination for FDI into Lesotho since 1986.[137] The Water and Sewerage Authority (WASA), established in 1991 as a parastatal, aims to provide satisfactory water and sewerage services to the population.[138] From the sale of electricity and water to South Africa,

[137] The LHWDP, a joint venture between Lesotho and South Africa, was initiated in 1986 to supply water to South Africa, especially to Gauteng province, and to meet domestic power needs in Lesotho (WTO, 2003).

[138] Lesotho Water and Sewerage Authority Order No. 29 of 1991. WASA provides safe drinking water to over 45,000 connections plus some 400 standpipes, serving over 200,000 people out of a total population of around 2 million. It also serves industries and commercial premises (WASA online information. Viewed at: http://www.wasa.co.ls/about.php).

Lesotho's royalties increased from US$11.6 million in 2002 to US$32.4 million in 2008. Water consumption has increased over the last few years on account of, *inter alia*, the ongoing Maseru Peri Urban Water Supply Project.[139]

153. Rural and urban households are responsible for some 80% of Lesotho's total energy consumption. About 85% of households do not have access to grid electricity, and almost 70% of all households use biomass fuels as their main source of energy, reflecting the poverty of the country and the scale of the subsistence sector. Petroleum accounts for 80% of the remainder, with coal (all imported from South Africa) and electricity the other main sources of energy consumption. Renewable energy currently plays a small role in terms of total energy consumed, but this is expected to change in the near future; solar energy electrification is being introduced in three districts.

154. All petroleum products are imported from South Africa; there are three depots in Maseru with storage capacity of approximately six days of petroleum supply. Lesotho has no known oil or gas deposits. The supply and pricing of petroleum products in Lesotho and the other SACU countries is coordinated by the Interstate Oil Committee (IOC); pricing in Lesotho is the responsibility of the Minister of Natural Resources, but powers have been delegated to the Petroleum Fund Board. The Board is responsible for setting the pump prices of diesel and petrol, and the wholesale price of illuminating paraffin.[140] Over the last few years, there has been an increase in the consumption of liquefied petroleum gas (LPG). Although the supply and price of LPG is not controlled, its importation in quantities greater than 100 kg is limited to registered wholesalers or retailers according to the Liquefied Petroleum Gas (Trade and Handling) Regulations of 1997. LPG prices vary significantly throughout Lesotho, and the authorities intend to establish a national price regulation mechanism taking into account the different transport costs.[141]

155. The Department of Energy, under the Ministry of Natural Resources, formulates medium- to long-term energy plans, and develops policies and strategies for the subsector. The main goal for the subsector is to make energy universally accessible and affordable in a sustainable manner, with minimal negative impact on the environment. The Electricity Act No. 7 of 1969 was repealed and replaced by the Lesotho Electricity Act of 2002. The LEC has sole responsibility for the transmission and distribution of electricity.[142] The LHWDP is responsible for electricity generation and for exporting water to South Africa.

156. Electricity demand in Lesotho is met through purchases (72 MW) from Muela Hydropower Station (owned by the LHWDP) by the LEC, with the remaining demand in peak periods (about 18 MW) being met by purchases from Eskom in South Africa and recently from Mozambique. Electricity is being supplied to end-users through a system of transmission and distribution lines operating at various voltages of 132 kV or lower.[143] Lesotho is an operating member of the Southern Africa Power Pool. It is also a signatory to the SADC Energy Protocol.

[139] Central Bank of Lesotho (2007).

[140] There four pricing zones based on the distance from the nearest depot inside and outside Lesotho; each zone has a transport differential (Lesotho Electricity Authority, undated).

[141] Lesotho Electricity Authority (undated).

[142] Privatization Act (approved privatization scheme for Lesotho Electricity Corporation) Notice 2004. Viewed at: http://www.lesotho.gov.ls/articles/2004/Ad_LEC_Privatization.htm.

[143] In the mountainous eastern areas of the country, electricity is supplied either by one of four mini-hydro plants with diesel-powered back ups also operated by LEC, or by separate 22kV interconnectors to the South African grid (Privatization Act (approved privatization scheme for Lesotho Electricity Corporation) Notice 2004. Viewed at: http://www.lesotho.gov.ls/articles/2004/Ad_LEC_Privatization.htm).

157. The Lesotho Utilities Reform Project, financed by the World Bank, the African Development Bank, the EU, and the Government of Lesotho at a cost of about US$40 million, aims to restructure the subsector to improve and expand the delivery of electricity in Lesotho. The restructuring process has involved: (i) updating legislation that governs electricity and the establishment of an independent sector regulator in 2002, the Lesotho Electricity Authority (LEA), to ensure efficient services, with maximum outreach, and competitive prices[144]; (ii) improve the managerial, technical, commercial, and financial performance of the LEC in preparation for eventual privatization (Table AIII.2)[145]; and (iii) recruitment of a Sales Advisory Group to help draft secondary legislation to supplement and enable implementation of the new electricity legislation.

158. During 1993-03, electricity tariffs in Lesotho remained unchanged. As part of the subsector reforms, electricity target tariff levels were determined, on the basis of a study by consultants, so as to encourage the LEC to improve efficiency, minimize the financial impact on domestic consumers, and minimize the (implicit) subsidy required for as long as tariffs are below the target levels. A three-year phase-in was adopted: on 1 January 2004, there was an initial increase of 18% on electricity for all domestic and general purpose consumers, with subsequent increases at the start of 2005 and 2006.[146] On 1 April 2008, tariffs for electricity, water, and public transportation were increased in line with higher international energy prices and the increase in price of imported electricity from South Africa. The electricity tariff was increased again in November 2008 mainly due to the restructuring of the LEC. Electricity tariffs are set by the LEC.

159. Imports of electricity are duty free.

(4) MANUFACTURING

160. Manufacturing remains the main contributor to Lesotho's formal GDP growth; and textiles and clothing comprise the main element in manufacturing growth and trade.[147] In August 2006, there were 44 manufacturers in Lesotho employing 47,466 people, and projections were 54 firms would be employing 54,347 people by January 2007. Over 80% of firms operating in Lesotho's manufacturing sector are foreign, half of them from Chinese Taipei, and 23% from South Africa. Locally-owned firms are mostly micro, small, and medium enterprises (SMMEs).[148] Around 95% of manufacturing firms export their products, about two thirds to the United States, and one-quarter to South Africa.[149]

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[144] Lesotho Electricity Authority Act No. 12 of 2002. The LEA has exclusive authority to regulate the subsector, and all licensed operators. It can also regulate prices charged to consumers, and the charging methods, where these are not competitive.

[145] LEC is to be restructured through the concession method: 70% of LEC's shares will be offered to investors (under concession) at a fixed price, with the government retaining the remaining 30%; and the initial concession will be for 20 years, with subsequent concessions of 15 years. This method aims to ensure that the Government retains long-term control over electricity assets, while achieving the benefits of private-sector investment and expertise in the LEC (Privatization Act (approved privatization scheme for Lesotho Electricity Corporation) Notice 2004. Viewed at: http://www.lesotho.gov.ls/articles/2004/Ad_LEC_Privatization.htm).

[146] Privatization Act (approved privatization scheme for Lesotho Electricity Corporation) Notice 2004. Viewed at: http://www.lesotho.gov.ls/articles/2004/Ad_LEC_Privatization.htm.

[147] Lesotho's manufacturing sector emerged in the early 1980s when South Africa-based clothing manufacturers relocated to Lesotho in order to avoid the sanctions imposed because of the apartheid regime (WTO, 2003).

[148] In Lesotho, a micro-enterprise has less than three workers; a small enterprise employs 3 to 9 people; and a medium enterprise has between 10 and 49 people. In 2005, there were more than 100,000 SMMEs employing nearly 200,000 people (up from 59,650 SMMEs employing 82,567 people in 1990) (Ministry of Trade and Industry, Cooperatives, and Marketing, 2007).

[149] Ministry of Trade and Industry, Cooperatives, and Marketing (2007).

161. In May 2007, the Ministry of Trade and Industry, Cooperatives and Marketing unveiled its Industrialization Master Plan 2007-10 (IMP), aiming to further promote the manufacturing sector, create more employment, and help reduce poverty.[150] The private sector is expected to be the main engine of growth, with the Government facilitating the process by creating an enabling environment. The IMP envisages 29 specific measures to address obstacles: development of a centralized structure for formulating and monitoring industrialization policy, so as to address the lack of administrative coherence and failures in coordination; improvements in the investment-incentive regime; diversification of manufacturing activities; securing access to export markets through improvements in trade negotiating capacity; infrastructure development; improving the business environment; facilitating access to credit from commercial banks; promoting labour productivity; and developing SMMEs.

162. Under the IMP, the Government keeps to amend the 1979 Land Act to allow private investors to acquire leasehold and freehold titles in land designated for industrial use. This is to encourage private provision of industrial locations, and will also permit the use of land holdings as collateral for business loans. This is to address the problem of under-representation of Basotho enterprises in the industrialization process, which is due largely to their difficulty in raising credit from commercial banks.

163. The major parastatal enterprise is the Lesotho National Development Corporation (LNDC), whose purpose is "to initiate, promote and facilitate the development of manufacturing and processing industries, mining and commerce in a manner calculated to raise the level of income and employment in Lesotho." Its mandate to date has been limited to manufacturing and to a lesser extent commercial activities; this implies a bias towards encouraging the manufacturing sector as against others. The authorities are taking steps to redefine the LNDC's mandate to include the service sector. The LNDC's core functions include finance, investment promotion, monitoring and appraisal, legal services, technical services, and entrepreneurial development; in these matters, it works as a one-stop shop for investors.[151]

164. Tariffs on manufactured imports average 8.5%, with rates ranging up to 96% on some food products (Main Report, Table AIII.2).

Textiles and clothing

165. In 2006, around 41% of all manufacturing firms were textiles and clothing producers, employing 95.5% of manufacturing workers.[152] Lesotho mainly produces garments for the high-volume/low-value market, including top-weight knitted fabric products (notably T-shirts) and bottom-weight trousers/slacks (especially jeans) (Table IV.3). Exports of textile and clothing products represented 49.8% of total merchandise exports in 2008 (71.8% in 2003). Tariffs on textiles products average 19.4%, with rates ranging up to 60% (Main Report, Table AIII.2).

166. The United States accounts for more than 80% of Lesotho's export market for garments, with almost all exports (99.6% in 2006) benefiting from the AGOA preferential trade arrangement (duty-free/quota-free access). Moreover, as a "lesser developed beneficiary country", Lesotho is granted, until 2012, duty-free access for clothing manufactured from fabrics sourced in third-countries under AGOA's Special Provision. Nonetheless, the United States market is likely to become more

[150] The MPI was agreed between the Government and the World Bank under the Private Sector Competitiveness and Economic Diversification Project.

[151] The LNDC administers four serviced industrial estates, in Maseru, Thetsane, Maputsoe, and Ha Nyenye, as well as a factory building at Mafeteng.

[152] Ministry of Trade and Industry, Cooperatives, and Marketing (2007).

difficult for Lesotho exporters mainly because of increased competition and preference erosion. Another key challenge for Lesotho's textile and clothing subsector is to develop backward linkages in the domestic economy.

Table IV.3
Textile industry, 2007-09

Industry subsector	January 2007		January 2008		January 2009	
	Workers	Establishments	Workers	Establishments	Workers	Establishments
Knit garments	26,263	31	25,229	27	23,182	29
Woven garments	15,961	10	13,681	9	13,965	9
Fabric (denim) and yarn	1,155	1	998	1	816	1
Embroidery, screen-print, and home textile	705	8	769	7	842	7
Total	**44,084**	**50**	**40,677**	**44**	**38,805**	**46**

Source: Information provided by the Lesotho authorities.

167. Under the IMP, Lesotho will seek to diversify both its higher-value products (woven and knitwear)[153], and its markets, including in the EC on the basis of the ongoing EPA negotiations. The IMP will also promote Lesotho as a manufacturing location for the supply of regional markets. It will also seek to develop import-substitution activities, such as the provision of "findings" (buttons, zips, and garment components) for the textile and garment industries, will also be sought.[154]

168. Other manufacturing industries established in Lesotho include leather, food and beverages, consumer electronics, clay-based brick and ceramic tiles, television assembly, and edible oils. A total of 18 non-garment firms were employing 4.5% of workers in the sector in August 2006.[155]

169. According to the IMP, Lesotho's greatest relative comparative advantage appears to be in subsectors requiring labour-intensive assembly of imported components, such as electronic and electrical goods for regional markets, and the processing of local agricultural and mineral raw materials to add value in-country prior to export. Manufacture of generic medicines is also to be considered. The main outlets for non-textile exports are expected to be in regional markets in southern Africa.[156]

(5) SERVICES

170. The services sector accounted for 41.8% of GDP in 2006. Education services comprise the main segment (9.9% of total GDP); followed by wholesale and retail services (8.1%); financial intermediation (8%); public administration (6.8%); transport and communication (5.6%); and other services (3.4%). Lesotho is a net importer of services; its services trade deficit averaged US$37.7 million per year during 2003-08 (Chapter I(3)(i)).

171. Services, notably tourism, comprise crucial component of Lesotho's overall policy of economic diversification. The Government is promoting the development of the sector and

[153] Woven and knitwear products are required in relatively low volumes with very short delivery periods, thus making it difficult for producers in East and South Asia. Lesotho will consider the possibility of producing the high-quality fabrics needed for the manufacture of these items, possibly on the basis of imported grey cloth (Ministry of Trade and Industry, Cooperatives, and Marketing, 2007).
[154] Ministry of Trade and Industry, Cooperatives, and Marketing (2007).
[155] Ministry of Trade and Industry, Cooperatives, and Marketing (2007).
[156] Ministry of Trade and Industry, Cooperatives, and Marketing (2007).

private-sector participation is being encouraged; Lesotho has divested several state-owned enterprises (SOEs), such as Lesotho Bank and Telecom Lesotho (Chapter III(4)(ii)).

172. Under the General Agreement on Trade in Services (GATS), Lesotho scheduled sector-specific commitments across virtually all major service categories.[157] Under its horizontal commitments on market access, Lesotho specifies that there will be no limitations on cross-border supply, or on consumption abroad, of the 85 sectors or subsectors included in the schedule. However, measures affecting one or both of these modes of supply are unbound in 33 sectors or subsectors, and under "architectural services", the services of a locally registered architect must be utilized for building plans of 500 square metres or over. In respect of presence of natural persons, the Schedule binds the automatic grant of entry and work permits for up to four expatriate senior executives and specialized skill personnel "in accordance with relevant provisions in the laws of Lesotho", and states that enterprises must also provide training in higher skills for locals to enable them to assume specialized roles. Lesotho maintains no limitations on national treatment; however, as with market access, measures affecting the supply of certain services remain wholly or partly unbound.[158]

173. Lesotho has not yet tabled its initial conditional offer in the ongoing services negotiations. Speaking on behalf of the LDC Group, Lesotho has stressed that LDCs need to maintain their current flexibilities under the GATS; special consideration needs to be given to sectors and modes of export interest to LDCs, notably Mode 4; it has requested the operationalization of special priority for LDCs; and stated that LDCs should also be exempted from any disciplines, particularly on domestic regulation, given their weak regulatory capacities.[159]

(i) Financial services

174. Lesotho's financial services subsector is small and concentrated. It comprises three banks (all South African), one Post Office savings bank, and numerous non-banking institutions (NBIs), including around 800 domestically owned Savings and Credit Cooperatives (SCCOs), 6 insurance companies (mostly foreign-owned), and 12 insurance brokers. As a percentage of GDP, total assets of Lesotho's banks represented 40% at the end of 2006, while that of NBIs was 46.2%.[160]

175. The banking system, dominated by three South African commercial banks, is profitable, well-capitalized, and liquid; non-performing loans have recently increased but remain moderate.[161] In 2006, Standard Bank of Lesotho and Lesotho Bank merged to form a new bank, Standard Lesotho Bank Limited with shareholding by: Standard Bank of South Africa (80%), Lesotho Unit Trust (10.4%), and Government of Lesotho (9.6%).[162] The locally owned Kish City Bank was licensed as the first merchant bank in August 2006, but its licence was revoked in May 2008 by the Central Bank of Lesotho (CBL).[163] The bank's loan portfolio is concentrated on a few borrowers, with little finance offered to SMEs and households. The authorities have indicated that the ongoing strengthening of

[157] WTO document S/DCS/W/LSO, 24 January 2003.

[158] Concerning commercial presence, the schedule specifies that wholly foreign-owned enterprises must satisfy a minimum equity capital requirement of US$200,000, joint-venture companies must have a minimum foreign equity capital outlay of US$50,000 in cash or in kind, and that agency establishments must have authority to negotiate and conclude contracts on behalf of their foreign parent companies. Some restrictions are also placed on the issuance of shares by banks (WTO, 2003).

[159] WTO document TN/S/M/27 of 14 November 2007.

[160] IMF (2008d).

[161] IMF (2008a).

[162] Central Bank of Lesotho (2007).

[163] CBL also revoked the licences of two insurance brokers. No specific reasons were given, but Kish City Bank had not become operational (Economist Intelligence Unit, 2008).

Lesotho Postbank, together with ordered development of microfinance, would increase the population's access to financial services.[164]

176. Lesotho has some insurance companies that deal in long-term insurance business, and others that deal with short-term business; there is also a composite company. Insurance brokers deal with long- and short-term business. The main insurance business is compulsory motor insurance. There is one private insurance company, whose assets were around 15% of GDP at the end of 2006, while total assets of insurance companies represented 18% of GDP.[165] Almost all resident pension funds are managed by insurance companies. The Government is undertaking pension reform to switch from the current unfunded defined benefit plan to a pre-funded defined contribution plan. Lesotho does not have a stock exchange.

177. The main risk to the financial subsector seems to be the weakly supervised NBIs, notably savings and credit cooperatives (SCCOs) and informal investment schemes.[166] SCCOs have grown over the last few years in response to the high costs of using formal banking services and the low access to bank credit.[167] Total SCCO assets represented about 7% of total NBI assets at the end of 2006.[168] Most SCCOs offer savings accounts, investment deposits, cooperatives shares of certificates, and car and housing loans. The legislation on NBIs is being reviewed by the CBL (which at present has no jurisdiction in this area), with the intention of putting in place a sound regulatory framework.

178. The CBL regulates all financial institutions. It is not independent as its capital is owned and held exclusively by the Government and, it is both the banker and adviser to the Government in relation to monetary and financial questions. The Governor is appointed by the Minister of Finance, and the Bank's ability to issue securities, undertake exchange clearing operations with foreign financial institutions, and participate in any currency union (i.e. the CMA) is subject to government approval. Over the last few years, the CBL has focused on establishing a well functioning money market with sound operational and regulatory structures with the aim of providing a springboard for developing other market segments.[169]

179. The basic framework for financial services in Lesotho is contained in the Central Bank of Lesotho Act 2000[170], the Cooperatives Societies Act 2000, the Financial Institutions Act 1999 and related legal notices[171], the Money Lenders Order 1989, the Anti-Money Laundering Act 2008, the Building Finance Institutions Act 1976, and the Insurance Act 1976. The Insurance Act 1976 has been revised to comply with the International Association of Insurance Supervisors (IAIS) core principles and transfer supervisory powers (vested in the Minister of Finance and Development Planning), to the Commissioner of Insurance. This resulted in the Insurance Bill currently awaiting adoption by Parliament.

[164] IMF (2007c).
[165] IMF (2008d).
[166] These informal investment schemes, also known as pyramid or Ponzi schemes, have large and fast-growing liabilities, and pose significant risks of failure. The extent of the SCCOs operations, which by law are permitted to take deposits from non-members, is not well known (IMF, 2008a).
[167] Access to banking services is generally not available to certain segments of the population such as those living in rural areas or without steady incomes.
[168] IMF (2008d).
[169] There has been significant progress in the reform of the treasury bill market; new trading regulations have been introducted and the duration (tenor) lengthened to include 273 and 364 days treasury bills (IMF, 2008a).
[170] Act No. 2 of 2000.
[171] Act No. 6 and Legal Notices Nos. 110-113 of 1999.

180. Under the CBL Act of 2000, the Bank's functions include promoting the sound development of the financial system. The CBL acts as Commissioner of Financial Institutions under the Financial Institutions Act of 1999 and the Money Lenders Order of 1989, as Commissioner of Building Finance Institutions under the Building Finance Institutions Act of 1976, and as Commissioner of Insurance under the Insurance Act of 1976. It may set required reserve ratios to be held by financial institutions and impose penalties on financial institutions that fail to respect them. It may also set temporary conditions and restrictions on total credit, if this objective cannot be attained by other means.

181. Conditions for licensing and supervision of all banking and credit institutions are set out in the Financial Institutions Act of 1999. Institutions providing only insurance business in Lesotho are exempt. Any new bank or credit institution must be licensed by the CBL, acting as Commissioner of Financial Institutions. There is no limitation on foreign banks establishing branches or agents in Lesotho, as long as they fulfil the conditions of the Act. Financial institutions established in Lesotho must maintain minimum capital of M 10 million, or as prescribed by the CBL.

(ii) Telecommunications and postal services

182. Lesotho's telecommunications network has grown during the last few years, notably mobile phone services, which are key for the economic development of a small, mountainous country. Subscriber numbers in the mobile market jumped from 126,000 in 2003 to 581,000 in 2008, while the number of internet users rose from around 30,000 to about 73,300 (Table IV.4). At the end of 2008, the teledensity was 22.96 per 100 inhabitants, up from 8.95 in 2003.

Table IV.4
Selected telecom indicators, 2003-08

	2003	2004	2005	2006	2007	2008
Telephone subscribers ('000)	161.1	233.4	297.8	411.0	411.0	411.0
Telephone subscribers per 100 inhabitants	8.95	12.98	16.59	22.96	22.96	22.96
Main fixed telephone lines ('000)	35.1	37.2	48.0	53.1	53.1	53.1
Main fixed lines per 100 inhabitants	1.95	2.07	2.67	2.97	2.97	2.97
Cellular mobile subscribers ('000)	126.0	196.2	249.8	357.9	456.0	581.0
Cellular subscribers per 100 inhabitants	7.0	10.91	13.92	19.99	22.71	28.76
Internet subscribers ('000)	2.0	2.4	2.6	2.6	2.6	2.6
Internet subscribers per 100 inhabitants	0.11	0.14	0.14	0.14	0.14	0.14
Internet users ('000)	30.0	43.0	51.5	60.0	70.0	73.3
Internet users per 100 inhabitants	1.67	2.39	2.87	3.35	3.49	3.63

Source: ITU online information. "ICT Statistics Database". Viewed at: http://www.itu.int/ITU-D/icteye/Indicators/Indicators.aspx# [24 June 2009].

183. The Ministry of Communications, Science and Technology (MCST) is the policy maker for the subsector. The Lesotho Communications Authority (LCA) (formerly Lesotho Telecommunications Authority (LTA)), established under the Lesotho Telecommunications Authority Act 2000, is an autonomous and independent regulatory body with supervisory roles over all aspects of telecommunications development in Lesotho. Its duties are spelled out in the Act.[172] The LCA regulates the pricing of telecommunications services on the basis of proposals submitted by the operators. The LCA is awaiting legislation to regulate postal services.

184. Fixed-line and mobile telecoms services in Lesotho are currently offered by Telecom Lesotho, while VodaCom Lesotho (VCL) provides only mobile services. In November 2000, Lesotho

[172] Lesotho Telecommunications Authority Act 2000, Part III, paragraph 15.(2). See also WTO (2003).

Telecommunications Corporation (LTC) was privatized and renamed Telecom Lesotho (TL).[173] It was granted a five-year exclusivity period for the provision of fixed-line telecoms services, with specific targets against which performance was monitored by the LTA.[174] VCL had the monopoly over mobile services until June 2001 when TL was granted a cellular licence.[175] Lesotho has twelve radio stations, two television stations, and six internet service providers. Internet service providers were prohibited from trading in voice-over-internet telephony (VoIP) until 8 February 2006.

185. The regulatory system needs to address issues of interconnection. The current pricing structure for interconnection takes into account only costs directly attributable to interconnection plus a reasonable profit margin. A 2006 study recommended a phased reduction of interconnection rates over three years based on operators' costing information[176]; the fixed operator would pay a higher rate than the mobile operators. The network operators implemented the revised interconnection rates in July 2007 but failed to reduce the rates in July 2008 in line with the ITR study recommendations. Interconnection terms are agreed between operators, subject to approval by LCA. However, network operators contended that the LCA is not mandated to approve interconnection rates on the basis of the LTA Act 2000 (as amended). The parties agreed that the issue should be addressed through an arbitrator or under a new legislative framework currently being developed.

186. High-speed internet access is very limited throughout Lesotho, and internet service is expensive. As a result, the LCA established the regulatory framework for the provision of internet service aimed at reducing costs and make it widely available. The new system will allow internet service providers to set up infrastructure to access bandwidth from international sources. Previously, only two licences have been granted for provision of international internet bandwidth. The LCA plans to set up a new licensing regime to encourage more competition.

187. The LCA manages the licensing system for fixed and mobile telecommunications and has set out relevant fees under the (Licensing Fees) rules of 2008. Under section 48 of the LTA Act 2000 (as amended), LCA established the Universal Access Fund (UAF) to ensure that the network infrastructure and communications services are expanded throughout Lesotho, including in remote areas. The LCA commissioned a communications demand study in 2004 to help network providers by identifying commercially viable areas. It also aimed to bridge the efficiency-gap.[177] The LCA is implementing the universal access strategy with a view to addressing the access gap[178], and network operators' first contribution has been received . In addition, the LCA has put aside funds as seed capital to start the universal access fund, and will contribute 25% of its annual surplus funds towards the UAF.

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[173] The Government retained a 30% share in Telecom Lesotho, while the remaining 70% is owned by Econet Wireless International. Telecom Lesotho is also known as Econet-Telecom Lesotho.

[174] See WTO (2003).

[175] In November 2000, the Government's 12% shares in VCL were sold to a consortium of Lesotho investors.

[176] The study on Interconnection and Tariff Rationalisation (ITR) was funded by the World Bank through the Lesotho Utilities Sector Reform project.

[177] Efficiency gap is the difference between what markets are actually achieving and what they could achieve if regulatory barriers were removed and regulation were used to provide incentives (information provided by the Lesotho authorities).

[178] An access gap occurs when some areas or population groups are not served by the market without intervention, even if the market is operating efficiently and is fully liberalized (information provided by the Lesotho authorities).

188. Postal services in Lesotho are under the monopoly of the Department of Postal Services (DPS); it runs its own budget and is audited annually by the Government. Plans are under way to enact a law that would convert the DPS into a corporation. There are currently 47 post offices in Lesotho. Under the Lesotho Postal Act of 1979, postal services tariffs are determined by the Minister of Communications, Science and Technology.

(iii) Transport

(a) Overview

189. Transport, including the construction and maintenance of transport infrastructure, accounts for 7-10% of Lesotho's GDP. As a landlocked country, Lesotho is completely dependent on links through South Africa for road, rail, and air transport. Most of Lesotho's international trade passes through the port of Durban and continue by rail or road.

190. The Ministry of Public Works and Transport (MPWT) is responsible for the overall running of the subsector, including formulating policies, monitoring their implementation, and administering the institutional and legal framework. Some of the main challenges for the subsector include the lack of transport infrastructure and services, which isolates remote areas from access to health and education services; high transportation costs[179]; poor condition/maintenance of the infrastructure; and the high number of road accidents.

191. In light of these challenges, the MPWT published its Transport Sector Policy in 2006 with the aim of achieving an efficient, cost-effective, and safe subsector. Some of the proposed policies are to: ensure that roads and access routes are comprehensively and regularly maintained, rehabilitated when required, and extended in an efficient manner; encourage the private sector to invest in and manage public passenger and freight transport on a commercial basis; provide air transport infrastructure, including a fully equipped international airport; increase road safety; facilitate a safe and efficient rail transport; make available a safe and efficient inland water transport; and integrate the various modes of transport into complementary roles.[180]

192. Regional integration in transport has not been achieved although it has been planned for some time under the SACU Memorandum of Understanding of 1990 and the SADC Protocol on Transport, Communications and Meteorology 1996. These provisions have only been implemented in Lesotho for "tours" or special transit visits. Most passengers leaving Lesotho disembark from Lesotho-operated vehicles at the border, and after clearing border formalities, board foreign-owned vehicles for the onward journey.[181]

(b) Road transport

193. The transport system in Lesotho is based principally on road transport. The road network is about 7,438 km in length, of which 1,217 km are paved, 7,758 km are gravel roads, and 2,463 km are earth tracks. There are a number of different agencies involved in the construction and maintenance of roads, which has resulted in very little coordination, planning or cooperation. To address this, it

[179] Transport costs in urban areas, especially for low income earners, are estimated at 17-24% of total wages (Ministry of Public Works and Transport, 2006).

[180] Ministry of Public Works and Transport (2006).

[181] The process is reversed for the return (Ministry of Public Works and Transport, 2006).

has been proposed that a Roads Directorate be established under the direction of a Chief Executive Officer.[182]

194. The Road Fund, established by the Regulations issued under the Finance Act 1995, is only able to partially fund total-road maintenance budget requirements.[183] Under the Roads Act 1969, the Principal Secretary of the MPWT has been appointed the Road Authority by the Minister of Public Works and Transport.

195. Road passenger transport services are provided almost exclusively by private entrepreneurs, with the exception of some passenger services to remote areas in Lesotho, which are provided by the state-owned Lesotho Freight and Bus Services Corporation. Road transport is mainly governed by the Road Transport Act and Regulations 1981 (as amended), and by the Road Transport (Amendment) Act 2001[184], which set out the conditions for various permits issued by the Road Transport Board.[185] Tariffs for road passenger transport services are controlled by the Road Transport Board Regulation, under the Road Transport Act 1981; they are reviewed periodically, and are determined by the MPWT on the basis of the costs of operating the vehicle.

196. Road freight is key for Lesotho as every product and input delivered has to be transported for at least some distance by road. All freight is delivered or collected by road, while international freight is via road and rail. Freight transport by road requires a permit (A or B) issued by the Department of Transport and Traffic. Applications for freight transport permits, previously considered by the Road Transport Board, are now issued by the Office of the Commissioner, on behalf of the Board. Road freight transport is privately owned, with tariffs determined on the basis of market conditions. A major problem is the overloading of freight vehicles, which damages the road infrastructure, and create a safety risk. As a result, weighbridges have been installed at two border points (Maseru and Maputsoe), and weigh-points for use of mobile weighbridges are in place at other locations. Comprehensive axle-load control is essential in order to protect the road infrastructure, improve safety, and ensure a healthy freight transport subsector.[186]

197. Cross-border road freight transport into SACU countries is carried out under a SACU cross-border permit F, issued by the Office of the Commissioner. This permit authorizes the carriage of goods on any cross-border journey in the SACU region.

(c) Air transport

198. Lesotho has no national airline and no domestic air services.[187] All international air services are operated by South African Airlink, a subsidiary of South African Airways.[188] Ground handling of passengers is undertaken by South African Airways. Only three aircraft (excluding military planes) are registered in Lesotho. The Government provides all airport and aerodrome infrastructure.

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[182] The Roads Directorate would have operational autonomy and would be assisted by five directors in charge of the roads network planning, development, maintenance, quality assurance, and support services (Ministry of Public Works and Transport, 2006).

[183] The Road Fund receives income directly from various "road user charge" sources, and allocates such income to road agencies on the basis of budget submissions for specific maintenance activities. Road user charges are comprised of the fuel levy, vehicle licence fees, toll gate fees, and fines on overloaded vehicles.

[184] Acts No. 6 of 1981 and 10 of 2001.

[185] Permit classifications are: A (carrying goods for purposes of reward); B (carrying goods for own use); C (carrying passengers for reward (taxi and bus); D (carrying passengers in sedan vehicles); and E (carrying passengers cross-border).

[186] Ministry of Public Works and Transport (2006).

[187] Air Lesotho ceased operations in February 1999 (WTO, 2003).

[188] There are two return flights (Maseru-Johannesburg) per day.

Moshoeshoe I International Airport (MIA), situated 22 km of Maseru, and the main air transport gateway, is seriously underutilized as there is very little traffic and operational costs are high.[189]

199. Under the Aviation Act 1975[190], the Department of Civil Aviation is responsible for regulating civil aviation and establishing and maintaining aerodromes and air navigation facilities. This includes licensing air transport operations and maintaining International Civil Aviation Organization Standards and Recommended Practices. The Aviation Act also provides for development of bilateral agreements on air transport; Lesotho's only bilateral agreement is with South Africa. The Aviation Bill 2006 will update the Aviation Act 1975 by focusing on the liberalization of civil aviation, and incorporating measures regarding threats to aviation safety and security.[191]

(d) Rail transport

200. Lesotho's rail infrastructure consists of about 2.5 km of line from Maseru Bridge border post to Maseru container terminal. The railway is maintained by Spoornet from South Africa.[192] The facilities at the Maseru container terminal, and the bulk grain depot, are owned by the Government and leased to Spoornet.[193] Other rail facilities are the Ficksburg and Wepener rail heads for freight. Two freight trains run between South Africa and Maseru daily, carrying container traffic and bulk goods. Regular passenger services were withdrawn in 1989.[194]

(e) Inland water transport

201. Lesotho is landlocked, and several rowing-boat ferries provide river crossings at strategic places. These are operated, but not regulated, by the Department of Transport and Traffic, under the MPWT, as a service to the communities. In addition, the population of the two lakes created during the Lesotho Highland Water Project (LHWP) need water transport services; no boat services are yet offered on the lakes.[195] Once the entire LHWP is completed, other water transport services will be needed.

202. Most water transport services are provided free of charge by the Department of Transport and Traffic; individual ferry operators offer services on a commercial basis. The Lesotho Highlands Development Authority promulgated the Lesotho Highlands Development Authority Order No. 23 of 1986 relating to boating safety, and protection of water and the environment on the lakes under the LHWP.[196]

(iv) Tourism

203. The contribution of tourism to Lesotho's GDP (estimated at 4.7%) is small compared with some neighbouring countries. In 2008, the subsector generated M 151.6 million in revenue, up from M 44.9 million in 2005 (Table IV.5). Tourism's growth has been largely static over the last few years, with annual arrivals of 293,076 in 2008 (329,301 in 2003); it is highly dependent on the South African

[189] Lesotho has other aerodromes and airfields, but most are closed due to lack of domestic traffic.
[190] Act No. 32 of 1975.
[191] Ministry of Public Works and Transport (2006).
[192] Liaison between Spoornet and the Government is through the Lesotho Revenue Authority.
[193] The terminal and the facility at the container handling are in poor condition.
[194] Ministry of Public Works and Transport (2006).
[195] Completion of the Katse Dam, under Phase IA of the LHWP, created a 35 km long lake; Mohale Dam, under Phase IB, created another (20 km long).
[196] Ministry of Public Works and Transport (2006).

market (92.4% of total tourist arrivals in 2006); and has a high degree of seasonality (Easter holidays, July-September, and Christmas holidays are peak seasons for foreign arrivals). Nonetheless, Lesotho's tourism has significant potential given its unique natural environment, a wide range of mountain-based activities, and rich Basotho culture.[197]

Table IV.5
Tourism indicators, 2005-08

	2005	2006	2007	2008
Hotels	17	18	18	20
Beds	1,240	1,288	1,520	1,545
Rooms	823	855	878	882
Bed occupancy rate	23.1	27.4	25.1	27.2
Revenue (M million)	44.9	81.4	122.7	151.6

Source: Information provided by the Lesotho authorities.

204. The development of tourism activities is a key policy objective in Lesotho. In 2007, the Ministry of Tourism, Environment and Culture (MTEC) in charge, *inter alia*, of establishing and implementing policy for the subsector, unveiled its Tourism Strategy 2020. The key challenges identified refer to: market demand, including the need to distinguish Lesotho from competitor destinations; product development and diversification, including the need to diversify the product base to increase the length of stay and retain a higher spend per visitor; an enabling environment for rapid tourism growth, including improved visitor access to and within Lesotho; and management, including establishing appropriate policy, planning, and legal frameworks. Some of the main goals are: improving the packaging and presentation of existing attractions; supporting and promoting tourism investment and facilitating small medium and macro enterprises (SMMEs) and community-based tourism; and ensuring that the infrastructure is adequate and is further developed.[198]

205. Four tourism development zones are proposed: the highlands circuit, covering the north and north-western part of Lesotho, and including the national parks and the Katse and Mohale dams; the heritage circuit, covering southern Lesotho; the roof of Africa circuit, covering the central part of Lesotho; and the Maseru business circuit. The key tourism targets for 2020 are to: increase overall international tourism arrivals to 914,000; raise international leisure tourism arrivals to 450,000; increase international tourism earnings to M 1.1 billion; and create some 60,000 additional tourism-related jobs.[199]

206. In addition to the MTEC, the Lesotho Tourism Development Corporation (LTDC) and the Lesotho Council for Tourism (LCT) are active in the subsector. The LTDC, established under the Tourism Act No. 4 of 2002, has wide powers, including the designation of tourism development areas and provision of financial assistance in the form of grants, loans or tax exemptions for tourist development. The LTDC is 51% state-owned and is chaired by the Director of Tourism: its Board comprises representatives of Government, local associations, and the private sector. The LCT represents the private sector in the subsector.[200]

207. According to the authorities, there are no barriers to foreign entry in tourism. There is no official taxation system for the subsector, and Lesotho does not impose a tourism levy.

[197] Ministry of Tourism, Environment, and Culture (2007).
[198] Ministry of Tourism, Environment, and Culture (2007).
[199] Ministry of Tourism, Environment, and Culture (2007).
[200] Ministry of Tourism, Environment, and Culture (2007).

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APPENDIX TABLES

Table AIII.1
Privatization methods envisaged, 2009

Privatization method	Description
Public offer of shares	The Government would sell shares in a SOE at a specific price to whomever has the cash to buy them To promote local participation, the offer may be restricted to nationals. To promote widespread interest, the number of shares offered may be limited to a small number per bidder to maximize the number of investors in a particular entity. To allow for the fact that nationals may not be in a position to attract finance, the Government may allow discounts on the offer of shares
Private placement	The Government would sell shares to a single investor identified because that investor has unique attributes (e.g. an enterprise whose commodity has a single market to its customer). The price is determined through a process of negotiation
Trade sale through competitive bid	The Government sells the enterprise either as whole or in part (usually a majority holding) to another company or individual (either foreign or domestic) through a competitive process whereby interested purchasers submit bids which the Government evaluates according to a pre-determined set of criteria A trade sale may be done in conjunction with a management/employee buyout, a public offering or may include some form of employee participation.
Sale of assets	The Government sells either all the assets or parts of the assets separately This option may be considered when the enterprise is no longer a concern and would face bankruptcy in a commercial environment. As the liabilities of the enterprise exceed the assets, the assets may be sold in order to meet either part of the liabilities, or the liabilities are discounted
Management/employee buyouts	This method is similar to a trade sale, except that the purchaser is the existing management and/or the employees. The buyout proposal must show managerial ability and access to capital and markets in order to be effective in managing the enterprise. Management and employees may have difficulty in financing the purchase of the enterprise. In this case, a discounted share price or a leveraged buyout may be considered
Management contracts, leases and concessions	Where the Government does not wish to transfer ownership (particularly in the case of a natural monopoly), the Government may either enter into a management contract, a lease or a concession. In a management contract, the Government would pay a private company to manage the enterprise. Fees may be fixed or may incorporate a performance fee which reflects the profit that may be attributed to the private company managing the enterprise. In leases, the private party would pay the Government a fee to use the assets but assumes the commercial risk of the operation and the capital costs of maintaining the assets. Concessions are similar to leases except that the private party also is required to bear the costs of capital expenditures and investment. Concessions are usually used in the privatization of utilities
Joint-venture	The assets in the SOE would be transferred to a separate company formed as a joint-venture between the Government and the private owner. The Government would contribute the assets of the SOE and the investor would add his own assets (capital, technology, and access to markets) to the new company
Capitalization	Capitalization is a form of trade sale whereby the Government does not sell the assets, but rather would evaluate the need for investment in a enterprise. The amount of the investment would be sought from a private partner as equity in the enterprise. The relative values are assessed to establish the ownership ratio. After the enterprise is restructured, the shares held by the government may be sold using several methods (e.g. the shares may be sold to nationals when the enterprise is operating profitably on a sustainable basis)

Source: Information provided by the Lesotho authorities.

Table AIII.2
Privatization process, 1995-08
(a) Privatization transactions

Privatization (Act section)	Year	Govt share (%)	Investor share (%) and nationality
Sale of shares (Section 9(1)(a))			
Security Lesotho	1995	0	100: Lesotho
Avis Lesotho	1998	0	100: South Africa
Lesotho Flour Mills	1998	49	51: United States
Minet Kingsway	2000	20	80: Netherlands
Lesotho Telecommunications Corporation	2000	30	70: South Africa (Eskom Enterprises) and Zimbabwe (Econet Wireless)
Vodacom Lesotho	2000	0	12: Lesotho
Sale of business (Section 9(1)(b))			
Plant and Vehicle Pool Services	1999	20	100: South Africa
Lesotho Airways Corporation	1997	0	100: South Africa
Lesotho Bank	1999	30	70: South Africa
Sale of assets (Section 9(1)(c))			
Orange River Lodge	2000	0	100: Lesotho
Plant Pool Workshop	2000	0	100: Lesotho
Leasing (Section 9(1)(d))			
Marakabei Lodge	1998	0	100: Lesotho and South Africa
Management contracts (Section 9(1)(f))			
Maluti Highlands Abattoir	1997	n.a.	n.a.
Loti Brick	1999	n.a.	n.a.
Contracting out of services (Section 9(1)(g))			
LTC Cleaning Services	2000	n.a.	n.a.
LTC Security Services	2000	n.a.	n.a.
LTC Sanitary Services	2000	n.a.	n.a.
Liquidations (Section 9(1)(h))			
Lesotho Agricultural Development Bank	1998	0	100
Lesotho Airways Corporation	1997	0	100: South Africa
Lesotho Bank	1999	30	70: South Africa
International Freight and Travel Services (IFTS): American Express	1998	0	100
IFTS: travel services	1998	0	100
Transformation of a parastatal thereof into another form of a parastatal (Section 9(1)(a))			
Lesotho Building Finance Corporation: merger into Lesotho Bank	1995	100	100: Lesotho
Water and Sewerage Authority (WASA): pit latrine and septic tank emptying services department	2001	n.a	n.a.

(b) Agricultural enterprises to be advertised after Cabinet approval[a]

Botšabelo Dairy Farm (already liquidated)	Poultry Plant (already liquidated)
Farmers training Centres	Quthing Sheep Stud
Feedlot	Technical Operation Unit
Forestry Facilities – Woodlot	Thaba-tseka Pony Centre (no longer in operation)
Mejametalana Farm	Tšakholo Farm (no longer in operation)
Mokhotlong Sheep Stud	Tšalitlama Farm
Molimo-Nthuse Pony Trekking Centre	Veterinary Services
National Pig Breeding Herd Farm (already liquidated)	Wool and Mohair Marketing

Table AIII.2 (cont'd)

(c) Enterprises recommended for liquidation

Basotho Pony Breeding Farm (already liquidated)	Tsakholo Farm Fish (already liquidated)
Forestry Facilities	Technical Operations Unit

n.a. Not applicable.

a Under the supervision of the Ministry of Agriculture as a way of building capacity to undertake privatization for small-holder agricultural enterprises. Privatization to be conducted in line with the Privatization Unit procedures.

Source: Privatization Unit online information, "Privatized Corporations". Viewed at: http://www.privatisation.gov.ls/projects/privatized.htm [3 April 2009]; and information provided by the Lesotho authorities.