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Enabling Environment for Sustainable Enterprises



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Enabling Environment for Sustainable Enterprises in Lesotho

SEPTEMBER 2014



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Organization

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The enabling environment for sustainable enterprises in Lesotho

Small and Medium
Enterprises Unit

Multinational Enterprises and
Enterprise Engagement Unit

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Foreword

In June 2007, the International Labour Conference (ILC) discussed the promotion of sustainable enterprises. The conclusions of this discussion provided an important contribution agreed by the ILO's tripartite constituency of governments, employers' and workers' organizations on how to promote enterprise development in a manner that aligns enterprise growth with sustainable development objectives and the creation of productive employment and decent work. The conclusions called for the strengthening of the institutions and governance systems which nurture enterprises. Strong and efficient markets need strong and effective institutions. Promoting sustainable enterprises is also about ensuring that human, financial and natural resources are combined equitably and efficiently in order to achieve innovation and enhanced productivity.

The conclusions reached at the 2007 ILC discussion on the promotion of sustainable enterprises identified 17 pillars for an environment conducive to the promotion of sustainable enterprises. This report analyses how Lesotho performs with respect to each pillar, with the aim of assessing the relative strengths and weaknesses of the enabling environment for sustainable enterprises and employment in the country. The report incorporates the results of a national opinion or perceptions survey conducted in the country focusing on 4 of the 17 pillars, including social dialogue; education, training and lifelong learning; legal and regulatory reform; and trade and integration.

The report is designed to stimulate debate and to provide an evidence base for policy reforms for an environment more conducive to the promotion of sustainable enterprises in Lesotho. In particular, the report has been used to identify priority areas of policy reform to support the dialogue, advocacy and public policy work of the social partners in the country. A complementary action plan based on the findings of this report will ensure the implementation of specific measures aimed to improve the enabling environment for sustainable enterprises in Lesotho.

The present report has greatly benefited from inputs from tripartite participants to two national workshops held in November 2013 and May 2014, respectively, and from in-depth interviews and focus group discussions organized in November 2013.

The Association of Lesotho Employers and Business (ALEB) ought to be thanked for initiating the request to the ILO for the EESE assessment, and for helping to facilitate and lead the implementation of activities since their inception. The assessment has been carried out under the technical supervision of Maria Sabrina De Gobbi from the Small and Medium Enterprises Unit of the ILO Head-Quarters in Geneva, in collaboration with Rose Anang from the Bureau of Employers' Activities at the ILO Pretoria Office and with inputs from Yukiko Arai from the Multinational Enterprises and Enterprise Engagement unit in ILO Head-Quarters in Geneva. Special appreciation is due to Mr Nicolas Serrière for writing the report and doing the literature review. Mr Marco Girardo ought to be thanked for collecting secondary data. Mr Farid Hegazy is to be thanked for his useful comments. Ms Lindiwe Sephomolo, CEO of the Association of Lesotho Employers and Business (ALEB) and Mr Toboho Shelile, Head of Treasury at Nedbank Lesotho Limited ought to be sincerely thanked for their approval and final review of this paper.

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Abbreviations and acronyms

| | |
|---------------|---|
| AGOA | African Growth and Opportunity Act |
| ALEB | Association of Lesotho Employers and Business |
| CBL | Central Bank of Lesotho |
| CMA | Common Monetary Area |
| CSR | Corporate social responsibility |
| EAC | East African Community |
| EESE | Enabling Environment for Sustainable Enterprises |
| COMESA | Common Market for Eastern and Southern Africa |
| CPI | Corruption Perception Index |
| DCEO | Directorate on Corruption and Economic Offences |
| FDI | Foreign Direct Investment |
| GBV | Gender-based violence |
| ILO | International Labour Organization |
| IMF | International Monetary Fund |
| LNDC | Lesotho National Development Corporation |
| LFPR | Labour Force Participation Rate |
| MCA | Millennium Challenge Account |
| MNE | Multinational enterprises |
| NACOSH | National Advisory Committee on Occupational Safety and Health |
| NGO | Non-governmental Organisation |
| NSDP | National Strategic Development Plan |
| PAYE | Pay As You Earn |
| PCGS | Partial Credit Guarantee Scheme |
| ROSCA | Rotating Savings and Credit Groups |
| RSCGs | Rural Savings and Credit Groups |
| SACU | Southern African Customs Union |
| SADC | Africa Development Community |
| SME | Small and Medium Enterprises |
| VAT | Value Added Tax |

Executive summary

In June 2007, the International Labour Conference (ILC) discussed the promotion of sustainable enterprises. This calls for the strengthening of the institutions and governance systems which nurture enterprises. Strong and efficient markets need strong and effective institutions. Promoting sustainable enterprises is also about ensuring that human, financial and natural resources are combined equitably and efficiently in order to achieve innovation and enhanced productivity.

The conclusions reached at the 2007 ILC discussion identified 17 pillars for an environment conducive to the promotion of sustainable enterprises. This report is based on these conclusions. It analyses how Lesotho performs with respect to each pillar, with the aim of assessing the relative strengths and weaknesses of the enabling environment for sustainable enterprises and employment in the country. The assessment described in this report is based on secondary data, a literature review, focus group discussions and in-depth interviews with relevant national stakeholders, and technical inputs provided by representatives of tripartite stakeholders during two technical workshops held in Maseru in November 2013 and May 2014. It also takes into account the results of a perceptions survey conducted in Lesotho between November 2013 and January 2014 and which focused on 8 of the 17 pillars.

To further enhance the readability of the report, summaries have been included at the beginning of each chapter (see page 3 for political elements, page 18 for economic elements, page 61 for social elements, and page 82 for environmental elements) with a graphical presentation of the most relevant indicators for the respective chapter comparing Lesotho to its neighbouring countries and summarizing the main chapter findings.

Political elements

Lesotho gained its independence from Britain in 1966. There followed distinct political periods, characterized, in turn, by multiparty democracy (1966-1970), one-party state (1970-1986), military dictatorship (1986-1993) and the return of multiparty democracy (1993). The last competitive elections were held in May 2012 and involved 18 parties. These elections were free and fair and resulted in an effective peaceful transfer of power from the 14-year incumbent, Dr. Pakalitha Mosisili, to a coalition government headed by Prime Minister Dr. Motsoahae Thabane.

Although corruption is a major problem in Lesotho, there have been remarkable improvements since 2011, thanks to the creation of independent institutions such as Directorate on Corruption and Economic Offences. EESE survey data reveals that enterprises in Lesotho are usually considered to be socially responsible, especially larger multinational companies.

Despite scanty data, labour-employer relations are comparable to those of neighbouring countries such as Botswana and Namibia. Social dialogue is codified by the country's labour code, but union activities are in effect curtailed. Lesotho has ratified all main international standards with regards to labour and human rights, but either lacks the capacity to domesticate these international pieces of legislation or the capacity to implement them.

Economic elements

In 2003 Lesotho launched a long-term development plan called National Vision 2020. The National Vision's overarching objective is that by 2020 Lesotho will be a stable democracy and a united, prosperous nation at peace with itself and its neighbours; that it should have healthy and well-developed human resources; and that its economy would be strong, its environment well-managed and its technology well-established. The plan

emphasizes that an inclusive economic growth is the most effective route for poverty reduction, but that it has failed to be adequately inclusive so far. There remain a high concentration of poverty in rural areas, persistent high levels of inequality, and widespread unemployment. Unemployment stood at 24 per cent in 2008. Only 230,000 of the 608,000 employed people engage in formal wage employment. The rest are in informal activities, often paid in-kind.

Guided by the National Strategic Development Plan (NSDP), the 2013/14 Budget has therefore been designed to promote a sustainable and employment-led economic growth. It aims to achieve growth of 6 to 7 per cent per annum through targeted spending and to create 50,000 sustainable jobs to the economy by the end of the Plan period, approximately 10,000 jobs each year. This level of employment growth would allow achieving the National Vision interim unemployment target of 18 per cent for 2016/17 and putting the country on track to reduce it to 15 per cent by 2020. In 2012, Lesotho's growth rate was 4 per cent, which is far above the world average of 2.2 per cent in the same year, while at the same time inflation came down slightly.

Given its geographical situation, small domestic market (2 million people) and low GDP, regional integration is essential to Lesotho's economic development, poverty reduction efforts and progress towards achieving the MDGs. Trade is an important part of its economy, and represents 154.5 per cent of GDP in 2012. Lesotho has taken advantage of the AGOA to become the largest exporter of garments to the US from sub-Saharan Africa. However, the industry is at risk of changes in trade policy of importing countries, particularly from the US. The apparel industry is the largest formal employer in Lesotho, with nearly 50 per cent of the formally employed workforce.

Informal employment constitutes a large share of employment in Lesotho. In 2008 (the latest year for which data is available), 70 thousand women and 90 thousand men were informally employed. This amounted to, respectively 36.1 and 34.1 per cent of all non-agricultural employment. Sectors most contributing to informal employment are manufacturing (49 per cent of employment is informal), construction (26.7 per cent), wholesale and retail trade (29.1 per cent), public administration (19 per cent, mainly in rural areas) and education, (23.9 per cent, also mainly in rural areas). There are indications that a simplification of the tax regime would encourage businesses to comply with tax requirements. Lesotho's performance in the "Ease of Doing Business Index" is considerably worse than that of its direct neighbours.

There is generally respect for the rule of law in Lesotho, but because of long delays in dispensing justice and a general lack of trust and confidence in the capacity and political neutrality of law enforcement agencies, the country records a low score for the "Rule of Law Index". A major challenge is the absence of adequate infrastructure and of human and physical resources that could afford sufficient protection to particular sections of society. EESE survey findings suggest that although property and intellectual rights may be defined in law, protection was perceived to be only moderate, as was the capacity of the courts and the police: 41 per cent of respondents believed property rights to be both clearly defined and well protected, and 36 per cent that these rights were well defined but not well protected.

There are currently no laws or regulations enforcing fair competition in Lesotho. A Competition Bill is currently being drafted, which should have been passed in 2013. At time of writing, in May 2014, there are no signs of this bill being implemented, although there are isolated pieces of legislation promoting competition in selected sectors.

Lesotho's policy and regulatory framework in the area of ICT comprises the Information and Communications Technologies (ICT) Policy of 2005, the Lesotho Communications Policy of 2008 and the Communications Act of 2012. This Framework paved the way for the development of a comprehensive strategic programme to steer the evolution of Lesotho's

'information economy'. The key focus of the policy centres on providing countrywide access to appropriate, affordable, cost-effective and equitable ICT services over diverse platforms such as telecommunications networks, radio, television and the Internet. Liberalisation and privatization of the country helped improve access to telecommunications. ICT development remains concentrated in the lowlands, especially Maseru, but significant efforts are being made to expand ICT coverage to the entire country.

Access to credit is a major challenge for Lesotho's businesses. Lesotho's Vision 2020 calls for the financial intermediation sector to be diverse and highly responsive to customer demands and needs. Access to credit and good loan management and repayment mechanisms are to be the corner stone for development and promotion of the SMME sector. Women and young people are identified as the groups having most difficulties accessing finance. Banks set too stringent requirements and have too complex procedures hindering disadvantaged groups access to finance. Recent progress has however been made, through the amendment of the Lesotho Bank Savings and Development Order which ensures women's access to opportunities to acquire collateral, obtain loans or credit from commercial institutions and empower them to own and manage companies/enterprises.

In 2012, the Government of Lesotho entered into an agreement with the Lesotho National Development Corporation (LNDC) and commercial banks. Referred to as the Partial Credit Guarantee Scheme (PCGS), the agreement aimed to fund local business initiatives and promote and grow entrepreneurship. Banks are nevertheless deemed the most likely to provide credit.

Lesotho has very large and unexploited hydropower potential yet remains a net importer of electricity from South Africa. The unreliable and inadequate power supply is the most severe infrastructure constraint on business development. The Lesotho Highlands Development Authority, a joint institution between Lesotho and Republic of South Africa, has just launched the Lesotho Highlands Water Project Phase II, a project for the development of a water delivery system and is undertaking feasibility studies for the development of the Kobong project to generate electricity for export to South Africa and for local consumption.

Social elements

Doing business is difficult in Lesotho and being an entrepreneur does not bring prestige. As a result of this, children are not enticed or encouraged to become entrepreneurs. Some efforts are currently being undertaken to promote entrepreneurial culture, for instance curricula are being revised, but entrepreneurial skills are currently not part of the public education system. However, incentives such as tax exemptions for those who start a business could improve start up rates.

Free primary education (FPE) was introduced in the year 2000 as a major strategy towards achieving the Education for All (EFA) goals. This initially led to rapid increase in the net enrolment rate, which currently stands at 82 per cent of primary school aged children (80 per cent boys; 84 per cent girls). Compulsory education up to the age of 13 was established in 2010 with the Education Act 2010. As a result, Lesotho's prospects of achieving the Millennium Development Goals of universal primary education (MDG2) and eliminating gender disparities in primary and secondary education (MDG3) are promising. Uneducated adults and out-of-school youth can receive education through the non-formal education component of the education system. Organised non-formal institutions are referred to as skills development centres most of which are community centres rather than government institutions. They receive minimal support from government. Most of these NGOs decide on their programmes on the basis of sponsorship they get from donor agencies. Most of them offer literacy programmes, HIV/Aids related programmes, economic and political related literacy programmes. There is a general feeling that the education system is not providing the right tools and that the skills acquired in schools are not in demand in the labour market.

Entrepreneurial culture, in particular, is identified as a topic that should be promoted in regular school curricula.

Economic growth in Lesotho has not been adequately inclusive, resulting in high concentration of poverty in rural areas, persistent high levels of inequality, and widespread unemployment. Unemployment stood at 24 per cent in 2008. Only 230,000 of the 608,000 employed people engage in formal wage employment. The rest are in informal (including agricultural) activities, and they are often paid in kind. Preliminary Government's estimates based on the 2010/11 Household Budget survey show that the national poverty head count rate stood at 57.1 per cent.

Although progress has been made in recent years, discriminatory practices, especially along gender lines, are rife in Lesotho. This is particularly the case in rural areas and remote communities where the persistence of discriminatory customary laws and practices, with regard to, inter alia, marriage and its dissolution, inheritance and property rights are strong. At work, female workers are often disadvantaged and continue to be employed in poorly paid sectors of the economy especially, in the textile and garment industry as well as domestic work. For example, in the textile sector, there is no legal obligation for female workers to be paid whilst on maternity leave and any payment is at the discretion of the employer. An Employment and Earnings Survey carried out by the ILO in 2008 showed that women earned only 45 per cent of the average monthly earnings of men in the private sector, and 83 per cent in the public sector.

Given its current socio-economic conditions and fiscal ability, Lesotho has achieved an impressive record in creating a basic social assistance and social protection system, informed by political commitment and through budget reprioritization. It has set up and administered near universal schemes operating at scale with fairly low transaction costs, addressing core areas and serving vulnerable constituencies – including the aged (via a universal Old Age Pension), orphaned and vulnerable children (through a sizeable and expanding Child Grants Programme), and school-age children (through a comprehensive school feeding scheme (especially at primary school level) and free primary education. However, some major challenges remain. Lesotho does not have a comprehensive contributory-based social insurance scheme covering workers and their dependants. Social security reforms towards the establishment of a comprehensive national scheme were first initiated more than ten years ago. Social partners have continued to express frustration over lack of progress and commitment from the Government to finalize the draft Social Security policy and legislation for the implementation of the long envisaged National Social Security Scheme. Furthermore, in the absence of a mandatory contributory pension system, the bulk of the workforce, including those working in formal waged employment, notably and foremost in MSMEs, are not covered by any contributory retirement scheme.

Environmental elements

Because of changing climate conditions, Lesotho had undergone a process of desertification which has affected crop production. Inappropriate land management practices and farming techniques such as overgrazing by cattle, introduction of foreign and invasive plant species, harvesting of indigenous trees for firewood etc., have resulted in serious environmental issues and contributed to a high vulnerability to flash floods.

Lesotho has adopted its Environment Act in 2008 which defines the broad activities and general principles of environmental management in the country. It also invests each individual with the right to a clean and healthy environment, imposes a duty to protect, maintain and enhance the environment and defines the right to take legal action against acts or omissions that damage the environment.

Assessment results and ways forward

The final results of the assessment of the enabling environment for sustainable enterprises in Lesotho indicate that there is scope for improving the situation in all of the 17 conditions. In order to maximize the impact of future actions, tripartite participants to the validation workshop on the preliminary findings of the EESE assessment identified 3 priority conditions out of 17:

- Education, training and lifelong learning;
- Access to Financial Services; and
- Entrepreneurial culture.

At the May 2014 workshop, tripartite participants drafted an action plan based on these 3 conditions with specific outputs stemming from outcomes linked to priority areas and key players for action. The action plan will be finalized and adopted at a dissemination workshop to be held in August 2014 in the presence of high-level policy makers.

1. Introduction

The important role that the private sector plays in social and economic development led the International Labour Conference to discuss the concept of sustainable enterprises in June 2007. The promotion of sustainable enterprises ensures that human, financial and natural resources are combined equitably. An environment conducive to the creation and growth of enterprises on a sustainable basis must take into account the three dimensions of sustainable development – economic, social and environmental – as interdependent and mutually reinforcing pillars.

The 2007 International Labour Conference adopted conclusions for the promotion of sustainable enterprises and identified 17 conditions for an enabling environment. An environment conducive to the creation and growth of sustainable enterprises combines the legitimate quest for profit with the need for development that respects human dignity, environmental sustainability and decent work.

The same conclusions invite the ILO to focus its interventions on practical responses, including tools, methodologies and knowledge sharing, which are relevant to the social partners in their activities. This is why the ILO has developed a methodology to assess the degree to which the 17 conditions for an enabling environment for sustainable enterprises are met in different countries. This report describes the implementation of such an assessment in Lesotho and is part of a series of country reports on the same topic. As a pilot initiative, the Lesotho assessment includes a component on multinational enterprises (MNE). The report covers the political, economic, social, and environmental situation of the enabling business environment in Lesotho. The political area comprises 4 of the 17 conditions, the economic includes 8, the social 4, and the environmental dimension consists of 1 condition.

An assessment of the enabling environment for sustainable enterprises in Lesotho meets the existing need in the country to implement policies and strategies for national development. Lesotho's development is currently guided by its 2020 vision statement which projects that "by the year 2020 Lesotho shall be a stable democracy, a united and prosperous nation at peace with itself and its neighbours. It shall have a healthy and well-developed human resource base. Its economy will be strong, its environment well managed and its technology well established". The vision is underpinned by the National Strategic Development Plan 2012/13-2016/17 which highlights a number of fundamental stimulants for an inclusive and job-rich growth to take place in Lesotho. These stimulants include a number of investment climate reforms, such as making laws and regulations more business-friendly, the importance of harnessing the potential of the financial sector, the need for an export-oriented strategy, and the promotion of high-potential sectors such as agriculture, manufacturing and tourism. Micro and small enterprises, because of their employment potential, are a key vector in growth and poverty alleviation efforts.¹ The Lesotho EEE assessment, carried out at the request of the Association of Lesotho Employers and Business (ALEB) thus comes at a timely moment to enable the country to successfully engage the reforms needed.

The enabling environment for sustainable enterprises in Lesotho was assessed through a careful review of secondary data, findings from a national perception survey of workers and employers (including owners and managers of companies), in-depth interviews and focus group discussions with relevant stakeholders in the country, and supplementary information from published and unpublished materials. The perception survey was conducted between November 2013 and January 2014 by Mthente Research and Consulting Services. The survey focused on 8 of the 17 conditions, which were prioritized at a tripartite workshop held in November 2013. These conditions consisted of access to financial services, good governance, entrepreneurial culture,

¹ Lesotho Government, Ministry of Development Planning. 2012; Central Bank of Lesotho. 2012b.

sound and stable macroeconomic policy and good management of the economy, rule of law and secure property rights, fair competition, education, training and lifelong learning and, trade and sustainable economic integration.

As part of the study, interviews were conducted with owners, managers and employees for a total of 242 respondents. As broadly reflective of Lesotho's economy, a high percentage of these were in the wholesale/retail (53, i.e. 22 per cent) and textiles/garments (26 i.e. 11 per cent) sectors. For the other sectors, in descending order, there were 23 interviews in manufacturing, 20 in health and social work, 18 in hotels and restaurants, 15 in transport, storage and communication, 15 in education, 13 in electricity, gas and water supply, 10 in food processing, 8 in mining, 6 in construction, 2 in the agriculture sector, 2 in entertainment, 2 in community social and personal services, and 6 unspecified. Responses for agriculture, entertainment, community services, construction and mining each represent less than 5 per cent of interviews, which implies that related data may not be statistically representative of those sectors as a whole. In terms of business size, the sample included 4 micro companies (1 to 2 employees), 63 small companies (3 to 9 employees) and 92 medium companies (10 to 49 employees).

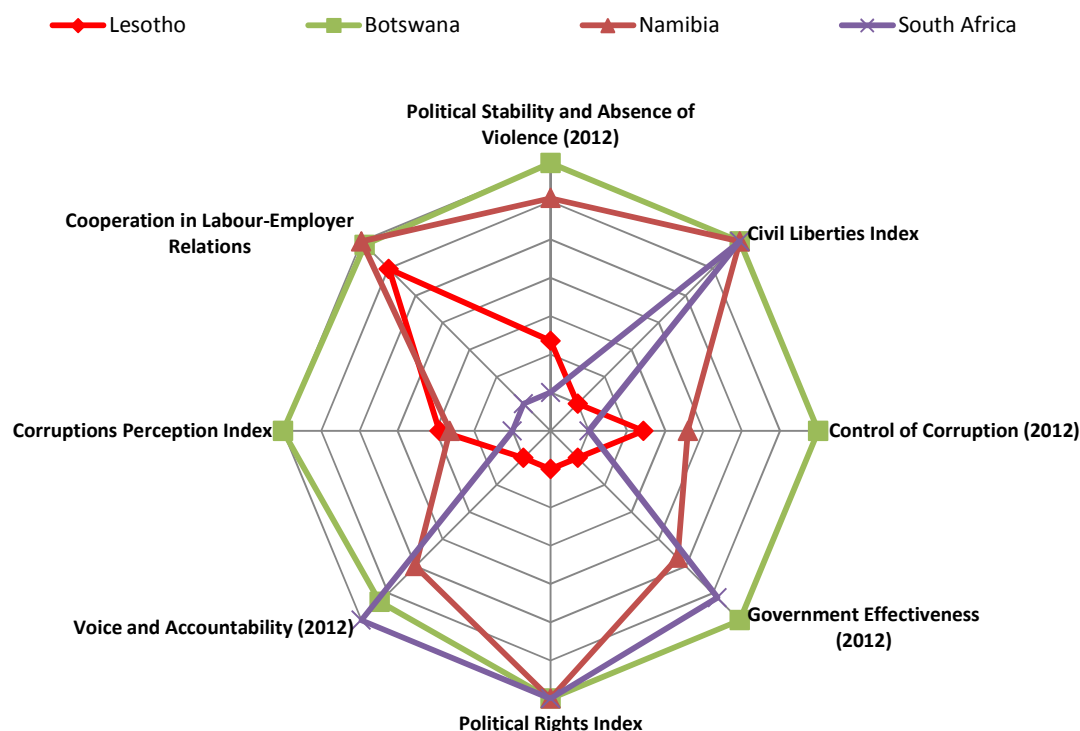
Among large companies, there were 25 companies with 50 to 500 employees and 42 companies with 501 to 3000 employees. About a fifth of multinationals were from the wholesale and retail sector (21 per cent exactly), followed by multinationals from the textile and garments sector (11 per cent), the finance and insurance sector (10 per cent), manufacturing, transport, and health and social work sectors (each 8 per cent), mining (7 per cent), electricity (6 per cent), hotels and restaurants (6 per cent), food processing and education (each 5 per cent), and finally agriculture, construction and entertainment (each 2 per cent). Within the large enterprises' segment, the survey focused on multinational companies.

Within the overall sample, the three main categories of respondents were business owners (6 per cent of respondents), managers (35 per cent) and workers/employees (52 per cent). There were slightly more men than women respondents (56 against 44 per cent, respectively). By professional position, women were more represented among workers (52 per cent) than among managers (35 per cent) or among business owners (37 per cent). With regards to age, 8 per cent of respondents were in the 18-24 age group, 43 per cent were in the 25-34 age group, 32 per cent were in the 35-44 age group, 12 per cent were in the 45-54 age group, 4 per cent were in the 55-60 age group, and less than 1 per cent were over 60. The overall sample is therefore relatively young.

The assessment described in the present report has certain shortcomings which should be kept in mind. Secondary data on Lesotho is sometimes missing, is available for only one or few years, or is not up-to-date. This is particularly the case for social and political indicators, where, for instance, there is no data for Lesotho concerning "Union Density", "Enterprises Belonging to Employers' Organizations Rate" or "Collective Wage Bargaining Coverage Rate". Environment-related data are also lacking for Lesotho, notably for the "Environmental Sustainability Index" and the "Environment Performance Index". Furthermore, it is sometimes difficult to identify appropriate indicators to measure specific EESE conditions, as in the case of "entrepreneurial culture" where only two indicators have been identified, and only one of which has data on Lesotho. Primary data also presents some limitations. As with any perception survey, caution is needed in drawing general conclusions, since some questions may have been interpreted in different ways, and key notions used in questions may have been given alternative meanings by respondents. To overcome these and other limitations, information from available national and international literature, and from the focus group discussions with national stakeholders and with national tripartite participants during technical workshops was used.

2. Political elements

Indicators* assessing political elements of the enabling environment for sustainable enterprises for 2013 (unless otherwise specified)**



* the values for the individual indicators have been harmonized for better presentation. The original indicator values are included in the chapters.

** latest available data allowing a cross-country comparison.

Key Findings

- Lesotho has gained independence in 1966. A constitutional monarchy shaped on the British model, Lesotho is a relatively stable country with a short history of successful, if at times contested, democratic transfers of power. The last competitive elections were held in May 2012 and involved 18 parties.
- Lesotho has shown staunch political commitment to combat corruption. It adopted the African Union Convention on Combating Corruption in 2006, made the Directorate on Corruption and Economic Offences an autonomous body with its own budget in 2012, and launched investigations on corruption cases. Results are not always evident to the public, but the corruption perception index has improved drastically over the last couple of years.
- In spite of social dialogue being codified by the Labour Code, the scope of action of unions is limited and complicated, especially in the public sector.
- Lesotho has ratified all 8 of ILO's core conventions as well as a number of important international human rights conventions, the latest one on the Protection of All Persons from Enforced Disappearance as early as December 2013. However implementation remains a challenge, often because of capacity issues, and submission of reports on implementation are lacking.
- Violence against women remains a fact of life in Lesotho. A 2013 survey undertaken jointly by the Ministry of Gender Youth Sports and Recreation, the Lesotho Bureau of Statistics and the South-Africa-based non-governmental organization Gender Links showed that 86 per cent of women in Lesotho have experienced gender-based violence (GBV) while 41 per cent of men admit to perpetrating GBV in their lifetime.

2.1. Peace and political stability

Peace and political stability are key conditions for the creation and development of sustainable enterprises. A constitutional monarchy shaped on the British model, Lesotho is a relatively stable country with a short history of successful, if at times contested, democratic transfers of power. According to the Global Peace Index (IEP), in 2013, Lesotho ranked 49 out of 162 countries.² Lesotho gained its independence from Britain in 1966. There followed distinct political periods, characterized, in turn, by multiparty democracy (1966-1970), one-party state (1970-1986), military dictatorship (1986-1993) and the return of multiparty democracy (1993). The last competitive elections were held in May 2012 and involved 18 parties. These elections were free and fair and resulted in an effective transfer of power from the 14-year incumbent, Dr. Pakalitha Mosisili, to a coalition government headed by Prime Minister Dr. Motsoahae Thabane.³

Data on “Political Stability and Absence of Violence” assesses countries’ political stability on a scale from -2.5 to 2.5 where higher values correspond to better performance. Considering this data, Lesotho does not perform very well, although it has improved over time, improving from -0.13 in 2006 to 0.25 in 2012. Since 2009, it has overtaken South Africa, but Botswana and Namibia still perform better.

| Key Indicators | | | | | | | | |
|---|---|-------|-------|-------|-------|-------|------|------|
| Political stability and absence of violence The likelihood that the Government will be destabilized by unconstitutional or violent means, including domestic violence and terrorism. <u>Source:</u> World Bank, Governance Matters database ⁴ | | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| | Lesotho | -0.13 | -0.39 | -0.22 | 0.34 | 0.47 | 0.38 | 0.25 |
| | Botswana | 0.96 | 0.98 | 0.98 | 0.93 | 0.96 | 1.05 | 1.11 |
| | Namibia | 0.79 | 1.02 | 1.19 | 0.90 | 0.81 | 0.89 | 0.94 |
| | South Africa | 0.05 | 0.20 | 0.04 | -0.11 | -0.02 | 0.03 | 0.00 |
| | Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance. | | | | | | | |

2.2. Good governance

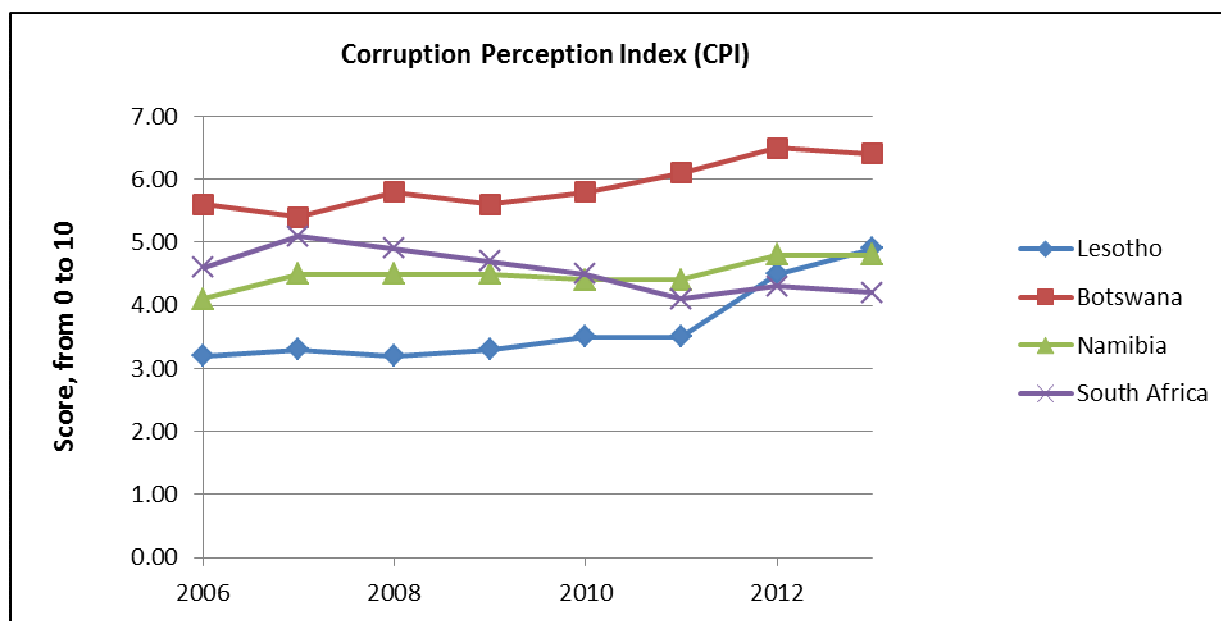
Good governance, the absence of corruption, and efficient institutions foster entrepreneurship and promote private sector growth and development. In general, Lesotho does not perform well in this area. “Control of Corruption” measures the extent to which public power is exercised for private gain and the extent to which the state is captured by elites and private interests. On a scale from - 2.5 to 2.5 where higher values reflect better performance, Lesotho slightly improved from -0.05 in 2006 to 0.11 in 2012. Of its three neighbouring countries used for comparison, Botswana and Namibia are consistently placed above Lesotho, and South Africa has slumped to the last place since 2010. The “Corruption Perceptions Index” (CPI) confirms that Lesotho has recovered from a dramatic situation, particularly since 2011. On a scale from 0

² Institute for Economic & Peace. 2014. [Global Peace Index](#). Accessed 10 March 2014.

³ Freedom House. 2013.

⁴ <http://info.worldbank.org/governance/wgi/index.aspx#reports>

(“highly corrupt”) to 10 (“highly clean”), Lesotho has risen from 3.2 in 2006 to 4.9 in 2013. There are a number of factors which explain this improvement, such as the ratification, in 2006 of the African Union Convention on Combating Corruption.⁵ The political commitment to combating this issue was further reflected in the establishment of committees dealing with cases of corruption and by launching investigations on corruption cases⁶. Thus, in June 2012, the Directorate on Corruption and Economic Offences (DCEO) – the government’s anticorruption watchdog created in 2001 – was made an autonomous body with full control over its budget⁷, but effects are still expected. Apart from the DCEO, other institutions in place are the Parliamentary Public Accounts Committee and the Office of the Auditor General⁸. As a result of these undertakings, Lesotho’s CPI in 2013 comes second behind that of Botswana, just above that of Namibia. South Africa, contrary to all other countries, experienced a regular decrease of its CPI.



Source: World Bank, Governance Matters database.

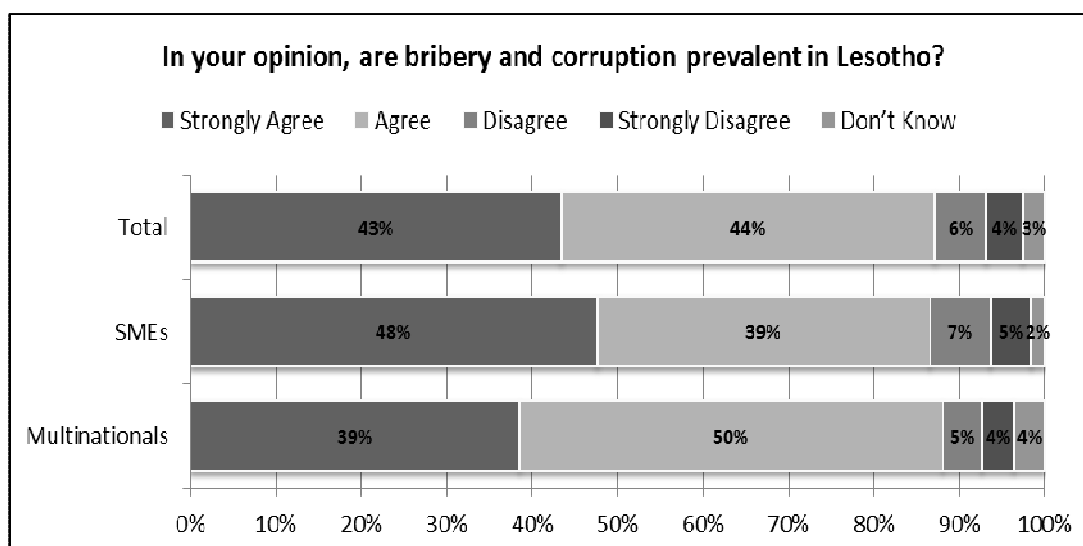
The findings of the Lesotho EESE survey suggest that most respondents perceived bribery and corruption to be significant challenges in Lesotho. When asked about the prevalence of these practices, a large majority of respondents (87 per cent) agreed or strongly agreed that bribery and corruption are prevalent in Lesotho. By position, the category most concerned about the prevalence of corruption was that of SME workers, as 91 per cent of them strongly agreed or agreed that corruption was prevalent. On the contrary, 18 per cent of SME managers disagreed or strongly disagreed that corruption and bribery were prevalent. The perception of prevalence of corruption was high (89 per cent) for businesses of all sizes. Respondents from SMEs and multinationals were in relative agreement with regards to the prevalence of corruption in Lesotho as 87 per cent of respondents from SMEs and 89 per cent of respondents from MNEs strongly agreed or agreed that corruption and bribery were prevalent in the country.

⁵ Sunday Express, 2013.

⁶ Input provided at the tripartite technical workshop “Enhanced Policy Advocacy for Sustainable Enterprise”, 5-6 November 2013, Maseru.

⁷ Freedom House. 2013.

⁸ Human Rights Council, 2010.



Source: EESE Lesotho survey.

Agreement was also very high among respondents that bribery and corruption strongly (29 per cent) or very strongly (51 per cent) negatively affected Lesotho's economy and society, with relatively little variation across employment categories or size of businesses. These findings suggest a relatively high degree of distrust and extensive suspicion of corrupt practices, which could signal low confidence and trust in stakeholders including government, policing and justice institutions and the private sector.

"Government Effectiveness" measures the quality of public services, the capacity of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the Government's commitment to such policies. In a range of values from -2.5 to 2.5 with higher values indicating better performance, Lesotho is the only country out of the four compared with systematic negative values over the period 2006-12. Lesotho's governance system is particular in that it combines elected democratic structures with traditional leadership. Although it is a system that allows taking full account of local historical and cultural specificities, it also creates areas of conflicts, notably at the level of governance, which undermine the capacity of the country for efficient policy implementation.⁹ It is also reported that many of Lesotho's laws are out-dated, and that policy-monitoring capacity is very weak.¹⁰

Government effectiveness is also a function of strong, transparent and fully functional rule of law institutions. The judicial system is one such fundamental institution, and has been found to suffer from three main weaknesses in Lesotho. First, chronic underfunding and inadequate autonomy from the Ministry of Justice continues to be a serious drag on the performance of the judiciary. Second, perceptions of judicial independence in Lesotho are very negative. Thirdly, there has been an increase in the politicization of the judiciary and attacks on judicial independence since the 2007 election.¹¹

The EESE survey asked respondents their opinion about the effectiveness of government policy and legislation. For a majority of them (58 per cent), policies and legislation were usually or at least sometimes effective. Only a third of respondents (34 per cent) expressed no trust in government action. These results were consistent across businesses of all sizes.

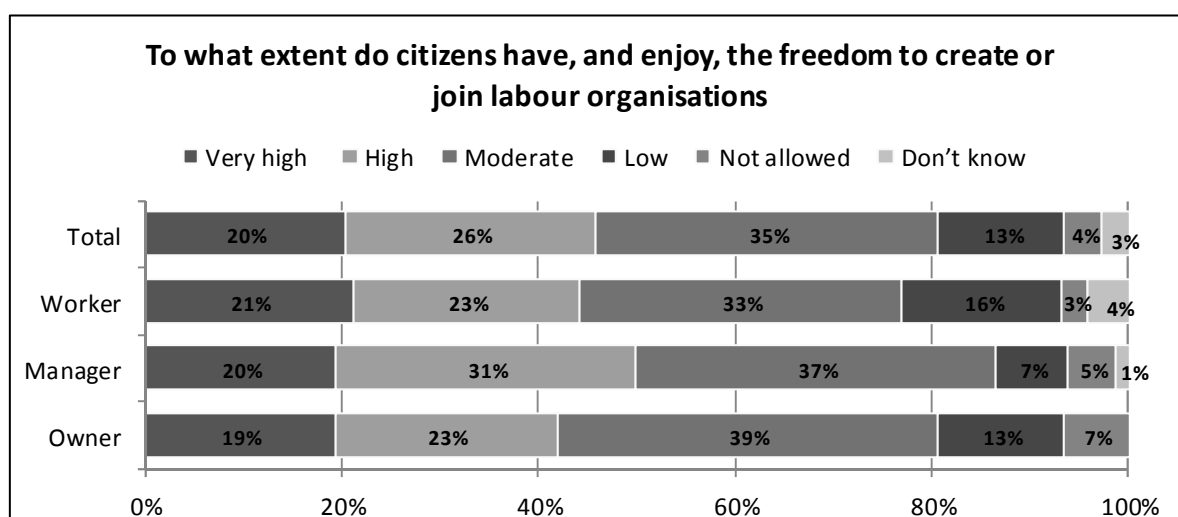
⁹ South African Institute for Internal Affairs, 2011.

¹⁰ Focus group discussions and interviews. Ministry of Trade and Industry, 7.11.2013.

¹¹ South African Institute for Internal Affairs, 2011.

“Voice and Accountability” measures the extent to which citizens participate in selecting their Government, as well as freedom of expression, freedom of association and a free media. Again, Lesotho performs worse than Botswana, Namibia and South Africa, reaching a value of 0.04 in 2012, on a scale from -2.5 to 2.5 with higher values indicating better governance. It is however to be noted that there has been a slight improvement in Lesotho's performance which was below 0 over the period 2007-11. Freedom of speech and the press are generally respected and independent newspapers and radio stations routinely criticize the Government. The only television channel is owned by the state. However critical media outlets face severe libel and defamation penalties and journalists are occasionally harassed, threatened and attacked.¹² Internet use is not restricted, but due to high costs, only 84,000 Internet users were registered in December 2011.¹³

With regards to freedom of association, the EESE survey reveals that the highest percentage of respondents viewed freedom of association as moderate (35 per cent), with minimal difference between respondents from large enterprises (37 per cent) or from SMEs (33 per cent). By position, a high percentage of owners described levels of freedom of association as very high or high (44 per cent very high) and managers (43 per cent high) at multinational companies respectively.

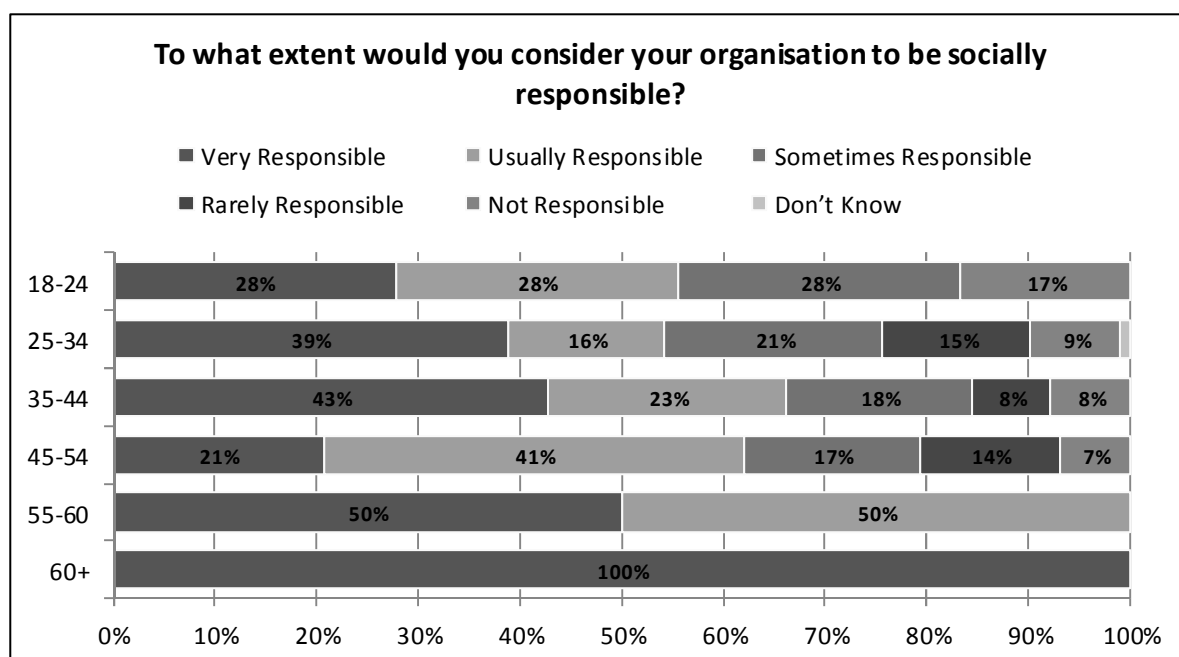


Source: Lesotho EESE Survey.

The EESE survey tested the extent to which enterprises operating in Lesotho were thought to be socially responsible. Overall, respondents evaluated their own organisations positively, with about 61 per cent in total indicating that their enterprises were either very responsible or usually responsible, with a high of 67 per cent for respondents from larger, multinational companies, and a low of 56 per cent for respondents from SMEs. The younger the respondents, the more critical they were about the social responsibility of their enterprises and the more fragmented their answers. The most critical were respondents aged 25-34 and 45-54 who indicated that their enterprises were not or rarely responsible (23 per cent and 21 per cent respectively). Men and women indicated in equal shares (61 per cent) that their enterprises were very or usually responsible; on the other hand, 20 per cent of women and 18 per cent of men thought their enterprises were rarely or never responsible.

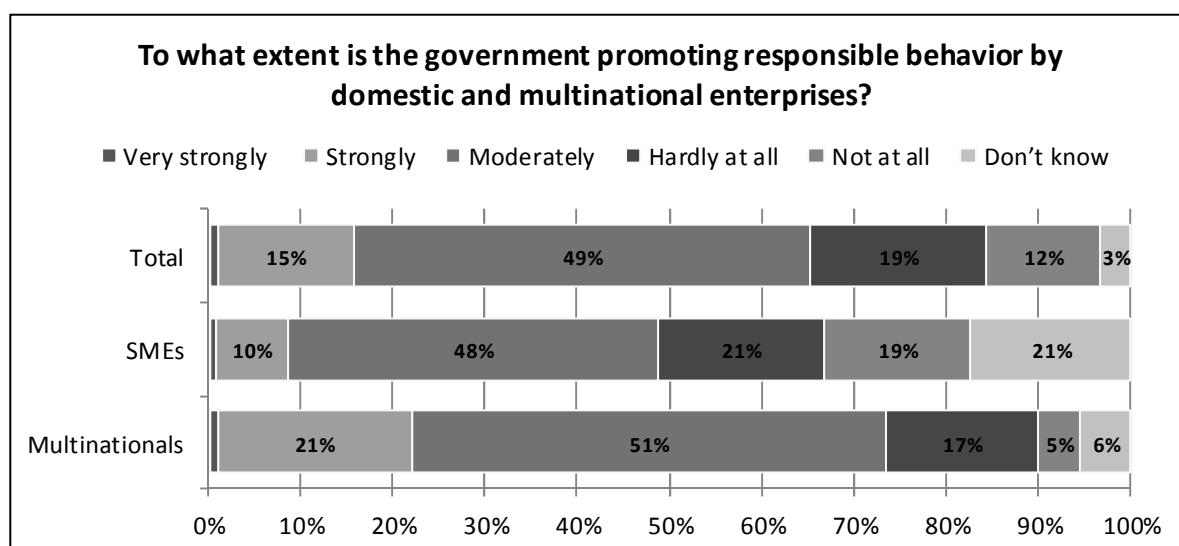
¹² Freedom House. 2013.

¹³ BBC. 2013.



Source: EESE Lesotho survey.

Research findings, however, suggest that respondents' positive evaluations of the social responsibility of their companies are not necessarily linked to efforts by the Government. Most respondents (49 percent) answered that Government only moderately promotes responsible behavior among enterprises in Lesotho. The main difference between SMEs and MNEs in that regard relates to the fact that respondents from multinationals are more positive about the role of the government in promoting socially responsible behavior. About a fifth (21 per cent) of respondents from MNEs indicated that the government could have a strong role in promoting corporate social responsibility (CSR) whereas only 10 per cent of respondents from SMEs shared this opinion. Likewise, SME respondents were much more likely (19 per cent) to indicate that the government has no possibility to promote CSR than respondents from MNEs (5 per cent). In addition about one in five SME respondents were unable to answer this question.

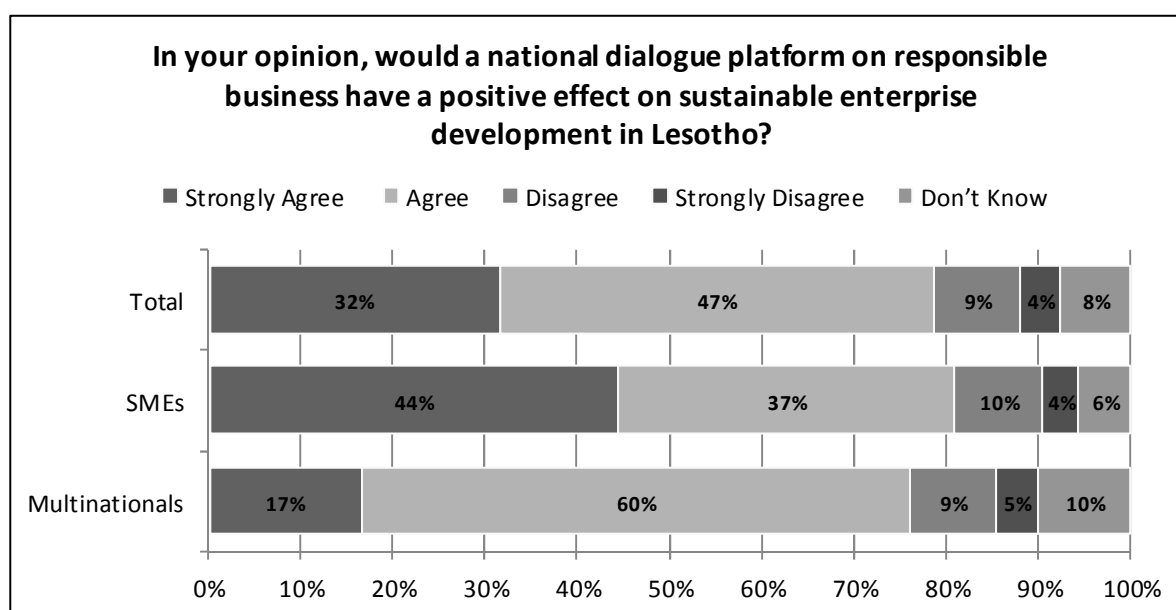


Source: EESE Lesotho survey.

There is a general awareness of CSR among both producers and consumers. Some efforts occur during the winter season and during the “Festive Season” around Christmas, when charitable events are organized in support of social organizations such as orphanages.¹⁴ Foreign and local enterprises tend to follow generally accepted CSR principles such as the OECD Guidelines for Multinational Enterprises. Diamond mining companies, for example, have established CSR policies covering education, socio-economic aspects such as health promotion or community safety, enterprise development, arts and culture.¹⁵

Firms which pursue CSR are viewed favorably by society but not necessarily by the Government. The Government maintains and enforces domestic laws with respect to labour and employment rights, consumer protections and environmental protections. There are no independent NGOs operating in the country that promote or monitor CSR.¹⁶

A final component with regards to good governance in Lesotho was whether respondents felt that a national dialogue on responsible and sustainable business would have a positive effect on sustainable enterprise development. This proposal received an overwhelming support with 79 per cent of respondents agreeing or agreeing strongly that such a national dialogue platform would have a positive effect. The score was lower for young respondents aged 18-24, 50 per cent of whom agreed or strongly agreed with the proposal. However 80, 78 and 83 per cent of respondents from age groups 25-34, 35-44 and 45-54, respectively, agreed or strongly agreed with the proposal. Between SMEs and MNEs, the main difference could be found at the level of which respondents strongly agreed that a national platform would have positive effects. SMEs were much more likely than MNEs (44 per cent and 17 per cent, respectively) to indicate that they strongly agreed with this proposal. However, 60 per cent of respondents from MNEs and 37 per cent of respondents from SMEs agreed that it would be positive, so in the end, the share of respondents indicating a positive opinion of the creation of a national platform is relatively similar between the two types of businesses.



Source: EESE Lesotho survey.

¹⁴ Vodacom Annual Report. 2006

¹⁵ Letseng Diamond, Corporate Social Responsibility Policy 2011/2012. Available at <http://www.letsengdiamonds.co.ls/CSRI/policy.php>. Accessed 7 May 2014.

¹⁶ United States Department of State. 2013.

| Key Indicators | | | | | | | | |
|---|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Control of corruption The extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests. <u>Source:</u> World Bank, Governance Matters database ¹⁷ | | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| | Lesotho | -0.05 | -0.12 | 0.03 | 0.16 | 0.18 | 0.18 | 0.11 |
| | Botswana | 0.90 | 0.94 | 0.99 | 0.92 | 1.00 | 0.99 | 0.94 |
| | Namibia | 0.17 | 0.26 | 0.56 | 0.25 | 0.32 | 0.31 | 0.32 |
| | South Africa | 0.43 | 0.22 | 0.16 | 0.14 | 0.09 | 0.04 | -0.15 |
| | Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance. | | | | | | | |
| Corruption Perceptions Index (CPI) The Transparency International CPI measures the perceived levels of public-sector corruption as seen by business people and country analysts in a given country and is a composite index, drawing on different expert and business surveys. <u>Source:</u> Transparency International ¹⁸ *In 2012, Transparency International changed the CPI scale from 0-10 to 0-100. In the interest of comparison, the numbers reflected here for 2012 are thus altered, where the original score given is divided by 10. | | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| | Lesotho | 3.2 | 3.3 | 3,2 | 3.3 | 3.5 | 3.5 | 4.5 |
| | Botswana | 5.6 | 5.4 | 5,8 | 5.6 | 5.8 | 6.1 | 6.5 |
| | Namibia | 4.1 | 4.5 | 4.5 | 4.5 | 4.4 | 4.4 | 4.8 |
| | South Africa | 4.6 | 5.1 | 4,9 | 4.7 | 4.5 | 4.1 | 4.3 |
| | The scores are on a scale from zero (highly corrupt) to ten (highly clean). | | | | | | | |
| Government effectiveness The quality of public services, the capacity of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. <u>Source:</u> World Bank, Governance Matters database ¹⁹ | | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| | Lesotho | -0.36 | -0.40 | -0.39 | -0.29 | -0.32 | -0.31 | -0.38 |
| | Botswana | 0.52 | 0.59 | 0.56 | 0.48 | 0.46 | 0.48 | 0.44 |
| | Namibia | 0.12 | 0.13 | 0.20 | 0.13 | 0.11 | 0.09 | 0.12 |
| | South Africa | 0.50 | 0.49 | 0.52 | 0.48 | 0.39 | 0.41 | 0.33 |
| | Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance. | | | | | | | |

¹⁷ http://info.worldbank.org/governance/wgi/sc_country.asp

¹⁸ <http://www.transparency.org>

¹⁹ http://info.worldbank.org/governance/wgi/sc_country.asp

| | | | | | | | |
|---|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Voice and accountability | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| The extent to which a country’s citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. <u>Source:</u> World Bank, Governance Matters database ²⁰ | Lesotho | -0.02 | -0.11 | -0.12 | -0.14 | -0.13 | 0.04 |
| | Botswana | 0.48 | 0.48 | 0.42 | 0.44 | 0.39 | 0.50 |
| | Namibia | 0.45 | 0.44 | 0.37 | 0.35 | 0.37 | 0.39 |
| | South Africa | 0.57 | 0.55 | 0.55 | 0.58 | 0.58 | 0.56 |
| | Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance. | | | | | | |
| Other Useful Indicators | | | | | | | |
| Political Rights Index | | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| The Political Rights index measures the degree of freedom in the electoral process, political pluralism and participation, and functioning of government. <u>Source:</u> Freedom House, The Freedom in the World Survey ²¹ | Lesotho | 2 | 2 | 2 | 3 | 3 | 3 |
| | Botswana | 2 | 2 | 3 | 3 | 3 | 2 |
| | Namibia | 2 | 2 | 2 | 2 | 2 | 2 |
| | South Africa | 2 | 2 | 2 | 2 | 2 | 2 |
| | Freedom House rates political rights on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free. | | | | | | |
| Civil Liberties Index | | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| The Civil Liberties index measures freedom of expression, assembly, association, and religion. <u>Source:</u> Freedom House, The Freedom in the World Survey ²² | Lesotho | 3 | 3 | 3 | 3 | 3 | 3 |
| | Botswana | 2 | 2 | 2 | 2 | 2 | 2 |
| | Namibia | 2 | 2 | 2 | 2 | 2 | 2 |
| | South Africa | 2 | 2 | 2 | 2 | 2 | 2 |
| | Freedom House rates civil liberties on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free. | | | | | | |

2.3. Social dialogue

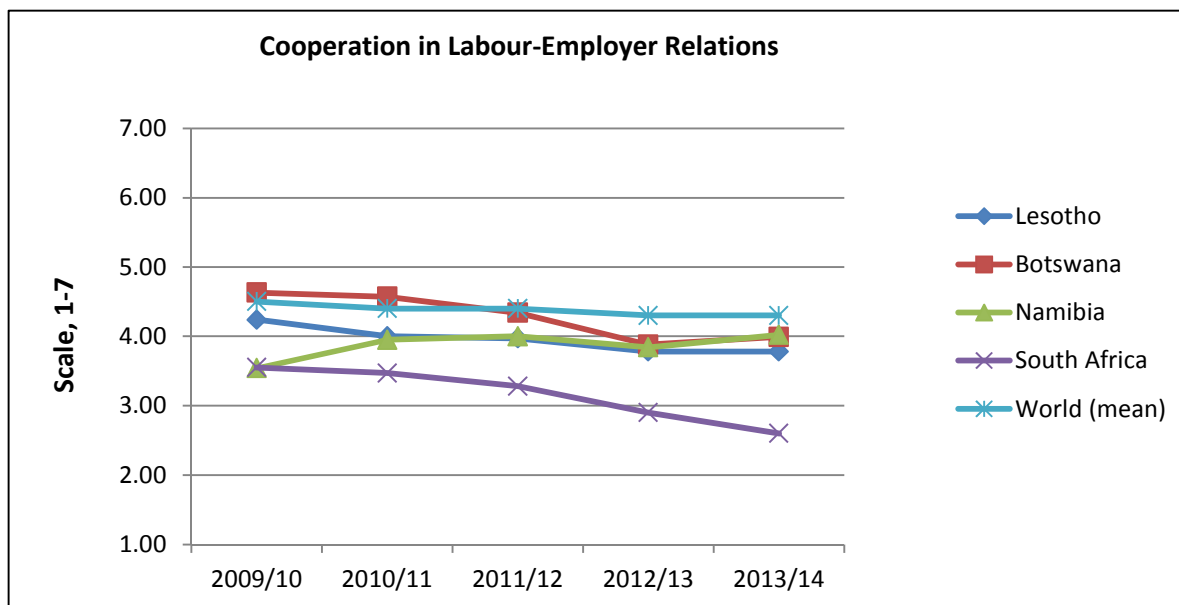
Social dialogue with freedom of association and the right to collective bargaining is fundamental for the achievement of effective, equitable and mutually beneficial outcomes for ILO constituents and society at large. Unfortunately, secondary data on social dialogue in the sub-region tends to be inadequate. For example, for “Trade Union Density” which measures the proportion of trade union members as a percentage of total employment, there is no data on Lesotho, Botswana and Namibia. Information on South Africa is available only for 2008, when it was 25 per cent. There is no data on “Enterprises Belonging to Employers’ Organizations Rate” for any of the four selected countries. When it comes to “Collective Wage Bargaining Coverage Rate”, which measures the proportion of employees covered by collective agreements as a percentage of total employees, data is available only for South Africa in 2008 when the rate was 17 per cent. “Cooperation in Labour-Employer Relations” determines whether labour-employer relations are confrontational or cooperative on a scale from 1 to 7 with higher values indicating

²⁰ <http://www.freedomhouse.org/report-types/freedom-world>

²¹ Ibid.

²² Ibid.

more cooperation, Lesotho has registered decreasing levels, from 4.2 in 2009 to 3.8 in 2013. Comparatively it maintains levels similar to those of Botswana and Namibia, and better than those of South Africa. All of these countries stand slightly below the 2013-14 world mean of 4.3.



Source: World Economic Forum Executive Opinion Survey.

Social dialogue is codified by Labour Code Order No. 24 1992 and its amendments, the country's main piece of labour legislation. This Code establishes four main statutory bodies through which the social partners are consulted on national labour issues. These include, the National Advisory Committee on Labour (NACOLA), the Wages Advisory Board (popularly known as the Wages Board), the National Advisory Committee on Occupational Safety and Health (NACOSH) and the Industrial Relations Council (IRC).²³

The NACOLA, chaired by the Principal Secretary, Ministry of Labour and Employment is a tripartite structure with statutory powers to advise the Minister of Labour and Employment on a range of issues including amongst others; any proposed legislation or amendments thereof affecting labour, employment, industrial relations or working conditions in the country.²⁴

The Wages Board reviews minimum wages and standards of employment on an annual basis and makes recommendations on minimum wage adjustments to the Minister of Labour and Employment accordingly. However, the Labour Code does not provide clear criteria on which the board shall base its recommendations, and in particular – although not only in the textile, garments and leather sectors – minimum wage adjustments are often disputed between the employers and workers' representatives.²⁵

The NACOSH is the statutory tripartite body with the task of formulating, implementing and periodically reviewing the national policy on occupational safety and health. The Government of Lesotho has ratified the Occupational Safety and Health Convention, 1981 (No. 155), but not the Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187). In 2006, NACOSH has adopted, in consultation with employers' and workers' organizations, a recommendation to formulate a coherent national policy based on Conventions No. 155, but

²³ ILO. 2012a.

²⁴ Ibid.

²⁵ Ibid.

many enterprises still fail to integrate worker's wellness programmes as part of business concerns leading to poor work ability and productivity.²⁶

The IRC was created in 2000 in a reform of the system of labour relations, together with the Directorate of Dispute Prevention and Resolution (DDPR) and the Labour Appeal Court. The IRC is tripartite and was established to advise on the qualifications and appointment of conciliators and arbitrators and generally advise the Government on good practice in industrial relations. The DDPR, which is independent, allows the Government to take a neutral role in dispute resolution. This system appears useful and is appreciated by the unions.²⁷

Workers have the right to form and join trade unions, except for public employees, who can only form or join "associations" that have consultative status. Furthermore, employees in the public sector have no bargaining capacity. Moreover, union activities are hampered by requirements that only registered unions that represent more than 50 plus 1 of the employees are entitled to elect workplace union representatives, communicate with management and perform other union functions. Finally, a strike can only be called following very complicated procedures, and all strikes in the public sector are illegal by definition.²⁸

There are four trade union centres in the country, the Congress of Lesotho Trade Union (COLETU), Lesotho Congress of Democratic Unions (LECODU), Lesotho Trade Union Congress (LTUC) and the Lesotho Labour Council (LLC). In practice, their scope of action has been limited to collective bargaining issues such as wages, hours of work, and maternity. The participation and contribution of trade unions in broader social dialogue and governance issues has not been effective enough to promote the interests of their members, due to their weak role in the statutory bodies. Freedom of association continues to be an unresolved challenge particularly with respect to public service employees who are restricted from forming/joining trade unions and do not enjoy the benefits of collective bargaining mechanisms, a challenge that has been brought to the attention of the ILO.²⁹

On the employers' side, there is the Association of Lesotho Employers and Business (ALEB) which was established in 1961 to facilitate dialogue between government, employers and the workers. It is registered as an employer's organisation since 1992. It provides services that range from provision of advice, legal representation, business start up and training. Whilst ALE&B is currently the most representative employer organization in the country, the association's challenges include amongst others, lack of ability to attract membership from the indigenous small and medium sized enterprise sector, fragmentation and multiplicity of employers' associations that often weakens the position of employers in social dialogue.³⁰

The important garment and textile sector – practically the sole source of manufacturing employment in Lesotho – is represented through the Lesotho Textile Exporters Association (LTEA), which represents 70 per cent of the country's garment manufacturers who collectively employ about 75 per cent of the total workforce engaged in the sector. Furthermore, LTEA is one of the major national partners in the implementation of the Better Work Lesotho Project, part of the cooperation agreement between the ILO and the International Finance Cooperation.³¹

²⁶ ILO. 2012a.

²⁷ UNCTAD. 2003.

²⁸ International Trade Union Confederation, 2011, with Inputs provided at the tripartite technical validation workshop, 21 May 2014, Maseru.

²⁹ ILO. 2012a.

³⁰ Ibid.

³¹ ILO. 2012a.

Progress has been noted in the garment and textile sector. At Precious Garments, a unionized factory, efforts have been made to develop regular dialogue and negotiation between representatives of workers and management. However, serious workers' rights problems still persist in non-unionised factories.³²

A major challenge in Lesotho, as is in many countries in Africa and elsewhere, is that employers' and workers' organizations have limited capacity to provide relevant services to existing and potential members. There has been lack of progress in the finalization of the key national policies and legislative frameworks despite the extensive tripartite consultations. Hence, the social partners have expressed frustration on the perceived lack of progress and commitment from the GOL to finalize and implement the draft National Employment Policy and, the draft Social Security Policy and legislation for the implementation of the long envisaged comprehensive national social security scheme.³³

| Related Indicators | | | | | | |
|---|--|---------|---------|---------|---------|---------|
| Cooperation in labour-employer relations The World Economic Forum (WEF) Survey asked business leaders to provide their expert opinions on the following: “Labour-employer relations in your country are”. <u>Source:</u> World Economic Forum Executive Opinion Survey ³⁴ | | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
| | Lesotho | 4.24 | 4.00 | 3.97 | 3.78 | 3.78 |
| | Botswana | 4.63 | 4.57 | 4.34 | 3.88 | 3.99 |
| | Namibia | 3.54 | 3.95 | 4.00 | 3.84 | 4.02 |
| | South Africa | 3.55 | 3.47 | 3.28 | 2.90 | 2.60 |
| | World | 4.50 | 4.40 | 4.40 | 4.30 | 4.30 |
| | 1 = generally confrontational, 7 = generally cooperative | | | | | |

2.4 Respect for universal human rights and international labour standards

Respect for human rights and international labour standards is a distinctive feature of societies that have successfully integrated sustainability and decent work. Lesotho has adopted all 9 main human rights conventions, the latest one, the International Convention on the Protection of All Persons from Enforced Disappearance in December 2013. It is the only country to have done so, as Namibia and South Africa have ratified 8 of the 9 main human rights conventions, and Botswana only 5. All four countries have ratified the eight ILO core conventions on freedom of association and collective bargaining, and the abolition of child labour, forced labour and all forms of discrimination. Although the country has ratified 23 International Labour Conventions, of which 22 are in force, their implementation has not always been effective largely due to capacity challenges in ensuring enforcement, compliance and timely submission of relevant reports in accordance with the ILO constitutional obligations.³⁵

With regards to child labour, the 2008 Labour Force Survey estimates that 3 per cent of children (6-14 years old) were participating in economic activities in the country. However, not all "non-economic" activities that may prevent children from attending school or negatively impact on their performance at school, and which would thus constitute child labour, are likely to

³² International Trade Union Confederation. 2011.

³³ ILO. 2012a.

³⁴ <http://www.weforum.org/issues/global-competitiveness>

³⁵ ILO. 2012a.

be properly accounted for by the survey. As a result, the prevalence of child labour may therefore be much higher than suggested by national estimates. Of those children working, 66 per cent are engaged in subsistence farming and the remaining proportion is largely engaged as domestic helpers, mainly in private households. Child labour is much more frequent amongst boys (86.6 per cent) than girls (13.4 per cent), irrespective of the type of economic activity considered.³⁶ Girls are commonly employed as domestic servants and are being made to work long hours, sometimes up to 16 hours a day.³⁷ Children also engage in informal street vending during which they work long hours, generally without breaks, up to 7 days a week. These children work in severe weather and are used by criminals to engage in illicit activities, such as theft.³⁸ It is however to be noted that the Ministry of Labour and Employment is in the process of setting up a National Action Programme on the Elimination of Child Labour.³⁹

The human rights situation in Lesotho can also be assessed considering other indicators. The “Political Rights Index” measures the level of freedom in the electoral process, political pluralism and participation, and functioning of government. In a range from 1 to 7 with higher values indicating a higher degree of freedom, in 2013 Lesotho performed better than its three neighbouring countries used for comparison reaching a level of 3. The “Civil Liberty Index” measures freedom of expression, assembly, association, and religion. On a scale from 1 to 7 with higher values corresponding to better performance, Lesotho maintained a level of 3 over the period 2006-13. Botswana, Namibia and South Africa recorded lower values than Lesotho over the same period.

Fundamental human rights and freedoms are enshrined at constitutional level. Provisions include the right to life, right to personal liberty, right to respect for private and family life, freedom of conscience, right to equality before the law and equal protection of the law, right to fair trial, freedom of movement and residence, freedom from inhuman treatment, freedom from slavery and forced labour, freedom from arbitrary search and entry, freedom from discrimination and freedom of expression. Civil and Political Rights as expressed in Lesotho’s Constitution provide for limitation of rights. This implies that human rights are not absolute, as they can be restricted for purposes of public health, public morality and public security.⁴⁰ However, the remark made previously about the failure of Lesotho to report on the fundamental labour conventions it has ratified also applies to the main international human rights agreements mentioned above. Lesotho still has to submit the obligatory reports required by the treaties ratified.⁴¹

In Lesotho, international conventions are not self-executing. They have to be domesticated into national laws or administrative regulations in order to be enforced. The Government must commit itself to a policy of efficient and comprehensive domestication of international obligations by, among other things, addressing all technical and financial obstacles that currently impede the process. The political will that the Government requires for this can be mobilised by demonstrating the relevance of domestication to development.⁴²

In addition to the Constitution, there are a number of laws that have been enacted which deal with the protection of human rights, such as, the Sexual Offences Act 2003, which takes into account the rights of the victims of sexual offences that also encompasses issues of HIV/AIDS;

³⁶ ILO. 2012a.

³⁷ United States Department of Labor. 2012.

³⁸ Ibid.

³⁹ Input provided at the tripartite technical validation workshop, 21 May 2014, Maseru.

⁴⁰ Human Rights Council. 2010.

⁴¹ Pholo. 2013.

⁴² Ibid.

the Legal Capacity of Married Persons Act 2006, which removes the minority status of married women and marital power of the husband over the person and the property of the wife; or the Race Relations (Amendment) Act 2005, which provides protection against practices of racial hatred; Anti-trafficking in Persons Act 2011.⁴³

In spite of all official provisions, violence against women remains a fact of life in Lesotho. A 2013 survey undertaken jointly by the Ministry of Gender Youth Sports and Recreation, the Lesotho Bureau of Statistics and the South-Africa-based non-governmental organization Gender Links showed that 86 per cent of women in Lesotho have experienced gender-based violence (GBV) while 41 per cent of men admit to perpetrating GBV in their lifetime. Yet, this is an issue that is largely under-reported as only 3 and 2 per cent of women reported to the police and medical health providers, respectively.⁴⁴

| Key Indicators | |
|---|--|
| Ratification of Human Rights Conventions | As of 26 February 2014 |
| <p>It shows the status of human rights referring to ratification of following 9 conventions: Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment; Convention on the Rights of the Child; Convention on the Elimination of All Forms of Discrimination against Women; International Convention on the Elimination of All Forms of Racial Discrimination; Convention on the Prevention and Punishment of the Crime of Genocide; International Covenant on Civil and Political Rights; International Covenant on Economic, Social and Cultural Rights; International Convention for the Protection of All Persons from Enforced Disappearance; Convention on the Rights of Persons with Disabilities.</p> <p><u>Source:</u> United Nations Treaty Collection Multilateral Treaties Deposited with the Secretary General (UNTC)⁴⁵</p> | Lesotho 9 |
| | Botswana 5 |
| | Namibia 8 |
| | South Africa 8 |
| | Number of ratified Conventions out of 9. |

⁴³ Human Rights Council. 2010.

⁴⁴ Ministry of Gender Youth Sports and Recreation & al. 2013.

⁴⁵ <http://treaties.un.org/>

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Ratification of fundamental ILO Convention | As of 26 February 2014 | | | | | | | | |
| It shows the status of labour rights conventions. It refers to ratification of following 8 conventions: Freedom of association and collective bargaining (Convention 87, 98), Elimination of forced and compulsory labour (29, 105), Elimination of discrimination in respect of employment and occupation (Convention 100, 111), Abolition of child labour (Convention 138, 182) <u>Source:</u> ILO ⁴⁶ | Lesotho | 8 | | | | | | | |
| | Botswana | 8 | | | | | | | |
| | Namibia | 8 | | | | | | | |
| | South Africa | 8 | | | | | | | |
| | Number of ratified Conventions (out of 8) | | | | | | | | |
| Other Useful Indicators | | | | | | | | | |
| Political Rights Index | | | | | | | | | |
| The Political Rights index measures the degree of freedom in the electoral process, political pluralism and participation, and functioning of government <u>Source:</u> Freedom House, The Freedom in the World Survey ⁴⁷ | Lesotho | 2 | 2 | 2 | 2 | 2 | 3 | 3 | 3 |
| | Botswana | 2 | 2 | 2 | 2 | 3 | 3 | 3 | 2 |
| | Namibia | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| | South Africa | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| | Freedom House rates political rights on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free. | | | | | | | | |
| Civil Liberties Index | | | | | | | | | |
| The Civil Liberties index measures freedom of expression, assembly, association, and religion. <u>Source:</u> Freedom House, The Freedom in the World Survey ⁴⁸ | Lesotho | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| | Botswana | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| | Namibia | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| | South Africa | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| | Freedom House rates civil liberties on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free. | | | | | | | | |

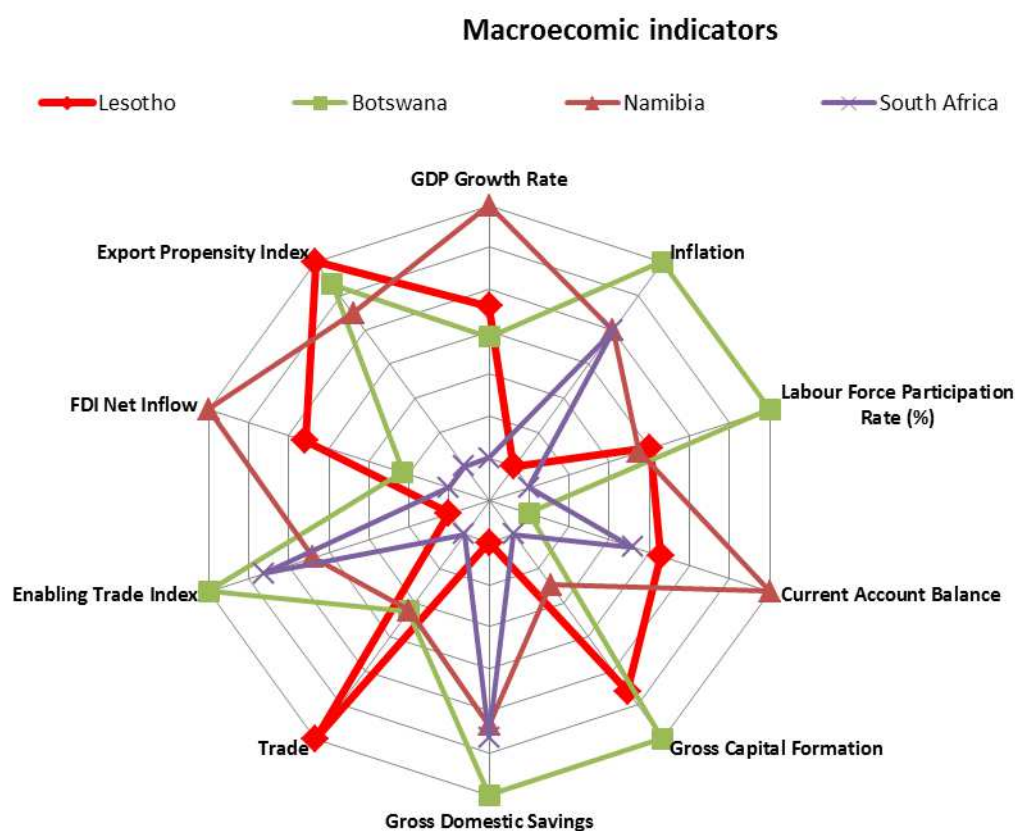
⁴⁶ <http://www.ilo.org/ilolex/english/docs/declworld.htm>

⁴⁷ <http://www.freedomhouse.org/report-types/freedom-world>

⁴⁸ Ibid.

3. Economic elements

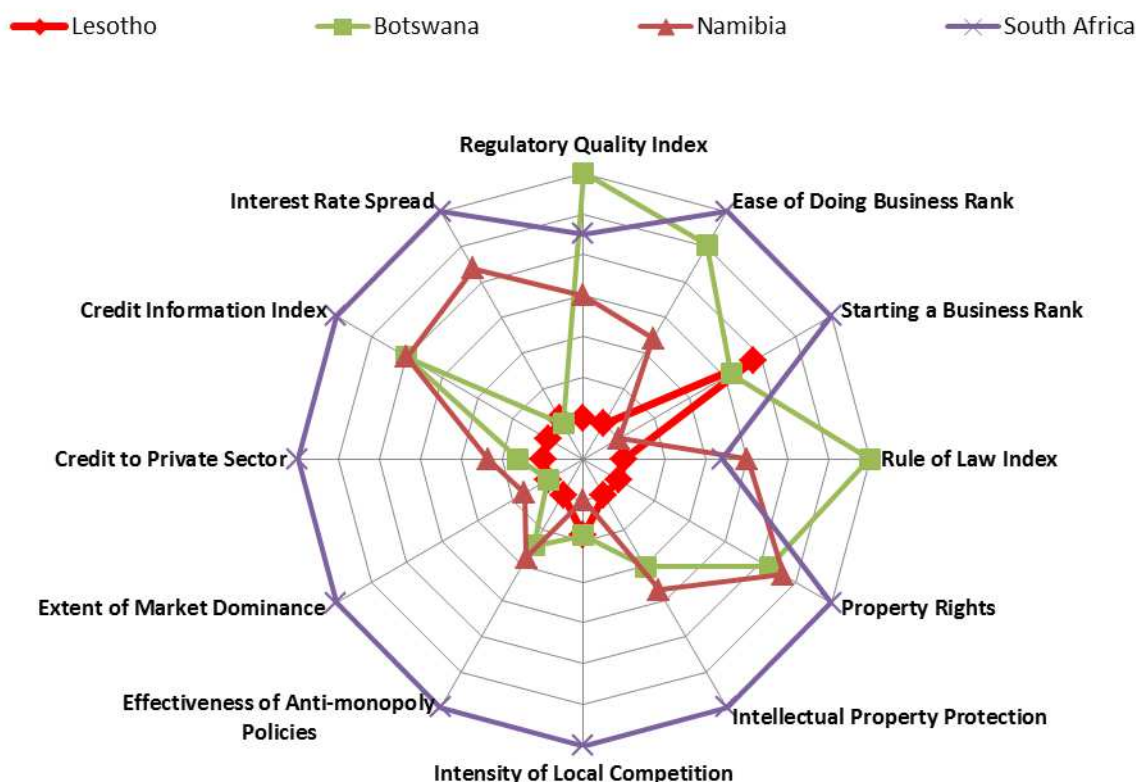
Indicators* assessing economic elements of the enabling environment for sustainable enterprises**



Key findings

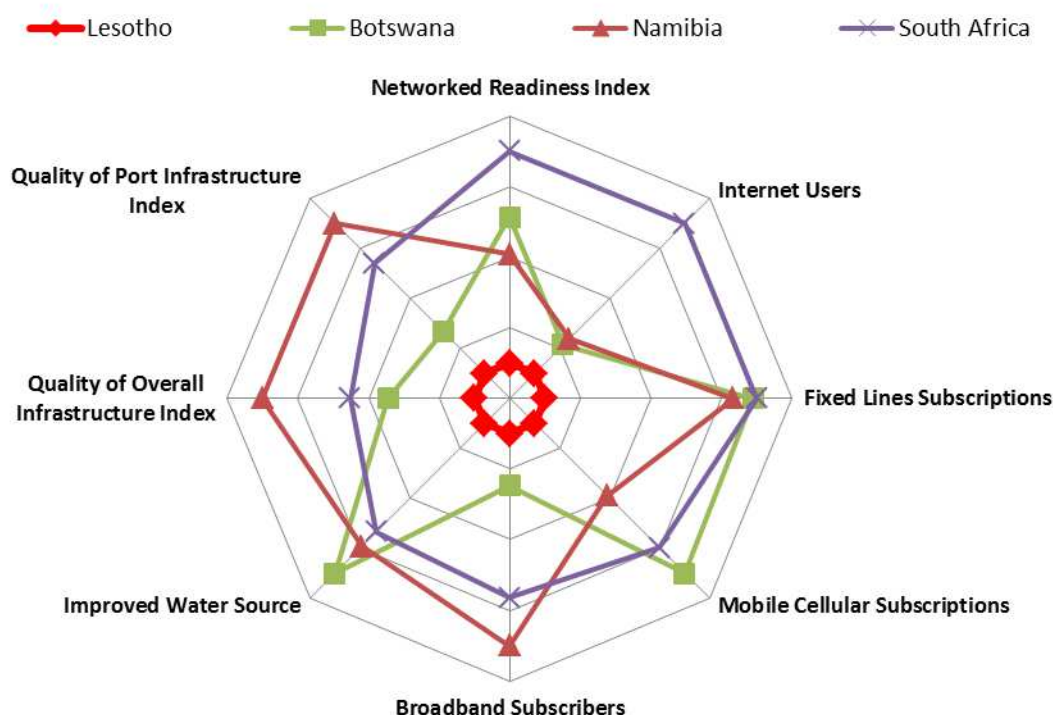
- In 2003 Lesotho launched a long-term development plan called National Vision 2020. The National Vision's overarching objective is that by 2020 Lesotho will be a stable democracy and a united, prosperous nation at peace with itself and its neighbours; that it should have healthy and well-developed human resources; and that its economy would be strong, its environment well-managed and its technology well-established.
- Over the period 2006-12, the economy of Lesotho has been growing at levels which can be considered as satisfactory and less fluctuating than those of its three neighbouring countries used for comparison. In particular, in 2009, the year of the world economic crisis, Lesotho was the only economy of the region with a positive rate of growth.
- Lesotho has taken advantage of the African Growth and Opportunity Act (AGOA) to become the largest exporter of garments to the US from sub-Saharan Africa. However, the industry is at risk of changes in trade policy of importing countries, particularly from the US. The apparel industry is the largest formal employer in Lesotho, with nearly 50 per cent of the formally employed workforce. In 2009, 36 factories employed approximately 40,000 workers, representing 80 per cent of all jobs in Lesotho's manufacturing sector.
- Informal employment constitutes a large share of employment in Lesotho. In 2008, 36.1 per cent of women and 34.1 per cent of men were in informal non-agricultural employment. Sectors most contributing to informal employment are manufacturing (49 per cent of employment is informal), construction (26.7 per cent), wholesale and retail trade (29.1 per cent), public administration (19 per cent, mainly in rural areas) and education, 23.9 per cent, also mainly in rural areas).
- Lesotho's ranking in the "Starting a Business Index" has remarkably improved recently. The establishment in 2009 of the One-Stop Business Facilitation Centre (also known as the One Stop Shop) has contributed to creating and enabling a regulatory and administrative environment in which businesses can operate.
- There is generally respect for the rule of law in Lesotho, but a major challenge is the absence of adequate infrastructure and of human and physical resources. As a result the delays to dispense justice are long and there is a lack of trust and confidence in the capacity and political neutrality of law enforcement agencies mandated to investigate crimes, enforce the law and protect the Constitution.

Access to credit, property rights and competition indicators



- A commercial court was established and legal procedures for debt recovery have been improved. This is believed to contribute to financial stability and encourage private-sector lending in the country.
- A land reform programme was launched to promote property rights for women, which made it possible to register land parcels even when informally occupied by citizens. A second explicit objective of this reform was to make Lesotho's economy more attractive to private investment, while also insuring formal land security and enabling women (and men) to use titles as collateral for loans and credit.
- There are currently no laws or regulations enforcing fair competition in Lesotho, only isolated pieces of legislation promoting competition in selected sectors. A Competition Bill is currently being drafted, which should have been passed in 2013, but there are obvious delays in implementing and enacting it.
- Access to credit is a major challenge for Lesotho's businesses. Lesotho's Vision 2020 calls for the financial intermediation sector to be diverse and highly responsive to customer demands and needs. Access to credit and good loan management and repayment mechanisms are to be the corner stone for development and promotion of the SMME sector.
- Women and young people are identified as the groups having most difficulty to access finance. Banks set too stringent requirements and have too complex procedures hindering disadvantaged groups' access to finance. Recent progress has however been made, through amendment of the Lesotho Bank Savings and Development Order which ensure women's access to opportunities to acquire collateral, obtain loans or credit from commercial institutions and empower them to own and manage companies/enterprises.
- In 2012, the Government of Lesotho entered into an agreement with the Lesotho National Development Corporation (LNDC) and commercial banks. Referred to as the Partial Credit Guarantee Scheme (PCGS), the agreement aimed to fund local business initiatives and promote and grow entrepreneurship. Banks are nevertheless deemed the most likely to provide credit.

ICT and infrastructure indicators



- Lesotho's ICT regulatory and policy framework comprises the Information and Communications Technologies (ICT) Policy of 2005, the Lesotho Communications Policy of 2008 and the Communications Act of 2012. The key focus of the policy is to provide countrywide access to appropriate, affordable, cost-effective and equitable ICT services over diverse platforms such as telecommunications networks, radio, television and the Internet and overcome the challenge of marginal access to fixed-line services.
- Lesotho has very large and unexploited hydropower potential yet remains a net importer of electricity from South Africa. The unreliable and inadequate power supply is the most severe infrastructure constraint on business development. The Lesotho Highlands Development Authority, a joint institution between Lesotho and Republic of South Africa, has just launched the Lesotho Highlands Water Project Phase II, a project for the development of a water delivery system and is undertaking feasibility studies for the development of the Kobong project to generate electricity for export to South Africa and for local consumption.

* The values for the individual indicators have been harmonized for better presentation. The original indicator values are included in the chapters.

** Latest available data allowing a cross-country comparison.

3.1. Sound and stable macroeconomic policy and good management of the economy

Macroeconomic policies should guarantee stable and predictable economic conditions. Sound economic management should combine the objectives of creating more and better jobs, combating inflation, and implementing policies and regulations that stimulate long-term productive investment. In 2003 Lesotho launched a long-term development plan called National Vision 2020. The National Vision's overarching objective is that by 2020 Lesotho will be a stable democracy and a united, prosperous nation at peace with itself and its neighbours; that it should have healthy and well-developed human resources; and that its economy would be strong, its environment well-managed and its technology well-established. Its coordination is laid out in the National Strategic Development Plan (NSDP) 2012/13–2016/17 adopted in 2012, and whose strategic goals are to (i) pursue high, shared and employment creating economic growth; (ii) develop key infrastructure; (iii) enhance the skills base, technology adoption and foundation for innovation; (iv) improve health, combat HIV and AIDS and reduce vulnerability; (v) reverse environmental degradation and adapt to climate change; and (vi) promote peace, democratic governance and build effective institutions.⁴⁹

The plan emphasizes that an inclusive economic growth is the most effective route for poverty reduction, but that it has failed to be adequately inclusive so far. There remains a high concentration of poverty in rural areas, persistent high levels of inequality, and widespread unemployment. Unemployment stood at 24 per cent in 2008 and slightly more than a third of the 608,000 employed people are in formal wage employment. The rest are in informal (including agricultural) activities, often paid in kind.⁵⁰ Preliminary Government's estimates based on the 2010/11 Household Budget survey show that the national poverty rate stood at 57.1 per cent and the Gini Coefficient based on consumption stood at about 0.53.⁵¹

Guided by the National Strategic Development Plan (NSDP), the 2013/14 Budget has therefore been designed to promote a sustainable and employment-led economic growth. It aims to achieve growth of 6 to 7 per cent per annum through targeted spending. The budget also recognised the importance of maintaining macroeconomic stability, notably through continued fiscal consolidation efforts and the monitoring of recurrent expenditures.⁵²

The plan strikes a timely balance between policies for economic stability and inclusive growth. In particular, there is scope for a scaling up of public investment, while maintaining adequate international reserves and a healthy fiscal balance.⁵³ The Plan's main indicator for success will be the number of jobs added to the economy. The Government intends to encourage the private sector to add 50,000 sustainable jobs to the economy by the end of the Plan period, approximately 10,000 jobs each year. This level of employment growth would allow achieving the National Vision interim unemployment target of 18 per cent for 2016/17 and putting the country on track to reduce it to 15 per cent by 2020.⁵⁴

Over the period 2006-12, the economy of Lesotho has been growing at levels which can be considered as satisfactory and less fluctuating than those of its three neighbouring countries used for comparison. In particular, in 2009, the year of the world economic crisis, Lesotho was the only

⁴⁹ Lesotho Government, Ministry of Development Planning. 2012.

⁵⁰ The World Bank. 2013a. This fact was confirmed in a discussion during the tripartite technical validation workshop of this report, held in Maseru on May 21st, 2014.

⁵¹ The World Bank. 2013a.

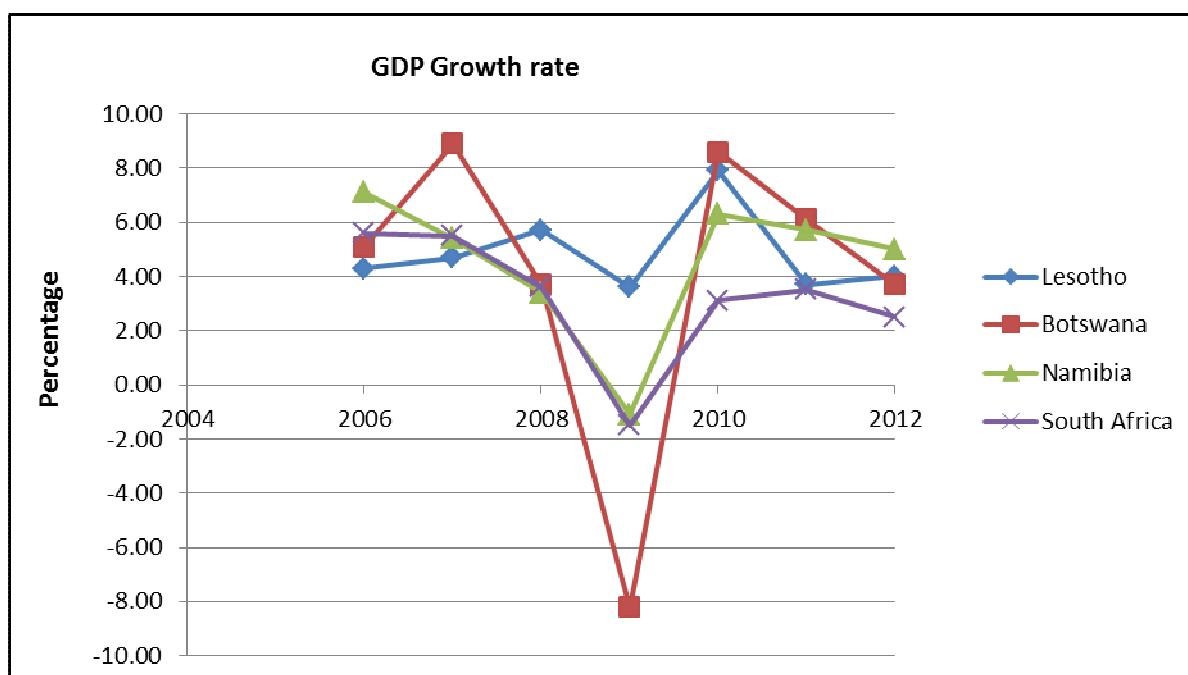
⁵² Central Bank of Lesotho. 2013a.

⁵³ International Monetary Fund. 2014.

⁵⁴ Central Bank of Lesotho. 2013a.

economy of the four under consideration which maintained a positive rate of growth. In 2012, Lesotho's growth rate was 4 per cent, which is far above the world average of 2.2 per cent in the same year, while at the same time inflation came down slightly.⁵⁵

The countries in the Common Monetary Area (CMA), South Africa, Lesotho, Namibia and Swaziland, have harmonised their monetary and exchange rate policies in a quasi-monetary union since 1990. Lesotho, Namibia and Swaziland (LNS) have pegged their currencies to the South African Rand thus effectively surrendering monetary policy to the South African reserve bank. The arrangement has resulted in benefits in the form of lower prices, economy on trading costs, and a large increase in trade volume and cross-border financial transactions.⁵⁶



Source: World Bank national accounts data (World Development Indicators Online).

The EESE survey probed about the impact of taxation on business growth. Results show that there was a consensus among respondents (47 per cent) that taxation did not encourage business growth, whether company taxes, Value Added Tax (VAT) or Pay As You Earn (PAYE). It is however worth noting that the percentage of respondents for whom taxation does encourage business growth was far from negligible, standing at 24 per cent for company tax, 29 per cent for VAT and 25 per cent for PAYE. In particular, managers from multinationals were the most likely to have a positive attitude towards taxation: 41 per cent of them responded that both company tax and PAYE can contribute to business growth. This finding could be explained considering that corporate tax rates in South Africa are higher than in Lesotho and that companies operating in some sectors, such as mining, benefit from corporate tax exemptions.⁵⁷ Managers of SMEs were also more likely than respondents in other professional positions to find that VAT could encourage business growth (35 per cent) or at least have an insignificant impact (38 per cent).

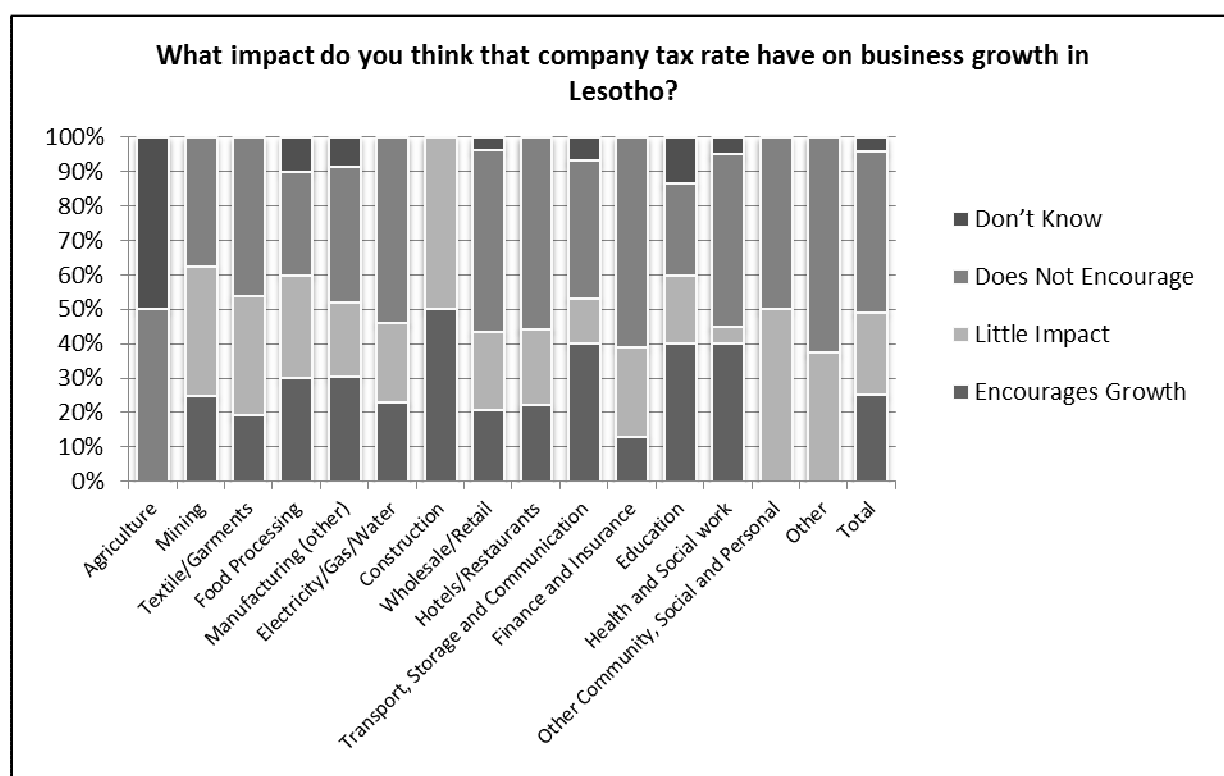
Looking by economic sectors, most respondents expressed that company taxes are not conducive to growth. Notable exceptions can be found in the sectors of education, transport and food processing which indicated that company tax can encourage growth (40, 40 and 30 per cent, respectively). Respondents from the construction sector also hinted at the possible positive impact

⁵⁵ International Monetary Fund. 2014.

⁵⁶ Ikhide, S. and Uanguta, E. 2010.

⁵⁷ Input provided at the tripartite technical validation workshop, 21 May 2014, Maseru.

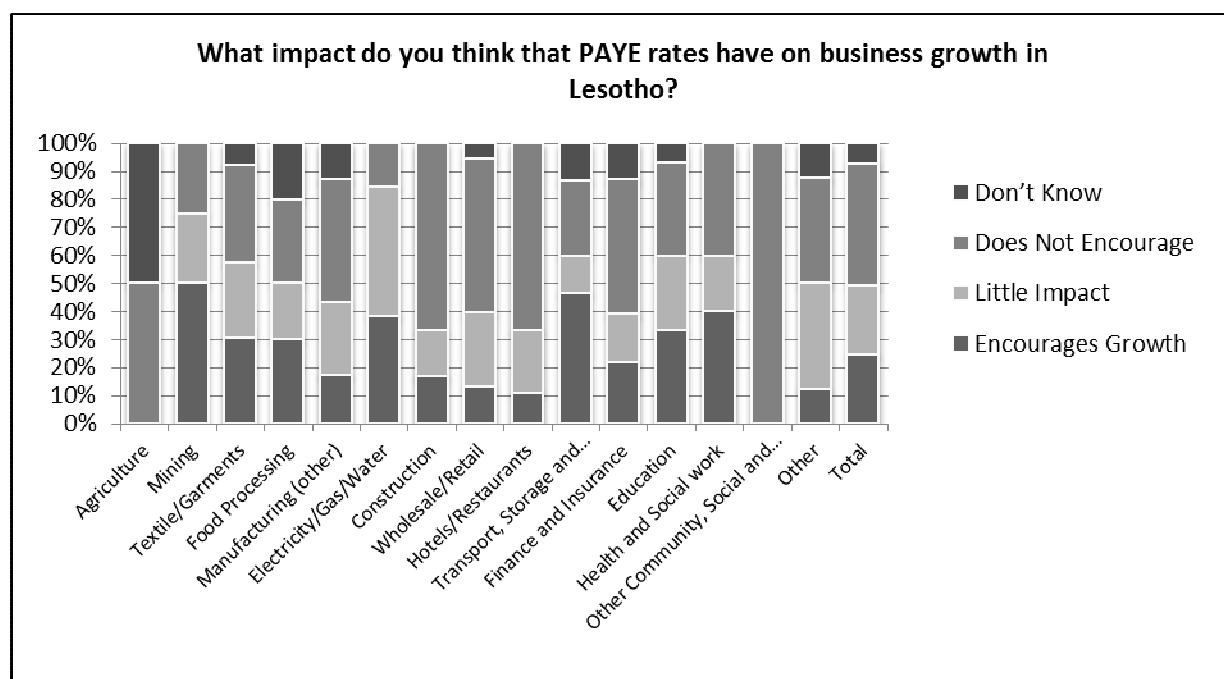
of tax rates, but with only 6 respondents in that particular sector, results may not be statistically relevant.



Source: EESE Lesotho survey.

Findings of the survey about the impact of VAT were more varied with fewer respondents expressing a negative opinion. Respondents from the sectors of mining, transport and education were of the opinion that VAT can encourage growth (50, 53 and 40 per cent, respectively). The sectors of food processing and construction were ambivalent, with respondents working in those sectors declaring that VAT has little impact on growth (40 and 50 per cent respectively).

With regards to PAYE rates, five sectors indicated that the latter were more likely to encourage growth: mining (50 per cent of respondents), food processing (30 per cent), transport (47 per cent), education (33 per cent) and health and social work (40 per cent). On the other hand, the sectors of hotels and restaurants and of construction were the most opposed to PAYE rates (67 per cent each, although, as mentioned above, there were not enough respondents in the construction sector for related data to be statistically relevant).



Source: EESE Lesotho survey.

Employment and poverty remain crucial challenges in Lesotho, especially in rural areas. Although the last labour force survey was carried out in 2008, the ILO estimates that the labour force participation rate (LFPR) in the country has been decreasing since 2005. It was 69.4 per cent in that year and decreased to 67.1 per cent in 2010. However, Lesotho's labour force participation rates are still higher than those in Namibia and South Africa. Only Botswana has a higher LFPR than Lesotho.

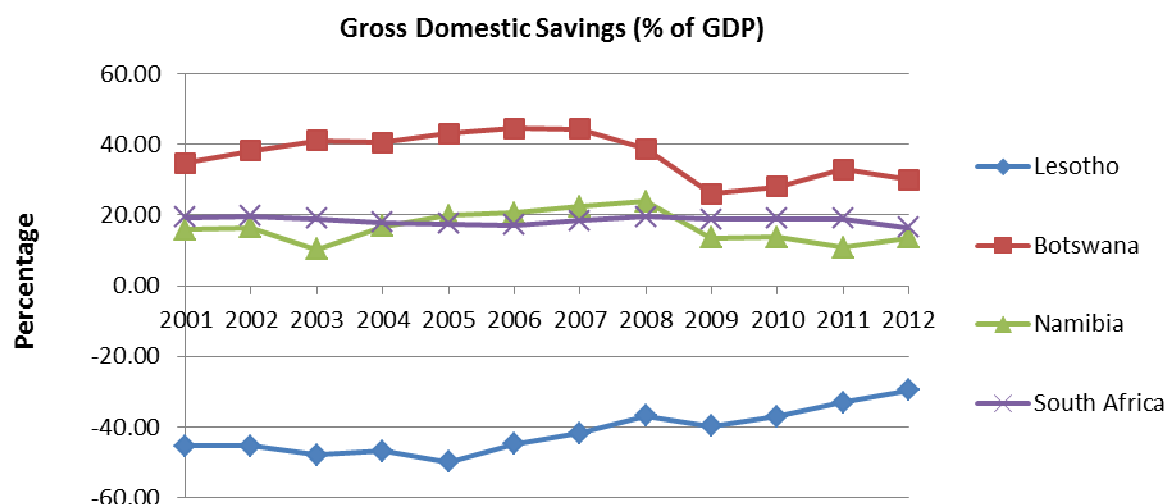
High levels of gross capital formation or investment are conducive to economic growth. Lesotho's performance in gross capital formation is good and on the increase since 2007. In 2012, it reached 31.8 per cent of GDP. Gross capital formation is systematically higher in Lesotho than in the rest of the world and than Sub-Saharan Africa. Within its region, only Botswana has managed higher rates of gross capital formation. Namibia and South Africa both have lower gross capital formation levels than Lesotho. It is however to be noted that the gross capital basis for Lesotho is much smaller than that of other countries and that its growth rate corresponds to rather low absolute values.⁵⁸

High gross domestic savings rates usually reflect a country's high potential to invest. However, savings must be deposited in financial institutions in order to be invested through credit to businesses. On the contrary, low domestic savings indicate a situation of current account deficit and a reliance on foreign financing, which increases the country's vulnerability on international markets. In Lesotho, levels of savings and investment have historically been too low to achieve sustained growth.⁵⁹ Lesotho is the only country of the region with negative domestic savings, which may eventually lead to persistent current account deficits and a deteriorating international investment position. Domestic savings, expressed as percentage of GDP have been growing since 2009 but they are still at -29.7 per cent in 2012, reflecting a decline in savings while the level of investment remained the same or increased. The deficit is expected to be financed by external debts or inflows from foreign direct investments.⁶⁰ By comparison, in 2012, Namibia saved 13.5 per cent of its GDP, South Africa 16.4 per cent, and Botswana 30.1 per cent.

⁵⁸ Input provided at the tripartite technical validation workshop, 21 May 2014, Maseru.

⁵⁹ Lesotho Government, Ministry of Development Planning. 2012.

⁶⁰ Central Bank of Lesotho. 2013b.



Source: World Bank national accounts data, and OECD National Accounts data files (World Development Indicators Online).

Key Indicators

GDP Growth (%)

Annual percentage growth rate of Gross Domestic Product (GDP) at market prices based on constant local currency. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.

Source: World Bank national accounts data (World Development Indicators Online).⁶¹

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------------------|------|------|------|------|------|------|------|
| Lesotho | 4.3 | 4.7 | 5.7 | 3.6 | 7.9 | 3.7 | 4.0 |
| Botswana | 5.1 | 8.9 | 3.7 | -8.2 | 8.6 | 6.1 | 3.7 |
| Namibia | 7.1 | 5.4 | 3.4 | -1.1 | 6.3 | 5.7 | 5.0 |
| South Africa | 5.6 | 5.5 | 3.6 | -1.5 | 3.1 | 3.5 | 2.5 |
| Sub-Saharan Africa | 6.1 | 6.9 | 5.0 | 2.0 | 5.0 | 4.5 | 4.2 |
| World | 4.1 | 4.0 | 1.4 | -2.1 | 4.0 | 2.8 | 2.2 |

Annual percentage growth rate of GDP.

⁶¹ <http://databank.worldbank.org/data/home.aspx>

Labour Force Participation Rate

The labour force participation rate is the proportion of the population ages 15-64 that is economically active: all people who supply labour for the production of goods and services during a specified period. The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working age population. The labour force is the sum of the number of persons employed and the number of unemployed. The working-age population is the population above a certain age, prescribed for the measurement of economic characteristics.

Source: ILO KILM.⁶²

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---------------------|------|------|------|------|------|------|
| Lesotho | 69.4 | 68.4 | 67.6 | 66.8 | 66.9 | 67.1 |
| Botswana | 77.8 | 78.0 | 78.2 | 78.4 | 78.6 | 78.9 |
| Namibia | 63.2 | 64.1 | 64.9 | 65.7 | 65.8 | 66.0 |
| South Africa | 56.4 | 57.0 | 57.5 | 58.8 | 57.0 | 55.2 |

The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population.

Other Useful Indicators

Current Account Balance (% of GDP)

Current account balance (also called 'current account surplus/deficit') is the sum of net exports of goods and services, net income, and net current transfers. It is a record of a country's transactions with the rest of the world. It shows whether a country is 'living within its means'. If a country is spending more abroad than it earns from the rest of the world then corrective action will be necessary, e.g. to maintain the value of the country's currency in relation to other countries' currency. The balance of payments is a double-entry accounting system that shows all flows of goods and services into and out of an economy. All transactions are recorded twice - once as a credit and once as a debit. In principle the net balance should be zero, but in practice the accounts often do not balance, requiring inclusion of a balancing item, net errors and omissions. Positive current account (surplus) balance is associated with positive net exports. If the current account balance is negative, it measures the portion of domestic investment financed by foreigners' savings.

Source: International Monetary Fund, World Economic Outlook Database, April 2010.⁶³

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---------------------|-------|-------|--------|--------|--------|-------|
| Lesotho | 9.59 | -1.51 | -19.89 | -15.69 | -12.53 | -6.55 |
| Botswana | 4.91 | -5.12 | -7.60 | -7.71 | -10.39 | -9.04 |
| Namibia | 2.72 | -2.19 | -6.58 | -5.05 | -3.92 | -4.51 |
| South Africa | -7.08 | -3.99 | -4.95 | -6.66 | -7.01 | -7.09 |

% of GDP

⁶² <http://kilm.ilo.org/KILMnet/>

⁶³ <http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/index.aspx>

Gross Capital Formation (% of GDP)

Gross capital formation consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories. Fixed assets include land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. Inventories are stocks of goods held by firms to meet temporary or unexpected fluctuations in production or sales, and "work in progress." Gross capital formation (also called investment rate or gross domestic investment), along with foreign direct investment, is critical to economic growth and economic development. High level of gross capital formation in a period of time refers to increase in the value of inventories. High level of gross capital formation or investment is conducive to economic growth.

Source: World Bank national accounts data, and OECD National Accounts data files (World Development Indicators Online).⁶⁴

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------------------|-------|-------|-------|-------|-------|-------|
| Lesotho | 24.20 | 27.60 | 27.10 | 29.60 | 26.10 | 31.80 |
| Botswana | 30.50 | 34.10 | 37.90 | 35.40 | 38.70 | 35.60 |
| Namibia | 23.70 | 25.40 | 22.30 | 21.10 | 20.00 | 23.40 |
| South Africa | 21.20 | 22.70 | 19.50 | 19.20 | 19.50 | 19.40 |
| Sub-Saharan Africa | 21.20 | 22.20 | 21.20 | 21.40 | 21.70 | - |
| World | 23.10 | 22.70 | 19.90 | 20.60 | 20.70 | - |

% of GDP.

Gross Domestic Savings (% of GDP)

Gross domestic savings are calculated by deducting total final consumption expenditure from GDP at current prices. A high gross domestic saving rate usually indicates a country's high potential to invest. Savings can therefore be vital to the amount of fixed capital available, which in turn can contribute to economic growth. However, increased savings do not always correspond to increased investment. If savings are not deposited into a financial intermediary like a bank, there is no chance for those savings to be recycled as investment by businesses. This means that saving may increase without increasing investment, possibly causing a shortfall of demand rather than economic growth. In the short term, if savings fall below investment, it can lead to growth of aggregate demand and economic boom. In the long term if savings fall below investment it eventually reduces investment and detracts from future growth.

Source: World Bank national accounts data, and OECD National Accounts data files (World Development Indicators Online)⁶⁵.

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------------------|-------|-------|-------|-------|-------|-------|
| Lesotho | -41.7 | -36.9 | -39.7 | -37.0 | -33.0 | -29.7 |
| Botswana | 44.4 | 38.7 | 26.1 | 28.0 | 32.9 | 30.1 |
| Namibia | 22.4 | 23.9 | 13.6 | 13.7 | 10.9 | 13.5 |
| South Africa | 18.5 | 19.6 | 18.7 | 19.0 | 18.9 | 16.4 |
| Sub-Saharan Africa | 18.4 | 17.5 | 15.4 | 17.7 | 17.7 | - |
| World | 23.3 | 22.3 | 20.1 | 20.7 | 20.6 | - |

% of GDP.

⁶⁴ <http://databank.worldbank.org/data/home.aspx>

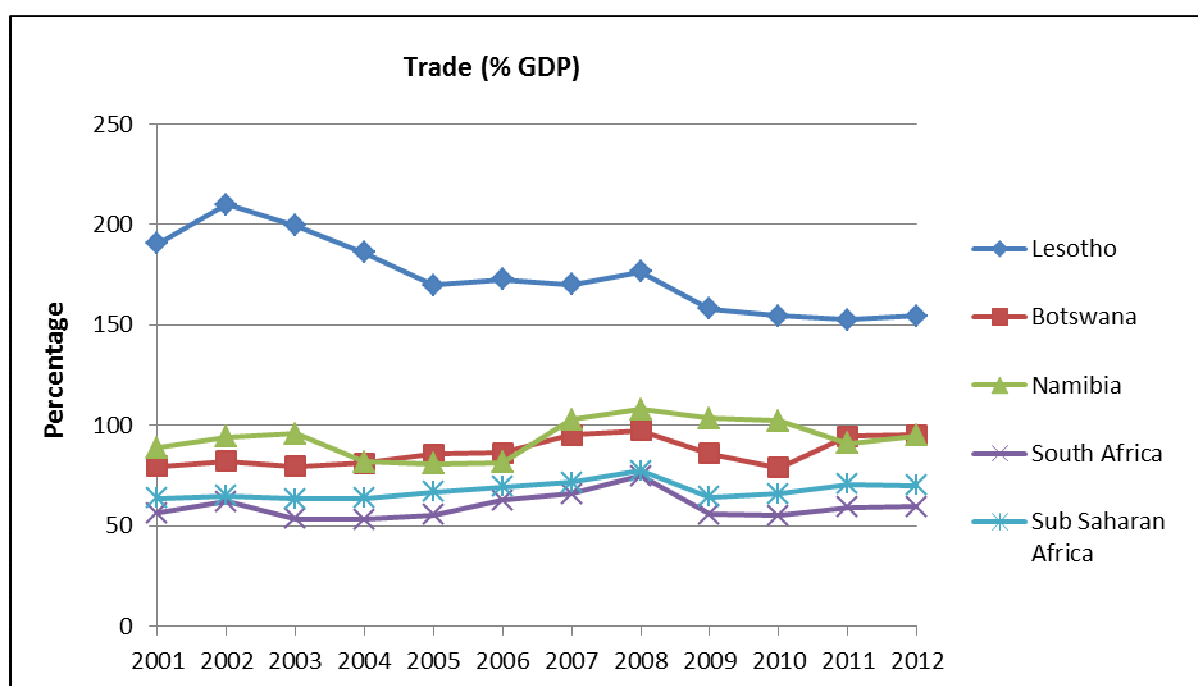
⁶⁵ <http://databank.worldbank.org/data/home.aspx>

3.2. Trade and sustainable economic integration

Trade integration can lead to positive employment effects through efficiency gains. However, as trade integration can also lead to job dislocation, increased informality and growing income inequality, the employment and decent work impact of trade policies must be carefully considered.

“Trade” as an indicator measures the sum of exports and imports of goods and services as a share of GDP. For some countries, in particular small ones, it exceeds 100 per cent. For instance, Swaziland’s trade share in GDP was 186 per cent in 2004. Lesotho’s performance in this respect has been typical of a small economy and outperformed Botswana, Namibia and South Africa. The latest rate recorded for Lesotho was 154.5 per cent of GDP in 2012, which reflected the high volumes of cross-border trade between Lesotho and South Africa. The “Export Propensity Index” measures the export of goods and services as a percentage of GDP. In 2012, Lesotho registered a share of 46.5 per cent, which is higher than values recorded for Botswana, Namibia and South Africa in the same year.

Lesotho’s balance of trade ran a deficit in 2012, although a surplus is expected in the medium term. High import prices combined with increase service payments more than outweighed the improved performance of exports. Exports recovered significantly in 2012, thanks to the good performance of mines as well as textiles and garment sales to the US. Textile and garments constitute close to 65 per cent of Lesotho exports. However, to remain viable the textile industry has to diversify both markets and products.⁶⁶



Source: World Bank national accounts data (World Development Indicators Online).

Given its geographical situation, small domestic market (2 million people), and low GDP, regional integration is essential to Lesotho’s economic development, poverty reduction efforts and progress towards achieving the MDGs. Under the African Growth and Opportunity Act (AGOA) trade preferences with the US, Lesotho’s exports have duty-free and quota-free access to the United States. As of 2008, Lesotho can also rely on a Free Trade Agreement between the Southern African Customs Union (SACU) and the European Free Trade Association (EFTA) which covers trade in

⁶⁶ Africa Economic Outlook. 2013.

most industrial goods, fish, and processed agricultural products.⁶⁷ These agreements have transformed Lesotho from an economy predominantly reliant on subsistence agriculture and on employment from South Africa mines and industries to one where the textile and garment industry has become a significant source of employment and foreign exchange. Lesotho continues to benefit from regional integration as a member of the Southern Africa Development Community (SADC) and as a participant in the tripartite trade negotiations among SADC, the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA). In addition to being Lesotho's main trading partner in Africa, South Africa is also involved in various initiatives to promote the development of regional infrastructures, such as the LHWP, a joint venture between Lesotho and South Africa to generate electricity for the region, and the LHWP II, a joint venture between Lesotho and South Africa to supply water.⁶⁸

Lesotho has taken advantage of the AGOA to become the largest exporter of garments to the US from sub-Saharan Africa. However, the industry is at risk of changes in trade policy of importing countries, particularly from the US. The apparel industry is the largest formal employer in Lesotho, with nearly 50 per cent of the formally employed workforce. In 2009, 36 factories employed approximately 40,000 workers, representing 80 per cent of all jobs in Lesotho's manufacturing sector. Women hold 80-85 per cent of jobs in the garment sector. Surveys within the sector show that 46 per cent of employees are HIV-positive.⁶⁹ Minimum wage negotiations have been controversial, partly due to the lack of clear set criteria for wages adjustments.⁷⁰

In order to find out about the ease or difficulty of importing and exporting goods and services in Lesotho, the EESE survey assessed the efficiency of the customs system. Only about 12 per cent respondents described the system as "very efficient", although an additional 42 per cent found the customs system to be adequate. On the other hand, cumulatively, 43 per cent described it as poor or very poor. Managers were most likely to have a positive opinion of the system (63 per cent found it very efficient or adequate), whereas workers were most likely to be undecided (47 per cent found it efficient or adequate, 48 per cent found it poor or very poor, and 6 per cent did not know). Respondents from SMEs were more likely than those from MNEs to find the customs system very efficient (15 per cent against 7 per cent, respectively). Surprisingly, respondents from SMEs were also more likely than those from MNEs to find customs services very inefficient (25 per cent against 19 per cent, respectively). Respondents from MNEs were therefore more nuanced than those from SMEs. It is however to be noted that SMEs may not know much about the customs system.⁷¹

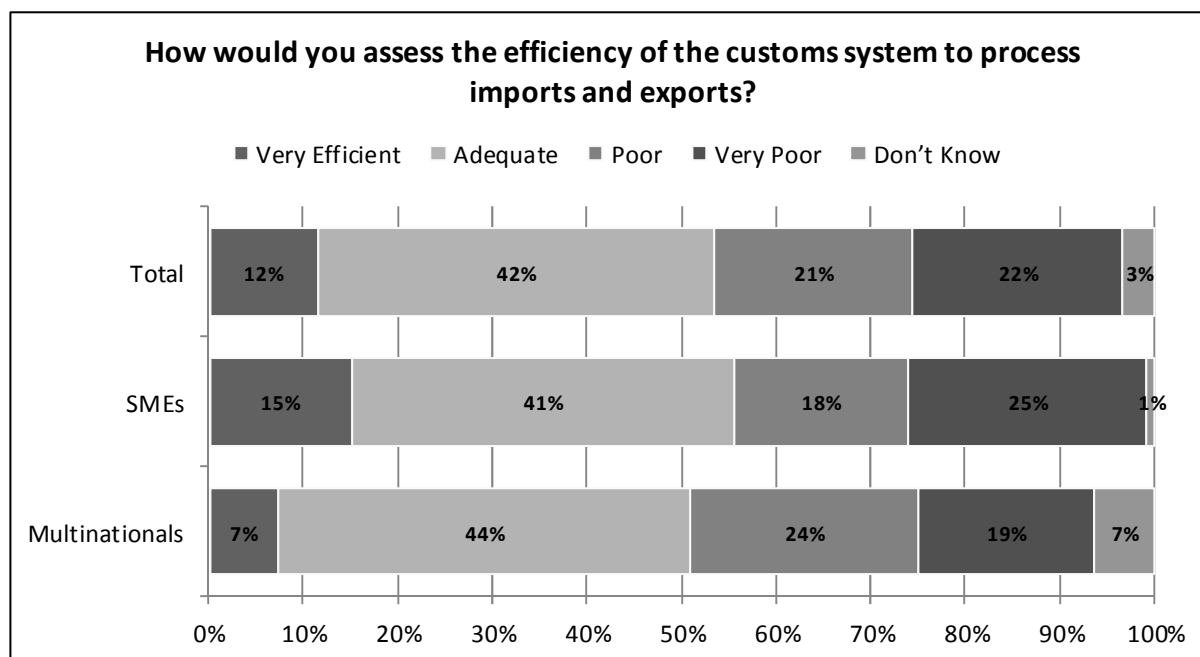
⁶⁷ The World Bank. 2010.

⁶⁸ Africa Economic Outlook. 2013

⁶⁹ ILO. 2012a.

⁷⁰ Ibid.

⁷¹ Input provided at the tripartite technical validation workshop, 21 May 2014, Maseru.

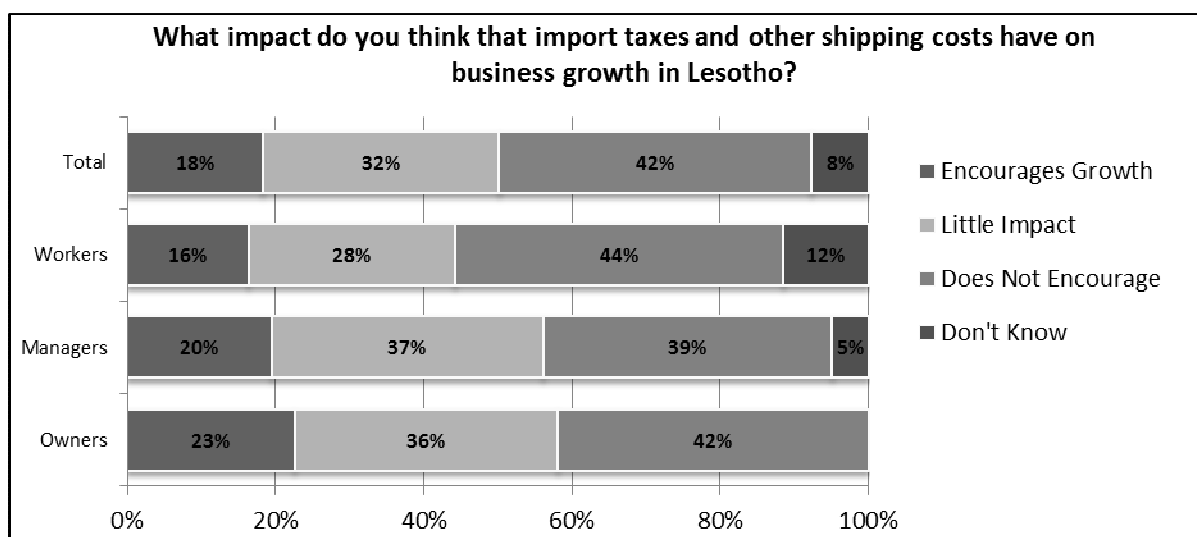


Source: EESE Lesotho survey.

Measures aimed at controlling imports to protect domestic industries were found important or very important by 32 and 42 per cent, respectively, of respondents in the EESE Survey. There is only a small difference between respondents from MNEs and SMEs, although it appears that SME respondents, who were slightly more likely than MNE respondents to find these measures very important (45 per cent vs. 39 per cent, respectively), are more concerned to have their trade and business environments protected from external competition.

The impact that taxes can have on trade and growth can both be one of employment creation or one of “job dislocation, increased formality and growing income inequality”.⁷² To test how Lesotho fared in this respect, respondents were asked about the impact of taxes and shipping costs on business growth in Lesotho. Overall, most respondents (22 per cent) answered that import taxes do not encourage growth. This position was particularly strong among workers (43 per cent), together with 39 per cent of managers and 42 per cent of owners. Conversely, owners (23 per cent) were more likely to agree that import taxes encourage growth than managers (20 per cent) and workers (16.4 per cent).

⁷² ILO. 2007.



Source: EESE Lesotho survey.

The “Enabling Trade Index” measures the factors, policies and services facilitating the free flow of goods over borders and to final destination. On a scale from 1 to 7 where the highest value indicates that a country is successful at enabling the free flow of trade, Lesotho earned a score of 3.5 in 2014. This is lower than the values recorded in the same year by its three neighbouring countries chosen for comparison. Considering data from the World Bank’s Doing Business Report, the number of documents required to import and export in Lesotho has slightly decreased in recent years, reaching the number of 7 in both areas in 2014. Of its three neighbouring countries used for comparison, only Namibia performed slightly worse in this respect. The situation of Lesotho has remarkably improved even concerning the number of days it takes to import and export, although Namibia and South Africa still perform better. For Lesotho, in 2013 it took 31 days to export and 32 to import. Of the three countries used for comparison, the best performers are South Africa with 16 days to export and Namibia with 20 to import.

“Foreign Direct Investment” (FDI) measures the net inflows of investment to acquire lasting management of an enterprise operating in a country different from that of the investor. The rates recorded for Lesotho for this indicator are higher than all those registered for its neighbouring countries. The differential is particularly strong for the year 2012, when Lesotho’s net inflows represented 8.1 per cent of its GDP, far ahead even of those of Sub-Saharan Africa and of the world means. The latest net value for FDI in Lesotho stood at USD194 million in 2012, up from USD55 million in 2006.⁷³ Most investment currently originates from Taiwan, Hong Kong, Singapore and South Africa. While unofficial, the single largest investment is believed to be the \$120 million in capital infrastructure by the Taiwanese Nien Hsing Group.⁷⁴

Surprisingly, considering its performance in attracting FDI in comparison to the rest of the world and its neighbours, Lesotho does not have a specific FDI policy, although it has implemented the Companies Act of 2011 which acts as a policy instrument guiding FDI. In addition the country provides a range of supportive services for foreign investors through the Lesotho National Development Corporation (LNDC). The Government of Lesotho has established a "One Stop Business Facilitation Centre" (OBFC) where all services required for the issuance of licenses, permits, imports, and exports clearances are placed under one roof. The OBFC also offers assistance with logistical support for relocation.⁷⁵ The Government of Lesotho has also put in place other

⁷³ World Development Indicators, <http://data.worldbank.org/indicator/BN.KLT.DINV.CD>. Accessed 9 May 2014.

⁷⁴ KPMG. 2013.

⁷⁵ Ibid.

incentives such as VAT exemptions on inputs used during construction which led to the reopening of the three diamond mines in 2011.⁷⁶

FDI have substantially benefited the Lesotho economy, for example by boosting employment in the textile and apparel industry. In conjunction with the AGOA, FDI contributed to an increased production of exported goods, thus resulting in an increase in export earnings. It also contributed directly to economic growth through the output of FDI firms and indirectly through spill over effects to sectors that provide services and utilities to the firms and retailers who benefit from increased demand by the increased number of employees.⁷⁷

Ninety per cent of FDI into the country are channelled into the export-oriented manufacturing sub-sector, especially textiles and apparel for the US and South African markets. Foreign investors in the apparel industry have created jobs, particularly for women, and contributed to poverty reduction, creating a generally positive view of FDI. FDI in diamond mining have been revived by the reopening of three commercial diamond mines in 2011, namely Lets'eng Diamonds, Liqhobong, and Kao diamond mines. The telecommunications sector in Lesotho has also attracted FDI. The consortium of ESKOM, Zimbabwe's Econet Wireless International, and Mauritius Telecom has a 70 per cent share of Lesotho Telecom.⁷⁸

The main weakness of the investment climate is an under-developed legal framework for investors. The country's FDI policy and legal framework need development to enhance transparency and consistency. Generally, the Government of Lesotho continues to recognise the need for the country to be competitive in regional and international markets. To achieve this goal, the Government has embarked on structural reforms that aim at improving the investment climate. Initiatives include private sector competitiveness programmes under the Millennium Challenge Compact (MCC) and the World Bank, as well as modernising customs processes through technical assistance from the USAID-funded Southern Africa Trade Hub. Specific activities include modernising bank payment systems; introducing national IDs; creating a credit facility for manufacturers; and modernising land tenure systems.⁷⁹

⁷⁶ Central Bank of Lesotho. 2012a.

⁷⁷ Ibid.

⁷⁸ KPMG. 2013.

⁷⁹ Ibid.

Key Indicators

Trade (% of GDP)

Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product. It takes values between 0 and $+\infty$. Please note that the trade-to-GDP ratio refers to the sum of the imports and exports and could therefore exceed 100%.

Source: World Bank national accounts data (World Development Indicators Online)⁸⁰

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------------------|--------|--------|--------|--------|--------|--------|
| Lesotho | 170.10 | 176.55 | 157.96 | 154.60 | 152.68 | 154.55 |
| Botswana | 93.77 | 102.64 | 85.88 | 78.93 | 94.48 | 94.50 |
| Namibia | 102.78 | 107.79 | 103.41 | 102.32 | 91.10 | 95.05 |
| South Africa | 65.69 | 74.82 | 55.50 | 54.93 | 59.18 | 59.56 |
| Sub-Saharan Africa | 70.95 | 75.77 | 63.54 | 66.11 | 73.09 | 69.81 |
| World | 58.85 | 61.03 | 52.64 | 57.63 | 61.21 | 60.47 |

Trade share (%) in GDP.

Enabling Trade Index (ETI)

The Enabling Trade Index measures the factors, policies and services facilitating the free flow of goods over borders and to destination. The index breaks the enablers into four overall issue areas: (1) market access, (2) border administration, (3) transport and communications infrastructure and (4) the business environment.

Source: World Economic Forum⁸¹

| | Report 2008 | Report 2009 | Report 2010 | Report 2012 | Report 2014 |
|---------------------|-------------|-------------|-------------|-------------|-------------|
| Lesotho | 3.4 | 3.5 | 3.6 | 3.4 | 3.5 |
| Botswana | - | - | 4.2 | 4.3 | 3.7 |
| Namibia | - | 3.9 | 4.0 | 3.9 | 3.9 |
| South Africa | 4.0 | 3.9 | 4.0 | 4.1 | 4.2 |

On a scale from 1 to 7, a high score in the overall ETI indicates that a country is relatively successful at enabling the free flow of trade.

⁸⁰ <http://data.worldbank.org/indicator/NE.TRD.GNFS.ZS?display=default>. Accessed 3 April 2014.

⁸¹ <http://www.weforum.org/s?s=global+enabling+trade+report> (Reports 2009, 2010, 2012, 2014), <http://www.scribd.com/doc/3488510/Global-Enabling-Trade-Report-2008> (Report 2008).

| FDI net inflow (% of GDP) | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <p>Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 per cent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows in the reporting economy and is divided by GDP.</p> <p>Source: International Monetary Fund, International Financial Statistics and Balance of Payments databases & World Development Indicators Online)⁸²</p> | Lesotho | 6.5 | 11.9 | 10.3 | 8.1 | 7.9 | 8.1 |
| | Botswana | 4.5 | 4.7 | 1.3 | 0.0 | 2.7 | 2.0 |
| | Namibia | 7.6 | 8.5 | 6.2 | 6.2 | 7.7 | 2.7 |
| | South Africa | 2.3 | 3.6 | 2.7 | 1.0 | 1.0 | 1.2 |
| | Sub-Saharan Africa | 3.7 | 4.4 | 4.2 | 3.1 | 3.2 | 3.0 |
| | World | 4.2 | 3.5 | 2.1 | 2.3 | 2.5 | 2.1 |
| FDI net inflow (in current US\$ as % of GDP). | | | | | | | |

Other Useful Indicators

| Export Propensity Index = Exports of goods and services (% of GDP) | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <p>Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude labour and property income (formerly called factor services) as well as transfer payments.</p> <p>Source: World Bank national accounts data, and OECD national accounts data files (World Development Indicators Online)⁸³</p> | Lesotho | 52.10 | 56.02 | 45.59 | 44.05 | 46.78 | 46.52 |
| | Botswana | 53.69 | 52.73 | 37.06 | 35.77 | 44.35 | 44.50 |
| | Namibia | 50.73 | 53.16 | 47.30 | 47.49 | 41.00 | 42.59 |
| | South Africa | 31.48 | 35.88 | 27.31 | 27.36 | 29.28 | 28.26 |
| | Sub-Saharan Africa | 34.50 | 37.26 | 29.32 | 32.31 | 36.25 | 34.98 |
| | World | 29.55 | 30.38 | 26.52 | 28.89 | 30.57 | 30.15 |
| It ranges from 0 (with no exports) to 100 (with all domestic production exported). | | | | | | | |

⁸² <http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS>. Accessed 4 April 2014.

⁸³ <http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS>. Accessed 2 April 2014.

3.3. Enabling legal and regulatory environment

Well-designed and clear regulations, including those that uphold labour and environmental standards, are good for the promotion of start-ups and enterprise development. They facilitate formalization and boost systemic competitiveness. The “Regulatory Quality Index” measures the ability of a government to provide sound policies and regulations for the promotion of the private sector. Lesotho’s performance in this regard has been poor and below 0, shifting from -0.7 in 2006 to -0.5 in 2012, on a scale from -2.5 to 2.5 with higher values indicating better performance. The country has slightly improved in time, but scores poorly and worse than its three neighbouring countries selected for comparison. The “Regulatory Quality Index” may however not pay full justice to policies recently adopted in Lesotho to promote the private sector. Among those measures are a new Company Act adopted in 2011, company regulations passed in 2012 and the privatization of some state-owned enterprises.⁸⁴

Inadequate regulations and policies may lead to the expansion of the informal economy. Informal employment constitutes a large share of employment in Lesotho. According to the most recent available data, in 2008, 70 thousand women and 90 thousand men were informally employed. This was equal to, respectively 36.1 and 34.1 per cent of all non-agricultural employment.⁸⁵ The highest contributions to informal employment by sector include manufacturing (49 per cent), construction (26.7 per cent), wholesale and retail trade (29.1 per cent), public administration (19 per cent, mainly in rural areas) and education, (23.9 per cent, also mainly in rural areas).⁸⁶ It seems that a simplification of the tax regime would encourage businesses to comply with tax requirements. Small businesses in Lesotho complain about their limited access to information on tax compliance and onerous reporting requirements, which results in many of them operating informally.⁸⁷

The “Ease of Doing Business Index” ranks economies from 1 to 189, where a high ranking reflects a regulatory environment that is conducive for business operations. This index includes averages for 10 different topics. The data show that the situation in Lesotho has worsened between 2007 and 2014. However, the country improved recently, moving from 153 in 2011 to 136 in 2014. Lesotho’s performance in this respect is considerably worse than that of its three neighbouring countries used for comparison. The situation has nonetheless improved and incorporating a business now takes only 4 days,⁸⁸ and no minimum capital is required.

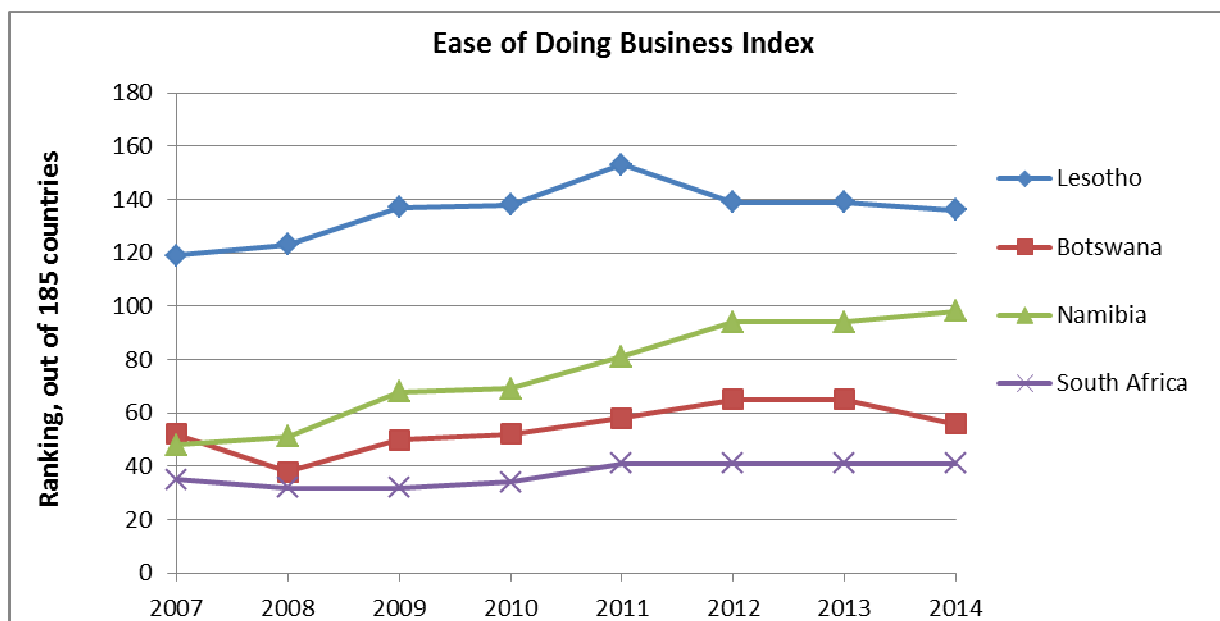
⁸⁴ Input provided at the tripartite technical workshop “Enhanced Policy Advocacy for Sustainable Enterprise”, 5-6 November 2013, Maseru.

⁸⁵ ILO. 2012b.

⁸⁶ United Nations Conference on Trade and Development. 2013.

⁸⁷ FIAS. 2007.

⁸⁸ One-Stop Business Facilitation Centre, as reported at the tripartite technical validation workshop, 21 May 2014, Maseru.



Source: World Bank, Doing Business project.

The “Starting a Business Index” records the officially required procedures to start and operate an enterprise. In recent years, Lesotho’s ranking in this regard has remarkably improved, shifting from 126 in 2007 to 89 in 2013 out of 189 countries. Of its three neighbouring countries used for comparison, only South Africa scored better in this latter year. The number of days required to start a business in Lesotho has decreased from 73 in 2007 to 29 in 2013. Only South Africa performed better with 19 days required in 2013. The establishment in 2009 of the One-Stop Business Facilitation Centre (also known as the One Stop Shop) has contributed to creating and enabling a regulatory and administrative environment in which businesses can operate. The One Stop Business Facilitation Centre comprises of officials from the Lesotho Revenue Authority, the Ministries of Trade and Industry, Labour and Employment and Home Affairs. It provides services relating to the issuance of import permits, exports visas, trading small scale manufacturing and manufacturing licences and work and residence permits, Southern African Customs Union (SACU) National Body and Company Registration.⁸⁹

⁸⁹ <http://www.obfc.org.ls/companyInfo/default.php>. Accessed 9 April 2014.

| Key Indicators | | | | | | | | |
|--|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Regulatory Quality Index The ability of the Government to provide sound policies and regulations that enable and promote private sector development. Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance. <u>Source:</u> World Bank, Worldwide Governance Indicators. ⁹⁰ | | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| | Lesotho | -0.7 | -0.7 | -0.6 | -0.6 | -0.6 | -0.6 | -0.5 |
| | Botswana | 0.5 | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.7 |
| | Namibia | 0.1 | 0 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| | South Africa | 0.7 | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 |
| | Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance. | | | | | | | |
| Other Useful Indicators | | | | | | | | |
| Starting a Business (rank) Starting a Business Index records all procedures that are officially required for an entrepreneur to start up and formally operate an industrial or commercial business. These include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company and employees with relevant authorities. <u>Source:</u> World Bank, Doing Business project. ⁹¹ | | 2007 (2008 Report) | 2008 (2009 Report) | 2009 (2010 Report) | 2010 (2011 Report) | 2011 (2012 Report) | 2012 (2013 Report) | 2013 (2014 Report) |
| | Lesotho | 126 | 125 | 131 | 140 | 144 | 88 | 89 |
| | Botswana | 99 | 80 | 83 | 90 | 96 | 95 | 96 |
| | Namibia | 101 | 112 | 123 | 124 | 130 | 132 | 132 |
| | South Africa | 53 | 47 | 67 | 75 | 43 | 56 | 64 |
| | The index ranks economies from 1 to 189, with first place being the best. | | | | | | | |

3.4. Rule of law and secure property rights

A formal and effective legal system which guarantees that contracts are honoured and upheld, the rule of law is respected, and property rights are secure, is a key condition for attracting investment, as well as for nurturing trust and fairness in society.

The “Rule of Law” index measures the extent to which agents have confidence in and abide by the rules of society. This includes the quality of contract enforcement and property rights, the police

⁹⁰ http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=worldwide-governance-indicators#c_s

⁹¹ <http://www.doingbusiness.org/EconomyRankings/>

and the courts, as well as the likelihood of crime and violence. None of Lesotho's neighbouring countries do well on this indicator. Botswana recorded the highest value at 0.7 in 2012 in a range of values from -2.5 to 2.5 with higher values indicating better performance. Namibia and South Africa recorded 0.2 and 0.1, respectively. Lesotho is however the only country of the four used for comparison to record a negative value of -0.3 in 2012.

This low performance may be explained by the fact that although there is generally respect for the rule of law in Lesotho, there are long delays in dispensing justice and a general lack of trust and confidence in the capacity and political neutrality of law enforcement agencies mandated to investigate crimes, enforce the law and protect the Constitution. A major challenge is the absence of adequate infrastructure and of human and physical resources that could afford sufficient protection to particular sections of society, such as lenders requiring protection against delinquent borrowers. Inadequate protection of lenders may lead to reluctance on the part of banks to provide loans, thus contributing significantly to the destabilisation of the financial system. The fact that people do not pay their debts as agreed with their banks is in effect non-observance of the rule of law, which is compounded by court delays in the disposal of cases where lenders seek to enforce repayment of the debts. This shortcoming has been addressed partly by the establishment of a commercial court as well as through improvements in the legal procedures for debt recovery. This is clearly a step towards promoting financial stability and encouraging private sector lending in the country.⁹²

When it comes to assessing whether "Property rights" are well defined and protected by law, Lesotho generally scores worse than Botswana, Namibia and South Africa. Its situation in this respect has been slightly worsening from 3.4 in 2008 to 3.3 in 2013, on a scale from 1 to 7 where higher values indicate better performance. Botswana, Namibia and South Africa outperform Lesotho in this respect, and the world mean was also higher than the value registered for Lesotho, at 4.3 in 2013. Despite recent advances, such as the aforementioned adoption of the Legal Capacity of Married Persons Act 2006, women remain discriminated against, notably in customary law.⁹³ However, in order to promote property rights for women, a land reform programme was launched in 2012 which made it possible to register land parcels even when informally occupied by citizens. A second explicit objective of this reform was to make Lesotho's economy more attractive to private investment, while also insuring formal land security and enabling women (as well as men) to use titles as collateral for loans and credit.⁹⁴

While assessing whether "Intellectual Property Protection" is weak and not enforced, or strong and enforced, on a scale from 1 to 7 with higher values corresponding to better performance, Lesotho slightly improved from 3.2 in 2008 to 3.3 in 2013. Botswana, Namibia and South Africa outperform Lesotho, and the world mean was also higher than the value registered for Lesotho, at 3.8 in 2013. Lesotho respects international intellectual property laws and is a member of the World Intellectual Property Organization (WIPO) and the African Regional Intellectual Property Organization. Secured interests in property, both movable and real, are recognized and enforced in Lesotho.⁹⁵

The Lesotho ESE survey indicates that the capacity of the courts to rule on disputes was deemed adequate by 35 per cent of respondents and low by 25 per cent of respondents. Only 6 per cent of respondents found it very high. In reply to a similar question on the capacity of the police to protect businesses from criminal behaviour, 30 per cent of respondents described it as adequate, and

⁹² Pholo. 2013.

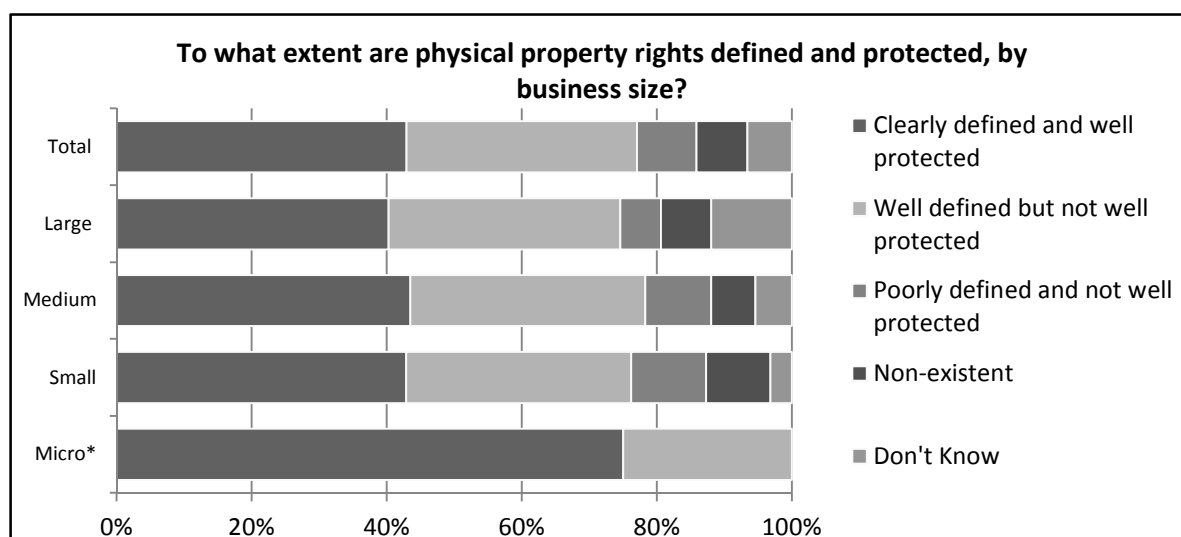
⁹³ Open Society Initiative for Southern Africa. 2013b.

⁹⁴ La Pietra Coalition. 2012.

⁹⁵ United States Department of State. 2013.

a further 28 per cent as very low. The limited capacity of the police may well be seen as a business opportunity for enterprises operating in the field of security⁹⁶.

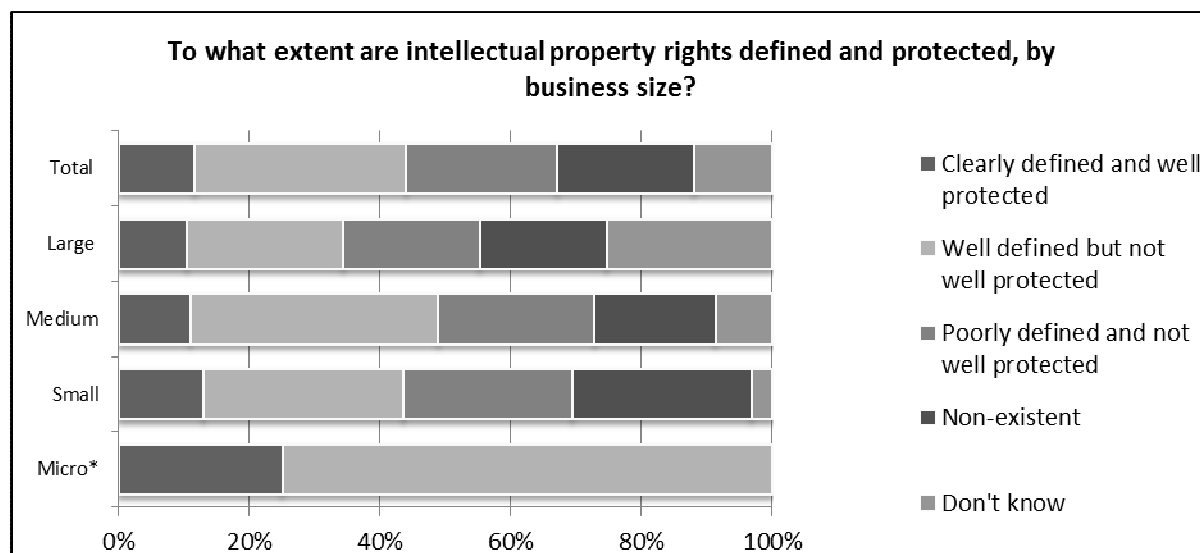
These findings suggest that overall, although property and intellectual rights may be defined in law, protection was perceived to be only moderate, as was the capacity of the courts and the police: 41 per cent of respondents believed property rights to be both clearly defined and well protected, and 36 per cent that these rights were well defined but not well protected. SME owners were more likely (32 per cent) than respondents from other groups to answer that property rights are poorly defined and not well protected, even if 12 per cent of them described these rights as “non-existent” in Lesotho. These perceptions were also relatively consistent across businesses of different sizes.



Source: EESE Lesotho survey.

The size of business did not appear to be a significant determinant with regards to the perception of the definition and protection of property rights. The largest share of respondents across business size agreed that intellectual property was well defined but not well protected. However, cumulatively, most small businesses (53 per cent) and most large businesses (40 per cent) indicated that the protection of intellectual property was either poorly defined or altogether non-existent. Interestingly, a quarter of large companies did not know whether intellectual property rights are defined in any way.

⁹⁶ Input provided at the tripartite technical validation workshop, 21 May 2014, Maseru.



Source: EESE Lesotho survey.

Although differences between age groups are not substantial, there is a noticeable trend towards an improved recognition of intellectual property rights as respondents get older. Younger respondents aged 18-24 were more likely (33 per cent) to be unaware of the existence of property rights. They were also more likely (28 per cent) to declare that they were poorly defined and not well protected. Respondents aged 25-34 and 35-44 had similar views about intellectual property. A majority of them (45 and 47 per cent, respectively) indicated that intellectual property rights were either well defined but not well protected or clearly defined and well protected. More than half of respondents from older age groups (45+) had a positive opinion with regards to the definition and protection of intellectual property rights.



Source: EESE Lesotho survey.

Key Indicators

Rule of Law Index

The extent to which agents have confidence in and abide by the rules of society, including the quality of contract enforcement and property rights, the police, and the courts, as well as the likelihood of crime and violence.

Source: World Bank, Governance Matters database⁹⁷

| | 2007 | 2008 | 2009 | 2010 | 2012 |
|---------------------|------|------|------|------|------|
| Lesotho | -0.3 | -0.3 | -0.2 | -0.3 | -0.3 |
| Botswana | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 |
| Namibia | 0.1 | 0.4 | 0.2 | 0.2 | 0.2 |
| South Africa | 0.1 | 0 | 0.1 | 0.1 | 0.1 |

Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.

Other Useful Indicators

Property rights

The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: "Property rights in your country, including over financial assets, are 1= poorly defined and not protected by law, 7=clearly defined and well protected by law".

Source: World Economic Forum, The Global Competitiveness Report⁹⁸.

| | 2009 (GC 09/10) | 2010 (GC 10/11) | 2011 (GC 11/12) | 2012 (GC 12/13) | 2013 (GC13/14) |
|---------------------|--------------------|--------------------|--------------------|--------------------|-------------------|
| Lesotho | 3.89 | 3.66 | 3.45 | 3.28 | 3.28 |
| Botswana | 5.30 | 5.30 | 5.12 | 4.86 | 4.94 |
| Namibia | 5.84 | 5.64 | 5.37 | 5.08 | 5.09 |
| South Africa | 5.87 | 5.40 | 5.29 | 5.40 | 5.62 |
| World | 4.50 | 4.40 | 4.30 | 4.30 | 4.30 |

1= poorly defined and not protected by law, 7=clearly defined and well protected by law.

⁹⁷ http://info.worldbank.org/governance/wgi/sc_country.asp

⁹⁸ <http://www.weforum.org/issues/global-competitiveness>

| Intellectual property protection | | 2009 (GC 09/10) | 2010 (GC 10/11) | 2011 (GC 11/12) | 2012 (GC 12/13) | 2013 (GC 13/14) |
|---|---------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: “Intellectual property protection and anti-counterfeiting measures in your country are 1= weak and not enforced, 7=strong and enforced” | Lesotho | 3.42 | - | 2.84 | 3.00 | 3.26 |
| | Botswana | 3.94 | - | 4.00 | 4.10 | 4.06 |
| | Namibia | 4.61 | - | 4.57 | 4.30 | 4.32 |
| | South Africa | 5.22 | - | 5.31 | 5.46 | 5.62 |
| | World | 3.80 | 3.70 | 3.70 | 3.80 | 3.80 |
| 1= weak and not enforced, 7=strong and enforced. | | | | | | |
| Source: World Economic Forum, The Global Competitiveness Report ⁹⁹ . | | | | | | |

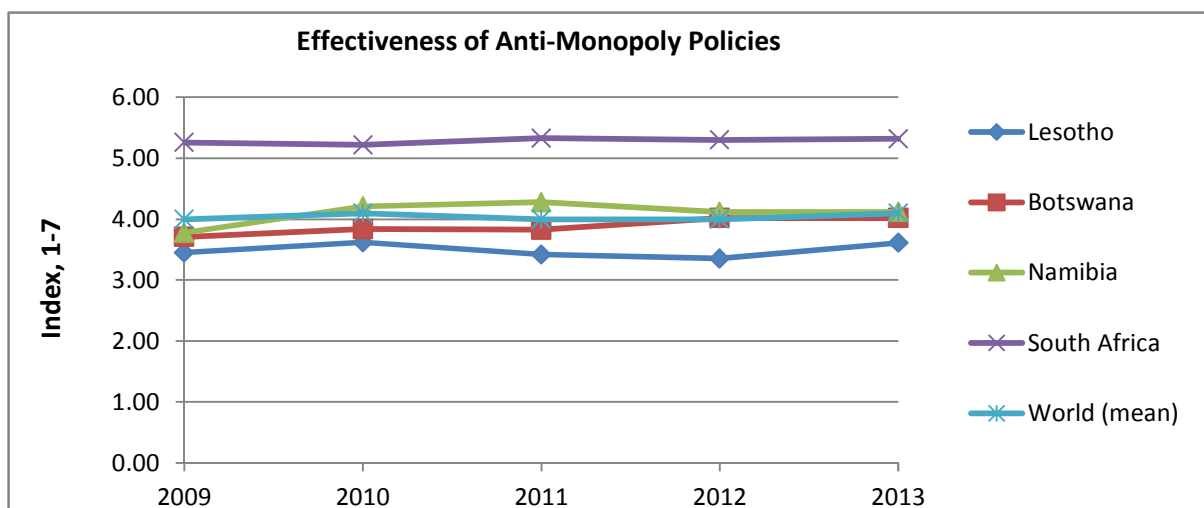
3.5. Fair competition

In order for the private sector and sustainable enterprises to develop and grow, it is important to have competition rules, including those ensuring respect for labour and social standards. In addition, anti-competitive practices at the national level must be eliminated.

“New Business Density” indicates the number of newly registered, limited liability companies per 1000 working aged people (15 to 64 years old) in a given year. Of the four countries considered, information is available only for Lesotho, Botswana and South Africa. Lesotho increased from 0.7 in 2006 to 1.2 in 2011 and reached its highest value in 2010, at 1.4. Botswana registers much higher values than Lesotho, reaching 9.4 in 2011. Both the Sub-Saharan Africa and the world means recorded values higher than that registered for Lesotho in 2011, at 2 and 3.4 respectively in that year.

The “Intensity of Local Competition Index” measures the level of competition in local markets from 1 to 7, 1 being limited and 7 being intense in most industries. Lesotho has improved in time and outperforms Namibia, scoring similarly to Botswana and worse than South Africa in 2013, reaching a value of 4.7. This is lower than the world mean of 4.9 in the same year. The “Effectiveness of Anti-Monopoly Policy Index” reflects the level of efficiency of anti-monopoly policy in promoting competition, on a scale from 1 to 7 with higher values corresponding to better performance. Lesotho has slightly improved over time, shifting from 3.45 in 2009 to 3.6 in 2013. However, Botswana, Namibia and South Africa perform better in this regard, and the world mean in 2013 was also higher, at 4.1. The “Extent of Market Dominance Index” indicates whether corporate activity is dominated by only a few business groups or spread among many firms, in a range of values from 1 to 7 with higher values corresponding to more firms. In 2013, Lesotho performed similarly to Botswana and worse than Namibia and South Africa, reaching a value of 3.4. Even the world mean was higher, at 3.8 in that year.

⁹⁹ <http://www.weforum.org/issues/global-competitiveness>



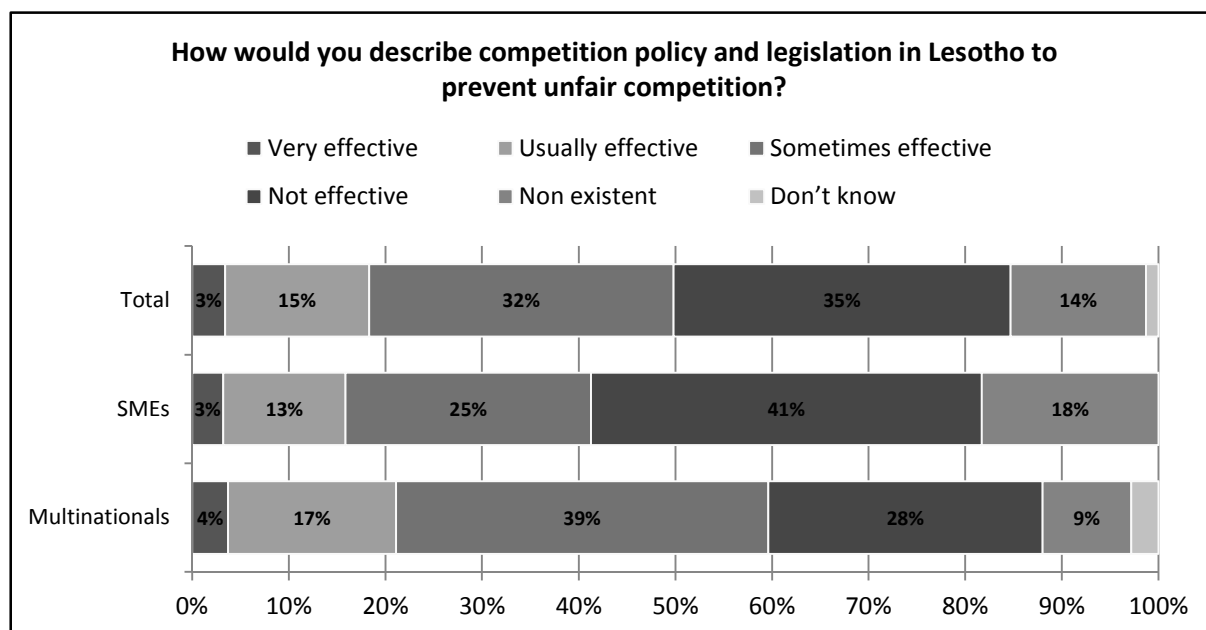
Source: World Economic Forum Executive Opinion Survey, The Global Competitiveness Report.

There are currently no laws or regulations enforcing fair competition in Lesotho. A Competition Bill is currently being drafted, which should have been passed in 2013.¹⁰⁰ At time of writing, in May 2014, there are no signs of this bill being implemented, although there are isolated pieces of legislation promoting competition in selected sectors. Lesotho privatised all state-owned enterprises (SOEs) including telecommunications, banks, utilities, government transportation, and radio following the adoption of the Privatisation Act of 1995. In 2008, the Government also introduced state-owned buses in the public transportation sector. Private enterprises are allowed to compete with public enterprises under the same terms and conditions with respect to access to markets, credit, and other business operations, such as licenses and supplies.¹⁰¹

The EESE survey nevertheless included questions about the perception of with regards to the “competition” policies and legislation in the country. Interestingly, in the absence of relevant pieces of legislation, a combined half of respondents answered that competition legislation is very effective, usually effective or sometimes effective. Business owners were more likely (45 per cent) to point out that there was no relevant legislation, followed by workers (39 per cent) and managers (26 per cent). Surprisingly, respondents from MNEs were least likely to be aware that there was no explicit competition policy in Lesotho (9 per cent responded that such policies were non-existent against 18 per cent for respondents from SMEs). In addition respondents from MNEs were also more likely to indicate that policies were usually effective or sometimes effective (56 per cent as opposed of 38 per cent of respondents from SMEs of the same opinion).

¹⁰⁰ United States Department of States. 2013.

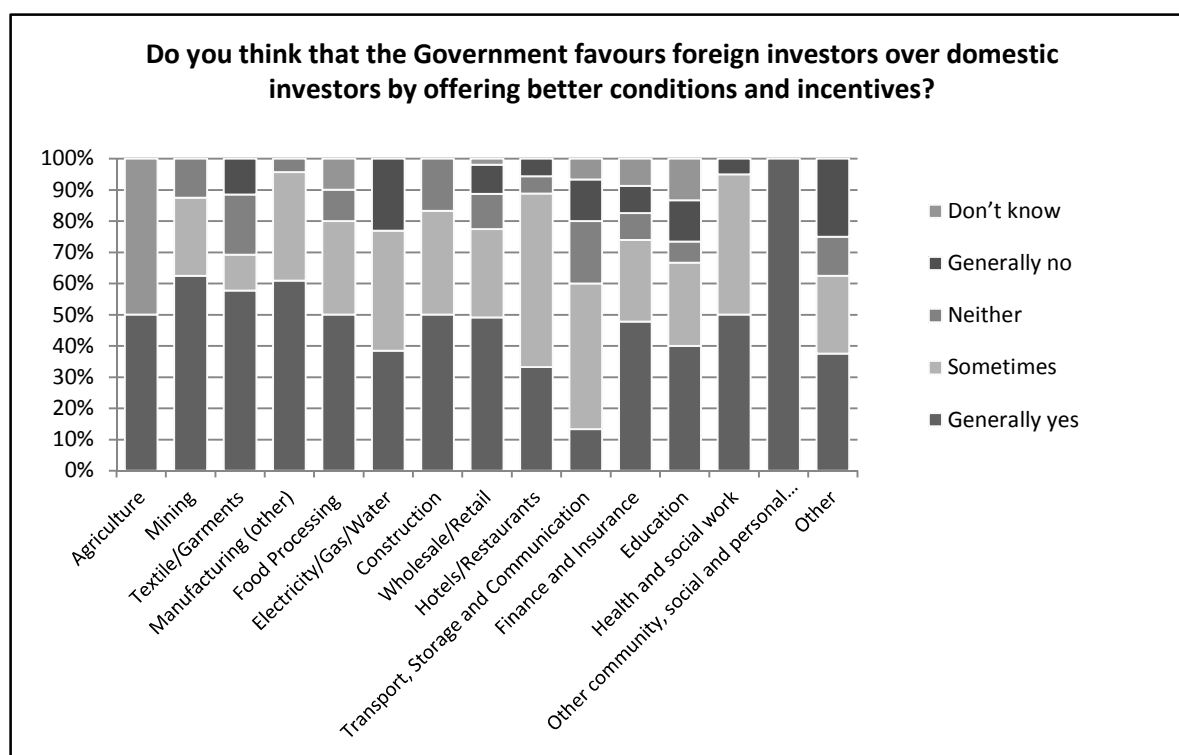
¹⁰¹ KPMG. 2012.



Source: EESE Lesotho survey.

Respondents were also asked about the extent to which the Government of Lesotho favoured foreign investors over domestic investors by offering better conditions and incentives; the overall impression amongst owners, managers and workers was that there was favouritism towards foreign investors. In total, 48 per cent of respondents indicated that government generally favoured foreign investors, and 31 per cent that it sometimes did. With the exception of the hotels and restaurants and transport sectors, all respondents concurred that the Government generally favoured foreign investors. Respondents from the hotels and restaurants and transport sectors were a little more nuanced, indicating that the Government sometimes favoured foreign investors. Sectors in which respondents were most likely to believe that foreign investors were not favoured are electricity/gas/water (23 per cent), education (13 per cent) and transport (13 per cent). These findings may be partially explained by the fact that public utilities remain out of the reach of foreign investors. As a matter of fact, electricity and water are under government control.¹⁰²

¹⁰² Input provided at the tripartite technical validation workshop, 21 May 2014, Maseru.



Source: EESE Lesotho survey.

The Lesotho EESE survey also tested the extent of consultation between employers and workers organisations and the Government on policies concerning the impacts of multinational enterprises in Lesotho. A majority of respondents (56 per cent) concurred that there was not enough consultation, and a further 26 per cent complained that there was no consultation at all. Overall, just 9 per cent of respondents thought that there was enough or too much consultation. Business owners were most likely (42 per cent) to regret the total absence of consultation. It is worth noting that 22 per cent of multinational owners and 21 per cent of multinational workers responded that they did not know whether there was any consultation taking place with the Government. Managers were most likely (65 per cent) to think that there was not enough consultation.

These findings suggest that, even in the absence of relevant legislation, economic agents have some expectations with regards to preventing unfair competition. Considering that many of them perceive that they are often disadvantaged in comparison to foreign investors, and that they also indicate a lack of consultation between the Government and employers and workers organizations on policies concerning the impacts of multinational enterprises in Lesotho, there may be a legislative void that Lesotho should seek to address.

Key indicators

New business density

The number of newly registered limited liability companies per 1,000 working-age people (those ages 15-64) in that year.

Source: World Bank's Entrepreneurship Survey (World Development Indicators Online)¹⁰³

Note: Data for Namibia is not available

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---------------------------|------|------|------|------|------|------|
| Lesotho | 0.70 | 0.90 | 1.10 | 1.20 | 1.40 | 1.20 |
| Botswana | 5.60 | 5.80 | 6.60 | 8.70 | 9.10 | 9.40 |
| South Africa | 1.30 | 1.20 | 0.90 | 0.80 | 0.80 | - |
| Sub-Saharan Africa | 1.30 | 1.50 | 1.60 | 1.60 | 1.60 | 2.00 |
| World | 3.20 | 3.60 | 3.50 | 3.20 | 3.10 | 3.40 |

The number of newly registered limited liability companies per 1,000 working-age people.

Other Useful Indicators

Intensity of local competition index

Intensity of local competition index is based on survey data drawn from the following question: "Competition in the local markets is (1=limited in most industries and price-cutting is rare, 7=intense in most industries as market leadership)".

Source: World Economic Forum Executive Opinion Survey, The Global Competitiveness Report¹⁰⁴.

| | 2009 (GC 09/10) | 2010 (GC 10/11) | 2011 (GC 11/12) | 2012 (GC 12/13) | 2013 (GC 13/14) |
|---------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Lesotho | 4.3 | 4.2 | 4.2 | 4.1 | 4.7 |
| Botswana | 4.6 | 4.6 | 4.8 | 4.8 | 4.7 |
| Namibia | 4.7 | 4.6 | 4.6 | 4.5 | 4.6 |
| South Africa | 5.0 | 5.0 | 5.2 | 5.1 | 5.3 |
| World | 4.9 | 4.8 | 4.8 | 4.8 | 4.9 |

1=limited in most industries and price-cutting is rare, 7=intense in most industries as market leadership.

¹⁰³ <http://databank.worldbank.org/data/home.aspx>

¹⁰⁴ <http://www.weforum.org/issues/global-competitiveness>

| Effectiveness of anti-monopoly policies | | 2009 (GC 09/10) | 2010 (GC 10/11) | 2011 (GC 11/12) | 2012 (GC 12/13) | 2013 (GC 13/14) |
|---|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| <p>Effectiveness of anti-monopoly policy index is based on annual survey data. The respondents were asked to rate the effectiveness of anti-monopoly policy in their country: “Antimonopoly policy in your country is (1=lax and not effective at promoting competition, 7=effective and promotes competition)”.</p> <p>Source: World Economic Forum Executive Opinion Survey, The Global Competitiveness Report¹⁰⁵.</p> | Lesotho | 3.45 | 3.62 | 3.42 | 3.35 | 3.61 |
| | Botswana | 3.71 | 3.84 | 3.83 | 4.02 | 4.02 |
| | Namibia | 3.78 | 4.21 | 4.28 | 4.12 | 4.12 |
| | South Africa | 5.26 | 5.22 | 5.33 | 5.30 | 5.32 |
| | World | 4.00 | 4.10 | 4.00 | 4.00 | 4.10 |
| | 1=lax and not effective at promoting competition, 7=effective and promotes competition. | | | | | |
| Extent of market dominance | | 2009 (GC 09/10) | 2010 (GC 10/11) | 2011 (GC 11/12) | 2012 (GC 12/13) | 2013 (GC 13/14) |
| <p>Extent of market dominance index is based on annual survey data. The respondents were asked to rate the corporate activity in their country: “Corporate activity in your country is (1=dominated by a few business groups, 7=spread among many firms)”.</p> <p>Source: World Economic Forum Executive Opinion Survey, The Global Competitiveness Report¹⁰⁶.</p> | Lesotho | 3.60 | 3.30 | 3.20 | 3.10 | 3.40 |
| | Botswana | 3.40 | 3.40 | 3.50 | 3.70 | 3.40 |
| | Namibia | 3.30 | 3.40 | 3.50 | 3.50 | 3.50 |
| | South Africa | 4.30 | 4.20 | 4.30 | 4.20 | 4.30 |
| | World | 3.90 | 3.80 | 3.80 | 3.80 | 3.80 |
| | 1=dominated by a few business groups, 7=spread among many firms. | | | | | |

3.6. Information and communication technologies

In the era of the knowledge economy, the use of information and communication technologies (ICTs) is fundamental to the development of sustainable enterprises. Affordable broadband technology is also very important and should be facilitated.

The “ICT Development Index” compares developments in information and communication technologies in 155 countries. It combines several indicators, such as households with a computer, number of Internet users, literacy levels, etc. On a scale from 1 to 10 with higher values indicating better performance, Lesotho improved from 2007 to 2012, but remains at extremely low levels with a score of only 1.95 in 2012. Botswana, Namibia and South Africa all performed better than Lesotho over the same period. The “Network Readiness Index” measures the extent to which a country leverages ICTs for enhanced competitiveness. On a scale from 1 to 7 with higher values corresponding to better performance, Lesotho has worsened over the period 2011 to 2013 reaching a value of 2.68 in the latter year. Its three neighbouring countries chosen for comparison all perform better. Considering “Internet Users” per 100 people, Lesotho has improved over time, but maintains

¹⁰⁵ <http://www.weforum.org/issues/global-competitiveness>

¹⁰⁶ Ibid.

levels which are much lower than those of its three neighbouring countries used for comparison, reaching a rate of 4.6 per cent in 2012. South Africa achieves a level of 41 per cent in that year and the World Mean is 36 per cent. When it comes to fixed-line subscriptions per 100 people, despite a comparatively high world mean of 17.3 per cent in 2011, Lesotho performs very poorly with a level of only 1.74 per cent in 2012. Botswana, Namibia and South Africa all record rates over 7 per cent in that year. Lesotho's performance is rather poor also in the area of "Mobile Telephone Subscriptions" per 100 people, recording a level of only 59.2 per cent in 2012. Its three neighbouring countries used for comparison registered rates far above 100 per cent in that year. The world mean in 2012 was 100.35 per cent. Concerning "Broadband Subscriptions" per 100 people, Lesotho has improved over the period 2007 to 2012, but remains the worst performing country out of the four considered in this report. Lesotho achieved a level of 0.13 per cent in 2012, whereas Namibia, the best performing of the four, reached a rate of 2.8 per cent and the world mean was 6.16 per cent in that year.

The ICT sector in Lesotho comprises fixed and mobile telecommunications, broadcasting, multimedia and the Internet, which in turn are linked to other vital sectors such as postal services, banking and e-commerce. Lesotho developed a sectoral policy for the telecommunications sector in 1999 which established the Lesotho Telecom Authority in 2000 – since transformed into the Lesotho Communications Authority. Its objectives were to promote competition in the sector, protect consumers, advance universal service access and manage the electromagnetic spectrum.¹⁰⁷ At present, the national policy and regulatory framework comprises the Information and Communications Technologies (ICT) Policy of 2005, the Lesotho Communications Policy of 2008 and the Communications Act of 2012.¹⁰⁸ The updated policy paved the way for the development of a comprehensive strategic programme to steer the evolution of Lesotho's 'information economy'. The key focus of the policy centred on providing countrywide access to appropriate, affordable, cost-effective and equitable ICT services over diverse platforms such as telecommunications networks, radio, television and the Internet. Liberalisation and privatization of the country helped improve access to telecommunications, although development remains concentrated in the lowlands, especially Maseru.¹⁰⁹ In order to encourage operators to cover the whole country, a "Universal Service Fund" has been set up to further expand coverage. All regulated operators contribute 1 per cent of their net operating income into the fund and the Lesotho Communications Authority adds 25 per cent of any of its end-of-year surplus. Lesotho also belongs to the Eastern Africa Submarine Cable System. In addition, as a member of the ITU, Lesotho should switch over to digital terrestrial television broadcasting by the middle of 2015.¹¹⁰ The telecommunications sector has recorded tremendous improvements over the past few years and network operators have started to offer new products, including financial services through their network services. On a less positive note, despite the efforts of the Lesotho Communications Authority, prices in some services remain high.¹¹¹

¹⁰⁷ UNCTAD. 2013.

¹⁰⁸ Lesotho Communications Authority. Available at: http://www.lca.org.ls/index.php?option=com_content&view=article&id=6&Itemid=6. Accessed on 27.05.2014.

¹⁰⁹ Lesotho Review. 2011.

¹¹⁰ Business Excellence Magazine. 2012.

¹¹¹ Lesotho Communications Authority. 2013.

Key Indicators

ICT Development Index (IDI)

IDI compares developments in information and communication technologies (ICT) in 154 countries over a five-year period from 2002 to 2007. The Index combines 11 indicators into a single measure that can be used as a benchmarking tool globally, regionally and at the country level. These are related to ICT access, use and skills, such as households with a computer the number of Internet users; and literacy levels.

Source: International Telecommunication Union.¹¹²

| | 2007 | 2008 | 2010 | 2011 | 2012 |
|---------------------|------|------|------|------|------|
| Lesotho | 1.40 | 1.46 | - | 1.84 | 1.95 |
| Botswana | 2.08 | 2.25 | 2.50 | 2.85 | 2.60 |
| Namibia | 1.95 | 2.06 | 2.27 | 2.51 | 2.83 |
| South Africa | 2.64 | 2.71 | 3.42 | 3.67 | 3.95 |

Scale from 1 to 10, with lower scores reflecting lower development levels.

Other Useful Indicators

Internet users (per 100 people)

The Internet is a linked global network of computers in which users at one computer get information from other computers in the network. Internet users are people with access to the worldwide network. The total number of Internet users is divided by the population and multiplied by 100.

Source: International Telecommunication Union.¹¹³

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------------|-------|-------|-------|-------|-------|-------|
| Lesotho | 3.45 | 3.58 | 3.72 | 3.86 | 4.22 | 4.59 |
| Botswana | 5.28 | 6.25 | 6.15 | 6.00 | 8.00 | 11.50 |
| Namibia | 4.84 | 5.33 | 6.50 | 11.60 | 12.00 | 12.94 |
| South Africa | 8.07 | 8.43 | 10.00 | 24.00 | 33.97 | 41.00 |
| World | 20.58 | 23.29 | 25.74 | 29.52 | 32.77 | 36.00 |

Number of users per 100 people.

¹¹² <http://www.itu.int/pub/D-IND>

¹¹³ <http://www.itu.int/ITU-D/ict/eye/Indicators/Indicators.aspx>

| Fixed lines subscriptions (per 100 people) | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Fixed lines are telephone mainlines connecting a customer's equipment to the public switched telephone network. | Lesotho | 2.26 | 1.94 | 1.86 | 1.78 | 1.76 | 1.74 |
| <u>Source:</u> International Telecommunication Union. ¹¹⁴ | Botswana | 7.10 | 7.28 | 6.93 | 6.85 | 7.37 | 7.82 |
| | Namibia | 6.40 | 6.61 | 6.63 | 6.88 | 6.84 | 7.24 |
| | South Africa | 9.28 | 8.97 | 8.68 | 8.43 | 8.18 | 7.94 |
| | World | 18.83 | 18.55 | 18.32 | 17.82 | 17.31 | - |
| | Number of subscribers per 100 people. | | | | | | |
| Mobile cellular subscriptions (per 100 people) | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Mobile phone subscribers refer to users of portable telephones subscribing to an automatic public mobile telephone service using cellular technology that provides access to the public switched telephone network. | Lesotho | 22.91 | 27.88 | 30.76 | 45.48 | 56.17 | 59.17 |
| <u>Source:</u> International Telecommunication Union. ¹¹⁵ | Botswana | 59.75 | 76.01 | 94.58 | 117.76 | 142.82 | 150.09 |
| | Namibia | 37.07 | 47.81 | 72.77 | 85.5 | 96.39 | 103 |
| | South Africa | 86.6 | 91.24 | 93.34 | 100.48 | 126.83 | 134.8 |
| | World | 50.62 | 59.86 | 68.21 | 77.11 | 85.55 | 100.35 |
| | Number of subscribers per 100 people | | | | | | |
| Broadband subscribers (per 100 people) | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Broadband subscribers are the total number of broadband subscribers with a digital subscriber line, cable modem, or other high-speed technologies. | Lesotho | 0.01 | 0.01 | 0.02 | 0.02 | 0.06 | 0.13 |
| <u>Source:</u> International Telecommunication Union. ¹¹⁶ | Botswana | 0.18 | 0.46 | 0.50 | 0.60 | 0.77 | 0.78 |
| | Namibia | 0.01 | 0.01 | 0.02 | 0.42 | 0.80 | 2.78 |
| | South Africa | 0.77 | 0.86 | 0.97 | 1.48 | 1.80 | 2.18 |
| | World | 10.47 | 9.58 | 8.75 | 8.21 | 7.22 | 6.16 |
| | Number of subscribers per 100 people | | | | | | |

3.7. Access to financial services

The creation and expansion of sustainable enterprises require access to financial resources. Considering “Credit to Private Sector” as a percentage of GDP, though Lesotho improved over the period 2007-12, it failed to outperform all of its neighbouring countries used for comparison, reaching only 18.8 per cent in 2012. The Sub-Saharan Africa average for that year was 61.4 per cent and the World Mean was as high as 131.3 per cent. The Government of Lesotho has nevertheless recognized the importance of the financial intermediation sector in national economic development. Lesotho’s Vision 2020 calls for the financial intermediation sector to be diverse and highly responsive to customer demands and needs. Access to credit and good loan management and repayment mechanisms are to be the corner stone for development and promotion of the SMME.¹¹⁷

¹¹⁴ <http://www.itu.int/ITU-D/icteye/Indicators/Indicators.aspx>

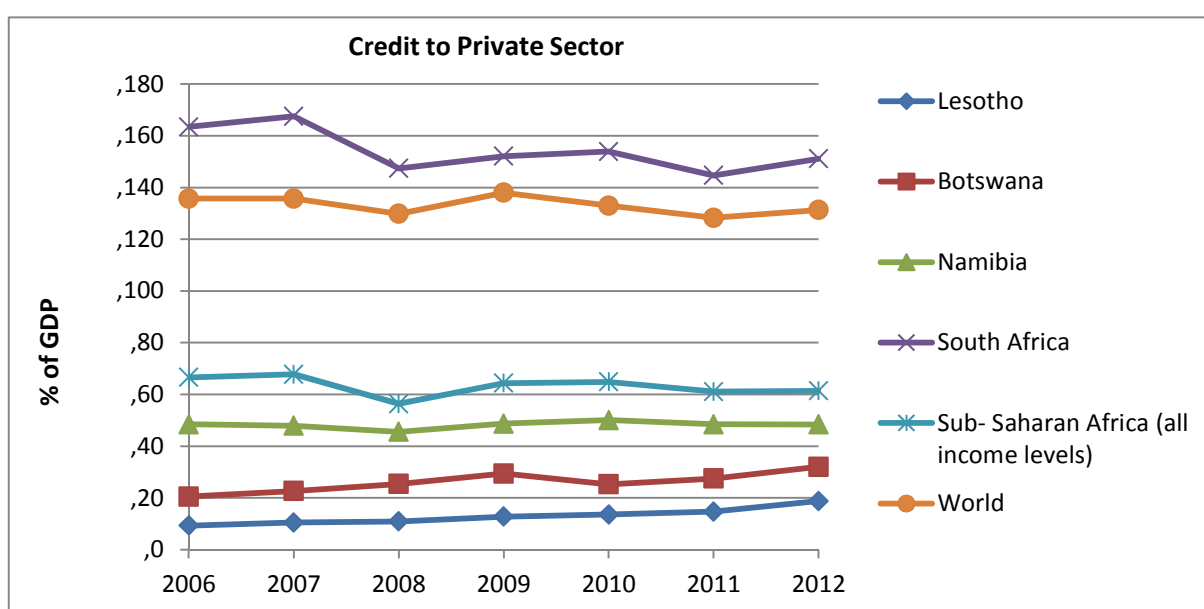
¹¹⁵ Ibid.

¹¹⁶ Ibid.

¹¹⁷ UNCTAD. 2013.

Lesotho's banking sector is small yet robust. It comprises three commercial banks, most of which are controlled by South African capital, one registered merchant bank, as well as the state-owned Lesotho Postbank, which concentrates its activities in rural areas. Other financial institutions, both formal and informal, operate in Lesotho's rural areas. These include Rural Savings and Credit Groups (RSCGs), moneylenders, burial societies, financial cooperatives and Rotating Savings and Credit Groups (ROSCAs). The Central Bank of Lesotho (CBL) promotes rural financial intermediation through the Rural Savings and Credit scheme, which links informal rural entrepreneurial groups with the formal banking sector. A rural credit guarantee fund has been established to induce commercial banks to assist these groups.¹¹⁸ However major forthcoming identified are that there is no development bank in Lesotho and that commercial banks do not provide technical assistance to loan applicants.¹¹⁹

The "Credit Information Index" measures the level of credit information available in a country through public or private registries to facilitate lending decisions. On a scale from 0 to 6 where higher values indicate better performance, Lesotho remains at 0 over the period 2006 to 2012. Botswana, Namibia and South Africa all perform better. The Sub-Saharan Africa average was 2.1 in 2012 and the world mean was 3.3 in the same year. The Government is working on a credit bureau for credit information. The bureau is planned to be functional within this year.¹²⁰



Source: International Monetary Fund, International Financial Statistics and data files, and World Bank and OECD GDP estimates (World Development Indicators Online).

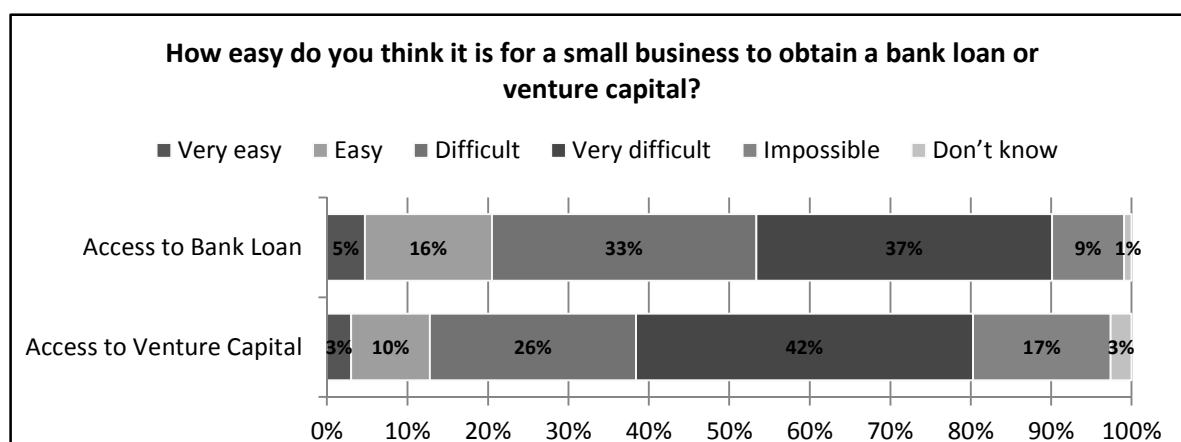
The Lesotho EESE survey tested respondents' perceptions regarding access to financial services such as bank loans, venture capital and credit. First, respondents from multinationals and SMEs were asked about how easily they believed small businesses had access to finance. Findings suggest that businesses, regardless of their sizes, agreed that access to finance presented a challenge for SMEs in Lesotho. A majority of respondents (70 per cent) indicated that it was either difficult, or very difficult for small businesses to access bank loans; only about one-fifth of respondents (20 per cent) described access to bank loans as either easy or very easy. Second, the question turned to access to venture capital for small entrepreneurs with innovative but risky projects. A majority (68 per cent) of respondents indicated that it was either difficult or very difficult for a small business to

¹¹⁸ Lesotho Review. 2011.

¹¹⁹ Focus group discussions and interviews. Ministry of Trade and Industry. 7.11.2013.

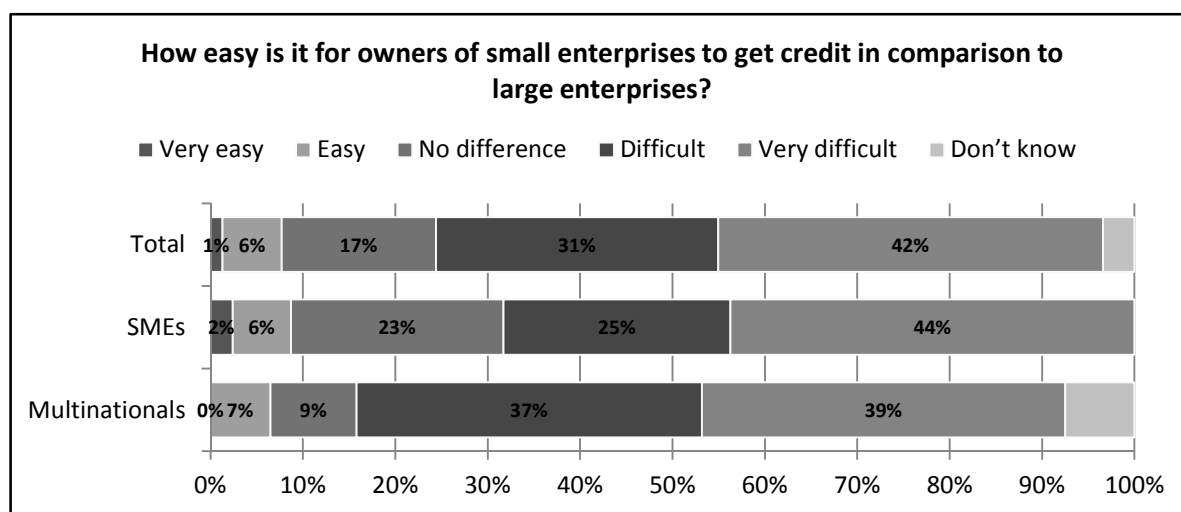
¹²⁰ Input provided at the tripartite technical workshop "Enhanced Policy Advocacy for Sustainable Enterprise", 5-6 November 2013, Maseru.

access venture capital, and a further 17 per cent described it as impossible. Only about 13 per cent answered that access to venture capital was easy or very easy. Access to credit is however expected to be more available as land titles become accepted as collateral.¹²¹ It is also to be noted that SMEs have limited access to information and knowledge on venture capital in particular.¹²²



Source: EESE Lesotho survey.

Comparing small businesses with large ones, a majority of respondents (73 per cent) described access to credit for small enterprises as difficult or very difficult. Respondents from multinationals (76 per cent) were substantially more pessimistic than those from SMEs (69 per cent) about the chances of SMEs to obtain credit. Almost a quarter of respondents from SMEs did not expect any differences between small and large businesses in obtaining credit.



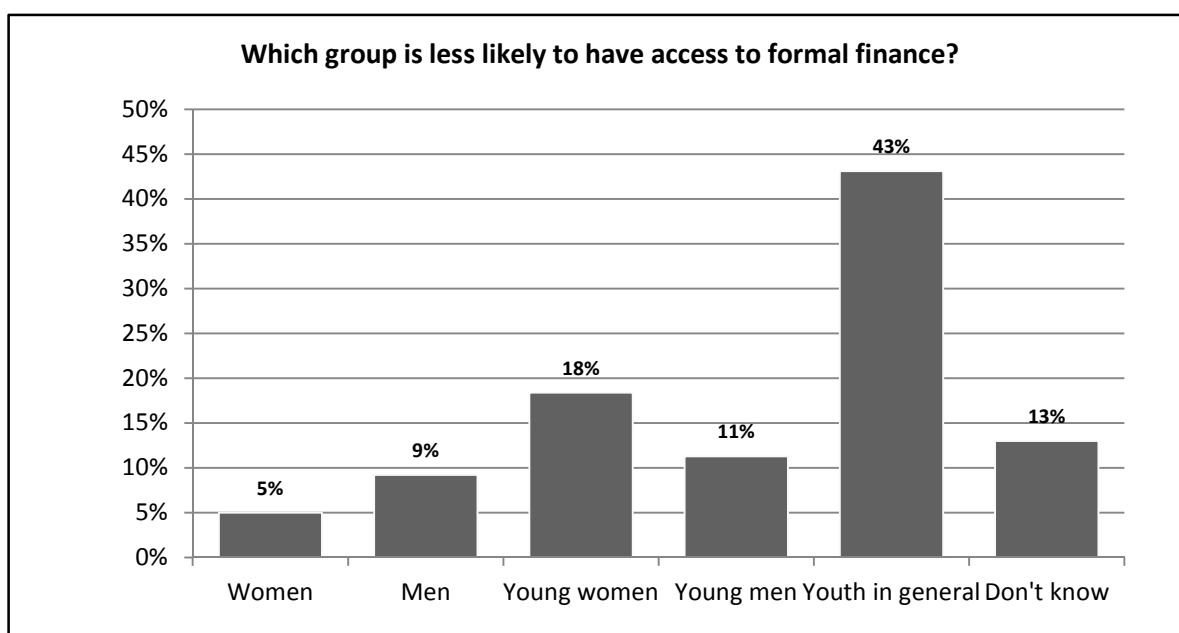
Source: EESE Lesotho survey

Respondents were then asked to identify which group, out of women, men, young women, young men, or youth in general, was least likely to have access to formal finance. Almost a third of respondents from multinationals (28 per cent) answered that they did not know which among these groups was least likely to access formal finance. The largest percentage of owners (44 per cent), managers (41 per cent) and workers (43 per cent) indicated that “youth in general” would be the

¹²¹ Input provided at the tripartite technical workshop “Enhanced Policy Advocacy for Sustainable Enterprise”, 5-6 November 2013, Maseru.

¹²² Input provided at the tripartite technical validation workshop, 21 May 2014, Maseru.

least likely group to access formal finance. Women (32 per cent) were somewhat more likely than men (23 per cent) to respond that they did not know the answer to this question. Comparatively, while a similar percentage of respondents from SMEs identified “youth in general” as the group least likely to access formal finance (45 per cent), a further 25 per cent answered that accessing finance is most difficult for young women. Overall, respondents agreed that the group least likely to have access to formal finance were the youth in general.



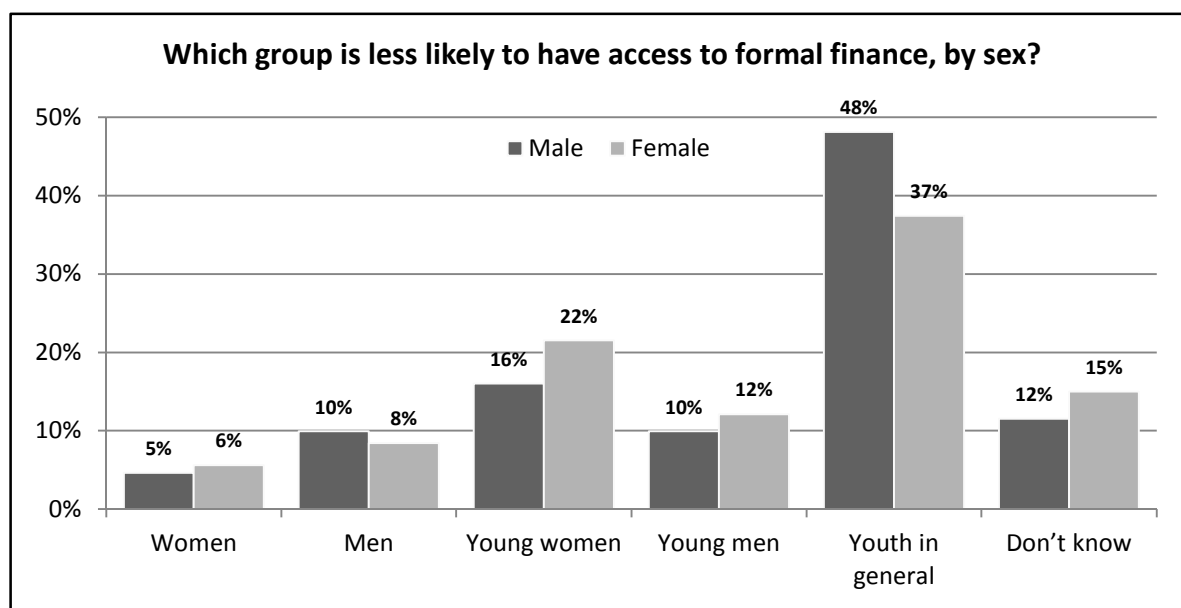
Source: EESE Lesotho survey.

When disaggregated by sex, findings show that female respondents were more likely than male respondents to observe that young women may have more difficulty in having access to formal finance (22 and 16 per cent, respectively). Female respondents were however less likely than male respondents to identify youth in general as the group least likely to have access to finance (37 and 48 per cent, respectively). This was corroborated during focus group discussions, during which participants agreed that banks are not helpful with women entrepreneurs, notably by setting too stringent requirements and by having too lengthy procedures.¹²³ Things are changing, albeit slowly, and the Government has recently given attention to these issues and has taken steps to secure the protection of women’s economic rights and to give security of tenure on immovable property. A significant development is the amendment of the Lesotho Bank Savings and Development Order which made reference to women’s minority status as a limitation to accessing credit. These reforms ensure women’s access to opportunities to acquire collateral, obtain loans or credit from commercial institutions and empower them to own and manage companies/enterprises. Some micro credit schemes and programmes have been established which target women: Youth entrepreneurship micro-credit scheme; Village Savings and Loan Associations (VSLAs); ILO supported Know About your Business (KAB); BEDCO Entrepreneurship Training for SMMEs; Women’s entrepreneurship development and gender equality (WEDGE); Rural Financial Intermediation Programme (RUFIP), and the RUFIP & MFDP entrepreneurship training Project; Support for Financial Inclusion in Lesotho (SUFIL).¹²⁴ It is worth noting the activities of the Federation of Lesotho Women Entrepreneurs, who has organized savings and credit groups and who create collective deposit

¹²³ Focus group discussions and interviews. UNDP, 7.11.2013; Federation of Lesotho Women Entrepreneurs, 8.11.2013.

¹²⁴ Southern Africa Gender Protocol Alliance. 2011.

accounts in banks to be used as collateral for loans for members. The Federation favours the establishment of a women development bank.¹²⁵



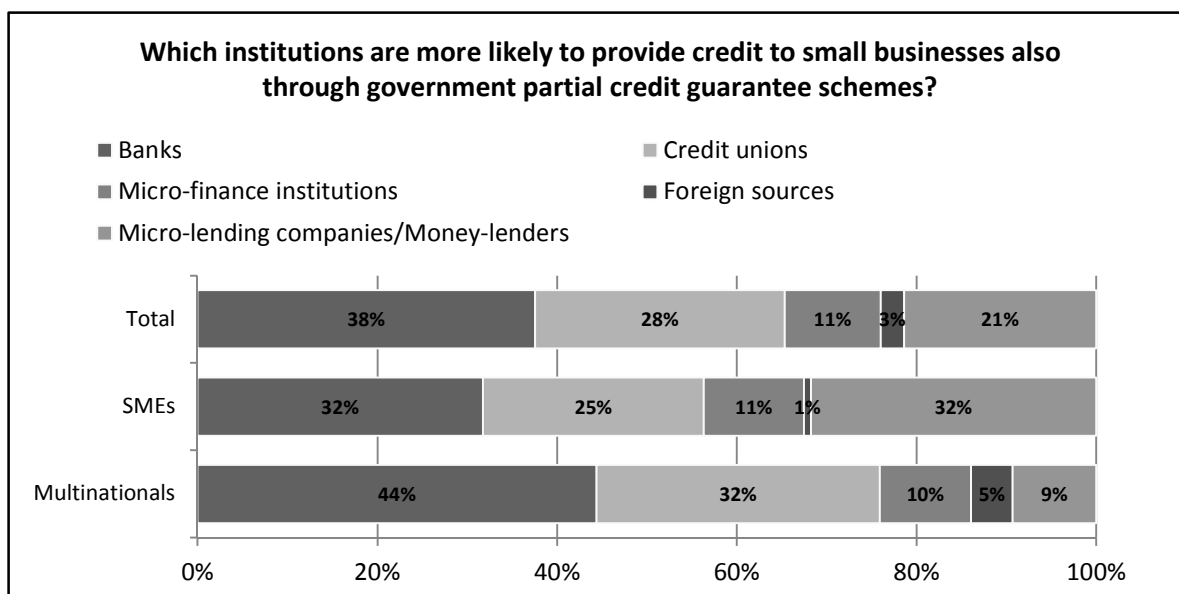
Source: EESE Lesotho survey.

In 2012, the Government of Lesotho entered into an agreement with the Lesotho National Development Corporation (LNDC) and commercial banks. Referred to as the Partial Credit Guarantee Scheme (PCGS), the agreement aimed to fund local business initiatives and promote and grow entrepreneurship.¹²⁶ When respondents were asked about the institutions most likely to provide credit to small businesses also through the PCGS, a majority identified banks (38 per cent) and credit unions (28 per cent) as the most likely. However, respondents from SMEs (32 per cent) were more likely to identify micro-lending companies and money-lenders as sources of credit through PCGS's than multinationals (9 per cent), likely due to the greater exposure of SMEs to these types of finance providers. It is also to be noted that SMEs may not know about the PCGS.¹²⁷

¹²⁵ Focus group discussion and interviews. Federation of Lesotho Women Entrepreneurs, 8.11.2013.

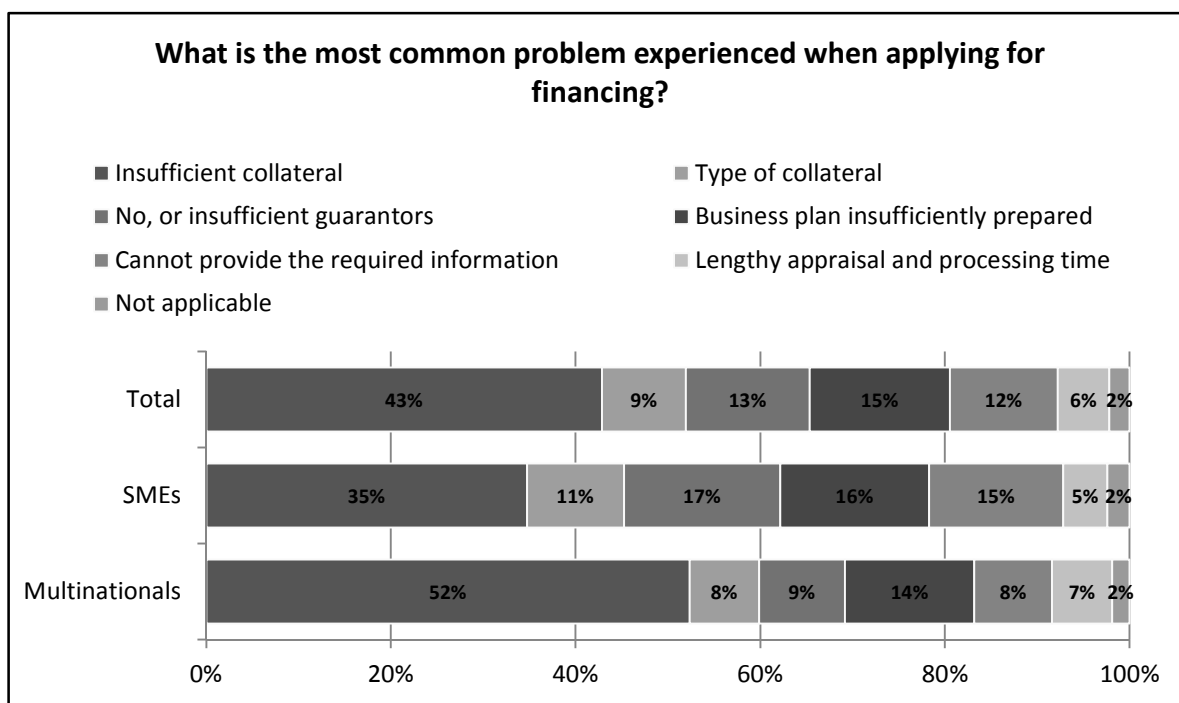
¹²⁶ Informative news. 2013.

¹²⁷ Input provided at the tripartite technical validation workshop, 21 May 2014, Maseru.



Source: EESE Lesotho survey.

Respondents were also asked about the most common problem experienced when applying for finance. By far the biggest obstacle identified was insufficient collateral, for SMEs (35 per cent), but, surprisingly, more so for large companies (52 per cent). For SMEs, three problems were subsequently quoted with similar frequency by respondents, i.e. no or insufficient guarantors (17 per cent), business plan insufficiently prepared (16 per cent), and impossibility to provide the required information (15 per cent). For MNEs, the second main problem was clearly identified by 14 per cent of respondents as business plan insufficiently prepared.



Source: EESE Lesotho survey.

“Interest Rate Spread” measures the difference between lending rate and deposit rate. In this area, Lesotho’s performance appears to be similar to that of Botswana and was a level of 7.3 in 2012. It is slightly better than the Sub-Saharan Africa average of 8.6 in that year. Both Namibia and South Africa perform better, and the world mean was 6.1 in 2012.

Key Indicators

Domestic Credit to Private Sector (% of GDP)

Domestic credit to private sector refers to financial resources provided to the private sector, such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment. For some countries these claims include credit to public enterprises.

Source: International Monetary Fund, International Financial Statistics and data files, and World Bank and OECD GDP estimates (World Development Indicators Online).¹²⁸

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------------------|--------|--------|--------|--------|--------|--------|
| Lesotho | 10.50 | 10.90 | 12.80 | 13.60 | 14.70 | 18.80 |
| Botswana | 22.70 | 25.40 | 29.40 | 25.30 | 27.50 | 32.00 |
| Namibia | 47.90 | 45.60 | 48.70 | 50.10 | 48.50 | 48.40 |
| South Africa | 167.50 | 147.40 | 152.10 | 153.90 | 144.70 | 151.10 |
| Sub-Saharan Africa | 67.8 | 56.4 | 64.4 | 64.9 | 61.1 | 61.4 |
| World | 135.7 | 129.8 | 138 | 133 | 128.3 | 131.3 |

Credit to private sector (% of GDP).

Other Useful Indicators

Credit Information Index

Credit information index measures rules affecting the scope, accessibility, and quality of credit information available through public or private credit registries. The index ranges from 0 to 6, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions.

Source: World Bank, Doing Business project¹²⁹.

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------------------|------|------|------|------|------|------|------|
| Lesotho | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Botswana | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 |
| Namibia | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 |
| South Africa | 5.00 | 5.00 | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 |
| Sub-Saharan Africa | 1.20 | 1.20 | 1.30 | 1.30 | 1.40 | 1.70 | 1.90 |
| World | 2.54 | 2.54 | 2.65 | 2.85 | 2.96 | 3.11 | 3.21 |

0=less information to 6=more information.

¹²⁸ <http://databank.worldbank.org/data/home.aspx>

¹²⁹ Ibid.

| Interest Rate Spread | | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|--|-------------|-------------|-------------|-------------|-------------|
| Interest rate spread (lending rate minus deposit rate) is the interest rate charged by banks on loans to prime customers minus the interest rate paid by commercial or similar banks for demand, time, or savings deposits. <small>Source: International Monetary Fund, International Financial Statistics and data files. (World Development Indicators Online)¹³⁰.</small> | Lesotho | 8.50 | 8.20 | 7.50 | 7.70 | 7.30 |
| | Botswana | 7.90 | 6.30 | 5.90 | 5.90 | 7.40 |
| | Namibia | 5.40 | 4.90 | 4.70 | 4.40 | 4.40 |
| | South Africa | 3.50 | 3.20 | 3.40 | 3.30 | 3.30 |
| | Sub-Saharan Africa | 8.30 | 8.10 | 9.80 | 9.10 | 8.60 |
| | World | 6.20 | 6.20 | 6.20 | 6.10 | 6.10 |
| | Interest rate spread (lending rate minus deposit rate, %). | | | | | |

3.8. Physical infrastructure

The development of sustainable enterprises critically depends on the quality and quantity of the physical infrastructure available, such as physical facilities and transportation systems. Access to water and energy also plays a pivotal role.

Data on the physical infrastructure in Lesotho is limited. For example, data on electric power consumption and paved roads is missing. When it comes to the percentage of population with access to improved water sources, Lesotho performs rather poorly compared to Botswana, Namibia and South Africa and decreased from 78.5 per cent in 2006 to 77.7 per cent in 2011. Only the world mean in that year was lower, at 62.6 per cent. However, as part of its plan to create 50,000 jobs by the end of the NSDP period in 2016/17, the Government has prioritised the construction and development of roads as a catalyst for economic growth and development, with the road network regarded as a springboard for expansion in manufacturing, tourism and agriculture.¹³¹

Centrally situated within the Republic of South Africa, Lesotho is heavily reliant on its road network to connect it with regional and international markets. The capital, Maseru, is a four-hour drive – or one-hour flight – from the economic hub of Johannesburg, and 600 kilometres from the bustling port of Durban on South Africa's east coast, which processes most of Lesotho's goods destined for export. Presently, 58 per cent of Lesotho's roads are paved, much of them in the lowlands of the country. The 2010/11 budget has allocated Maloti 191 million (5 per cent of the capital budget, equivalent to around USD 1.8 million) for the construction and maintenance of urban and rural roads. Rural bridges received Maloti 98 million (3 per cent of the capital budget, or around USD 0.9 million), and urban and main roads Maloti 537 million (15 per cent of the capital budget or USD 5.1 million).¹³²

Lesotho has one international airport, and domestic air transport is served by a network of 24 airstrips, which provide secondary and, in some cases, primary access to a number of the country's isolated rural areas which lie outside the coverage of the national road system. Lesotho does not

¹³⁰ <http://databank.worldbank.org/data/home.aspx>

¹³¹ Lesotho Review. 2011.

¹³² Ibid.

have its own railway network, but makes use of the South African railway network through the freight operator Transnet.¹³³

Lesotho has very large and unexploited hydropower potential. Given that Southern Africa has a net power deficit, the country has significant potential to export electricity, particularly to South Africa. However, that potential remains largely untapped, and Lesotho is a net importer of electricity from South Africa. It experiences significant electricity shortages during the dry winter months. The unreliable and inadequate power supply is the most severe infrastructure constraint on business development, and is a consequence of insufficient investment in the generation, transmission, and distribution of power supply. The Lesotho Highlands Development Authority, a joint institution between Lesotho and Republic of South Africa, has just launched the Lesotho Highlands Water Project Phase II, a project for the development of a water delivery system. The Government of Lesotho, in a parallel effort, is in the process of undertaking feasibility studies for the development of the Kobong 1,000 MW Pump Storage Scheme, which is complementary to the water project in that it will use the same water proposed for damming and export to South Africa. The primarily objective of the Kobong project is to sell 80 per cent of the generated power to South Africa (through a Power Purchase Agreement with Eskom) and the SADC region, while the remaining 20 per cent is expected to be consumed locally.¹³⁴

Reliable access to clean water is also essential for the health of the Lesotho population. The Water Sector Projects are designed to provide additional access to improved water supplies and sanitation facilities for rural and urban domestic, commercial and industrial users. Funding under the Water Sector Project is used to (a) construct a conveyance system from the Metolong Dam and establish a project management unit to manage the implementation, (b) rehabilitate existing infrastructure returning it to a functional state and expand the reticulated network to unconnected urban and peri-urban areas, (c) provide additional access to improved water supply and sanitation facilities in remote, rural areas through the rehabilitation and/or construction of up to 250 water supply points and up to 26,400 ventilated improved pit latrines and (d) execute a pilot-scale wetlands restoration and conservation program at three project areas in Botha-Bothe, Mokhotlong and Quthing in the Lesotho highlands.¹³⁵

The “Quality of Overall Infrastructure Index” reveals whether a country's infrastructure is underdeveloped or extensive and efficient based on a range from 1 to 7 with higher values indicating better performance. Over the period from 2009-13, Lesotho consistently rose in the index, reaching 3.4 in the latter year. Its three neighbouring countries used for comparison all perform much better, and the world mean in 2013 was 4.3. As Lesotho is a landlocked country, the “Quality of Port Infrastructure Index” is meant to represent how accessible port facilities are, using a scale from 1 to 7 with higher values indicating better performance. Lesotho has worsened shifting from 3.4 in 2012 to 2.9 in 2013. Botswana, Namibia and South Africa all outperform Lesotho, and the world mean was 4.2 in 2013.

¹³³ Lesotho Review. 2011.

¹³⁴ African Development Bank. 2013.

¹³⁵ Millenium Challenge Account. 2012.

Related indicators

Improved water source (% of population with access)

Access to an improved water source refers to the percentage of the population with reasonable access to an adequate amount of water from an improved source, such as a household connection, public standpipe, borehole, protected well or spring, and rainwater collection. Unimproved sources include vendors, tanker trucks, and unprotected wells and springs. Reasonable access is defined as the availability of at least 20 litres a person a day from a source within one kilometre of the dwelling

Source: World Health Organization and United Nations Children's Fund, Joint Measurement Programme (World Development Indicators Online).¹³⁶

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---------------------------|------|------|------|------|------|
| Lesotho | 78.3 | 78.1 | 78.0 | 77.8 | 77.7 |
| Botswana | 96.2 | 96.4 | 96.6 | 96.8 | 96.8 |
| Namibia | 90.6 | 92.0 | 93.4 | 93.4 | 93.4 |
| South Africa | 90.0 | 90.5 | 90.9 | 91.4 | 91.5 |
| Sub-Saharan Africa | 60.0 | 60.7 | 61.4 | 62.1 | 62.6 |
| World | 86.8 | 87.4 | 87.9 | 88.5 | 88.0 |

% of population with access.

Quality of Overall Infrastructure Index

Survey data: "General infrastructure in your country is: 1 = underdeveloped, 7= as extensive and efficient as the world's best".

Source: World Economic Forum, The Global Competitiveness Report.¹³⁷

| | 2009 (GC 09/10) | 2010 (GC 10/11) | 2011 (GC 11/12) | 2012 (GC 12/13) | 2013 (GC 13/14) |
|---------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Lesotho | 2.95 | 3.43 | 3.22 | 3.40 | 3.43 |
| Botswana | 4.61 | 4.68 | 4.56 | 4.45 | 4.16 |
| Namibia | 5.51 | 5.62 | 5.29 | 5.13 | 5.22 |
| South Africa | 4.74 | 4.60 | 4.51 | 4.51 | 4.48 |
| World | 4.10 | 4.30 | 4.30 | 4.30 | 4.30 |

1 = underdeveloped, 7= as extensive and efficient as the world's best.

Quality of Port Infrastructure Index

Survey data: "Port facilities and inland waterways in your country are: 1=underdeveloped, 7= as developed as the world's best. For landlocked countries this measures the ease of access to port facilities and inland waterways".

Source: World Economic Forum, The Global Competitiveness Report.¹³⁸

| | 2009 (GC 09/10) | 2010 (GC 10/11) | 2011 (GC 11/12) | 2012 (GC 12/13) | 2013 (GC 13/14) |
|---------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Lesotho | 2.98 | 3.06 | 3.35 | 3.43 | 2.89 |
| Botswana | 3.72 | 3.81 | 3.86 | 3.69 | 3.57 |
| Namibia | 5.42 | 5.64 | 5.51 | 5.35 | 5.35 |
| South Africa | 4.66 | 4.75 | 4.70 | 4.69 | 4.70 |
| World | 4.20 | 4.30 | 4.30 | 4.30 | 4.20 |

1= underdeveloped, 7= as developed as the world's best

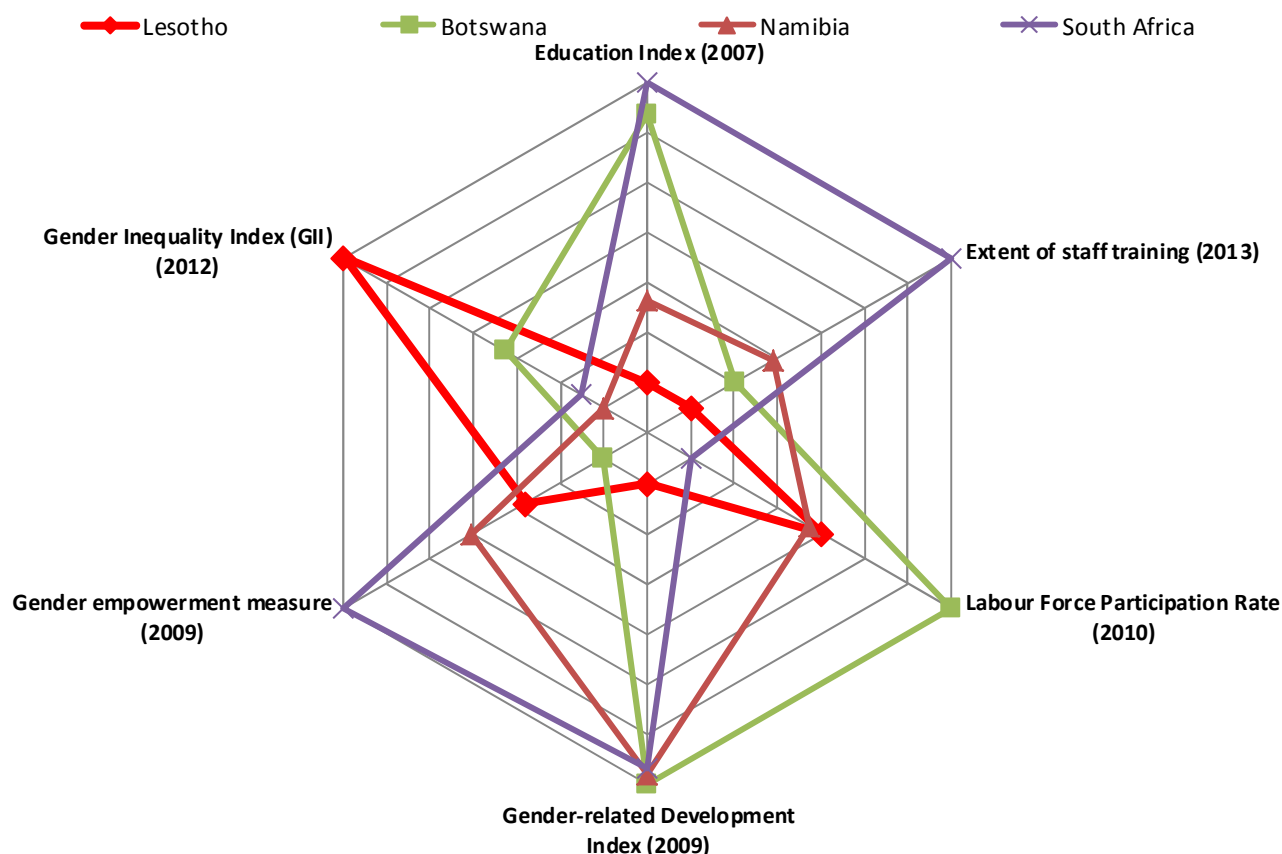
¹³⁶ <http://databank.worldbank.org/data/home.aspx>

¹³⁷ <http://www.weforum.org/issues/global-competitiveness>

¹³⁸ Ibid.

4. Social elements

Indicators* assessing social elements of the environment for sustainable enterprise



Key findings:

- Entrepreneurship is not prestigious in Lesotho. Doing business is difficult and youth are not enticed or encouraged to become entrepreneurs. Some efforts are currently being undertaken to promote entrepreneurial culture, for instance curricula are being revised, but entrepreneurial skills are currently not part of the public education system.
- With regards to women entrepreneurs, Lesotho has adopted only in 2008 the Companies Amendment Act No7 which repeals the provision that denied women the right to be directors of companies without the consent of their husband. With this act, consent is no longer required and women are free to engage in business in their own right. Another related notable initiative is the Gender Equality in Economic Rights project of the Millennium Challenge Account (MCA) Lesotho. This project aims to promote women's access to economic resources and opportunities for their meaningful participation in economic growth through supportive laws and increased capacity and awareness to address gender equality in economic rights.
- Free primary education (FPE) was introduced in the year 2000 as a major strategy towards achieving the Education for All (EFA) goals. This led to a rapid increase in the net enrolment rate, which currently stands at 82% of primary school aged children. Compulsory education up to the age of 13 was established in 2010 with the Education Act 2010. As a result, Lesotho's prospects of achieving the Millennium Development Goals of universal primary education (MDG2) and eliminating gender disparities in primary and secondary education (MDG3) are promising.
- Lesotho has one of the highest proportions of orphans in the world at 12% of the population and the third highest prevalence of HIV, with young generations being the most affected and at risk.
- School efficiency is very low: repetition rate is high (20 per cent in primary grades and 14 per cent in secondary grades). In 2008, only 47 per cent of the labour force had completed primary education and many youth drop out of school.

- There are indications that the education system is not providing the right tools for the labour market. The Lesotho EESE survey examined the skills within the country's workforce, in particular whether workers possess the skills demanded by business. Only one-fifth of all respondents considered that workers generally possessed appropriate and pertinent skills for business operation.
- Economic growth in Lesotho has not been adequately inclusive, resulting in high concentration of poverty in rural areas, persistent high levels of inequality, and widespread unemployment. Unemployment stood at 24% in 2008. Only 230,000 of the 608,000 employed people engage in formal wage employment. The rest are in (including agricultural) activities, where they are often paid in-kind.
- Discriminatory practices remain rife, especially against women, often because of the persistence of discriminatory customary laws and practices, with regard to, inter alia, marriage and its dissolution, inheritance and property rights are strong. Such customs and practices are likely to perpetuate discrimination against women.
- Given its current socio-economic conditions and fiscal ability, Lesotho has achieved an impressive record in creating a basic social assistance and social protection system, informed by political commitment and through budget reprioritization. It has set up and administered near universal schemes operating at scale with fairly low transaction costs, addressing core areas and serving vulnerable constituencies.

4.1. Entrepreneurial culture

The general recognition of the key role of enterprises in development is a fundamental element for a conducive business environment. Strong public and private support to entrepreneurship, innovation, creativity, and the concept of mentorship are other important determinants of an enabling environment for sustainable enterprises. Identifying indicators showing the degree of entrepreneurial culture in a country is quite challenging. Moreover, for Lesotho, secondary data in this area is scanty. “New Business Density” indicates the number of newly registered limited liability companies per 1000 working age people in a year. Of the four countries considered, information is available only for Lesotho, Botswana and South Africa. Lesotho increased from 0.9 in 2007 to 1.2 in 2011 and reached its highest value in 2010, at 1.4. Botswana registers much higher values than Lesotho, reaching 9.4 in 2011. The means for both Sub-Saharan Africa and the world recorded values higher than that registered for Lesotho in 2011, at 2 and 3.4 respectively in that year. This low performance in Lesotho may find its roots in the fact that being an entrepreneur does not bring prestige. Doing business is difficult and youth are not enticed or encouraged to become entrepreneurs.¹³⁹ Some efforts are currently being undertaken to promote entrepreneurial culture, for instance curricula are being revised, but entrepreneurial skills are currently not part of the public education system.¹⁴⁰ However, there could be more incentives such as tax exemptions for those who start a business. Yet there is a potential to explore, which was evidenced during the 2010 World Cup. As part of security measures imposed by South Africa during the sporting event, restrictions on movement induced a scarcity of goods normally imported from South Africa, forcing people to buy locally, thus boosting domestic production.¹⁴¹ Many participants to focus group discussions agreed that entrepreneurial culture is not developed with some exceptions, notably in rural areas where some farmers with no formal education have created a Woollen and Mohair Association through which they manage to export high quality raw materials.¹⁴²

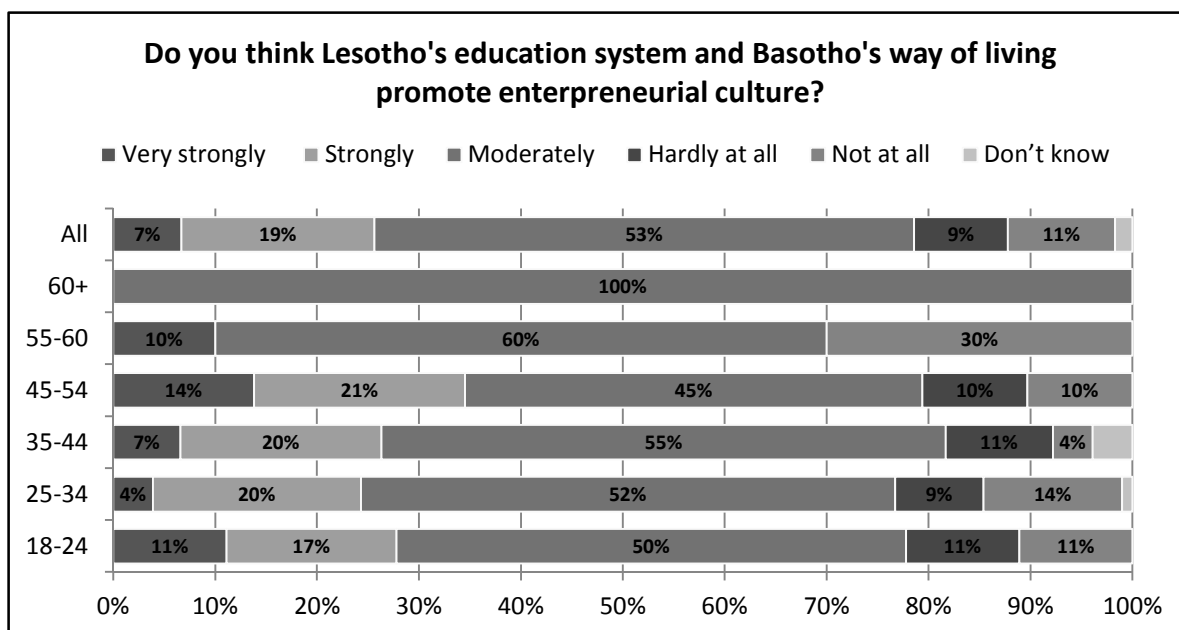
The EESE survey explored the extent to which respondents perceived Lesotho’s education system and way of living as promoting entrepreneurial culture. Overall more than half of all respondents (53 per cent) answered that entrepreneurial culture was moderately promoted. These responses were relatively consistent across respondents of all ages with the exception of people aged 55 and above who mostly indicated that there was very little promotion of entrepreneurial culture.

¹³⁹ Focus group discussions and interviews. Federation of Lesotho Women Entrepreneurs. 8.11.2013.

¹⁴⁰ Focus group discussions and interviews. National Union of Retail and Allied Workers. 3.11.2013.

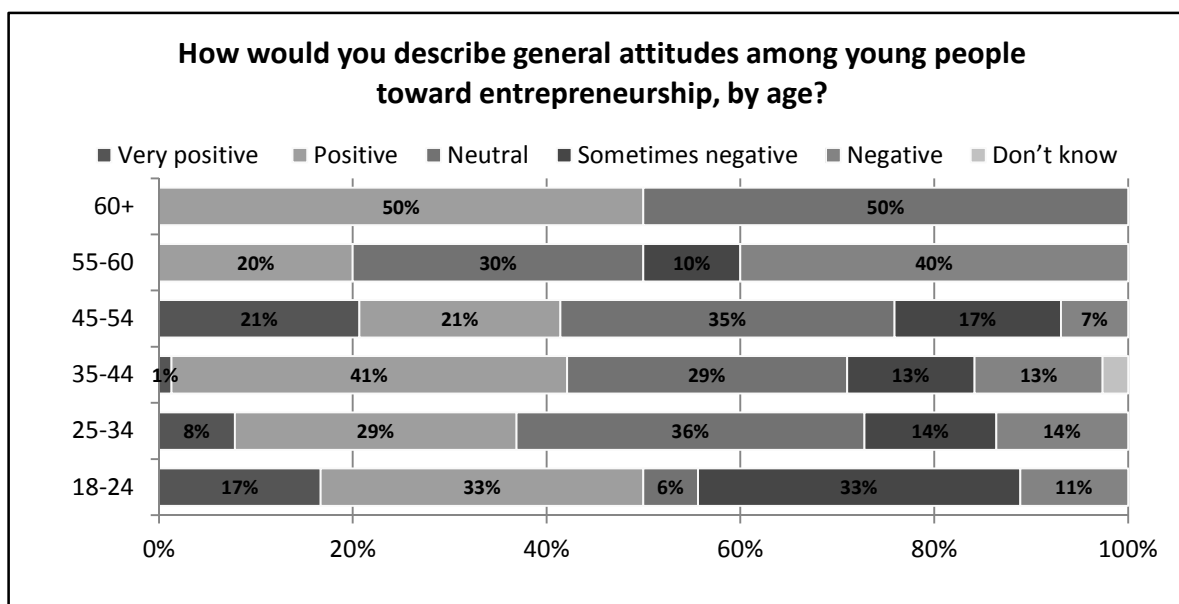
¹⁴¹ Focus group discussions and interviews. Labour Commissioner from the Ministry of Labour and Employment. 7.11.2013.

¹⁴² Focus group discussions and interviews. Lesotho Chamber of Commerce and Industry. 8.11.2013.



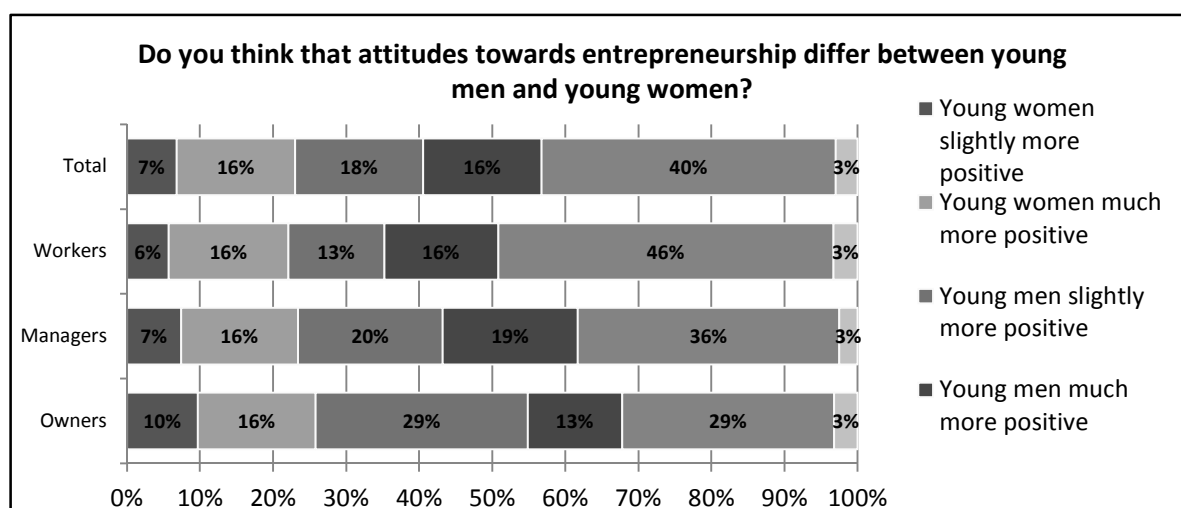
Source: EESE Lesotho survey.

The Lesotho EESE survey then asked respondents to describe the attitude of young people towards entrepreneurship. This provided interesting results as respondents aged 25 and above were, technically, not young anymore and could therefore only provide their perception about youth and entrepreneurship. Finding from respondents between 18 and 24, on the other hand, can be taken as a measure of how young people feel. It is therefore not surprising to witness a kind of generation gap between the category of respondents aged 18-25 (the young people) and the older categories of respondents. When asked about their own attitude to entrepreneurship, half of young respondents (50 per cent) indicated that it was very positive or positive. However, as respondents get older, the share of positive or very positive perception decreases. It goes down to 37 per cent for respondents aged 25-34, to 42 per cent for respondents aged 35-44 and 45-54, and to 20 per cent for interviewees aged above 55. Interestingly, young respondents were also much more likely than all others (44 per cent) to have negative or sometimes negative attitude towards entrepreneurship.



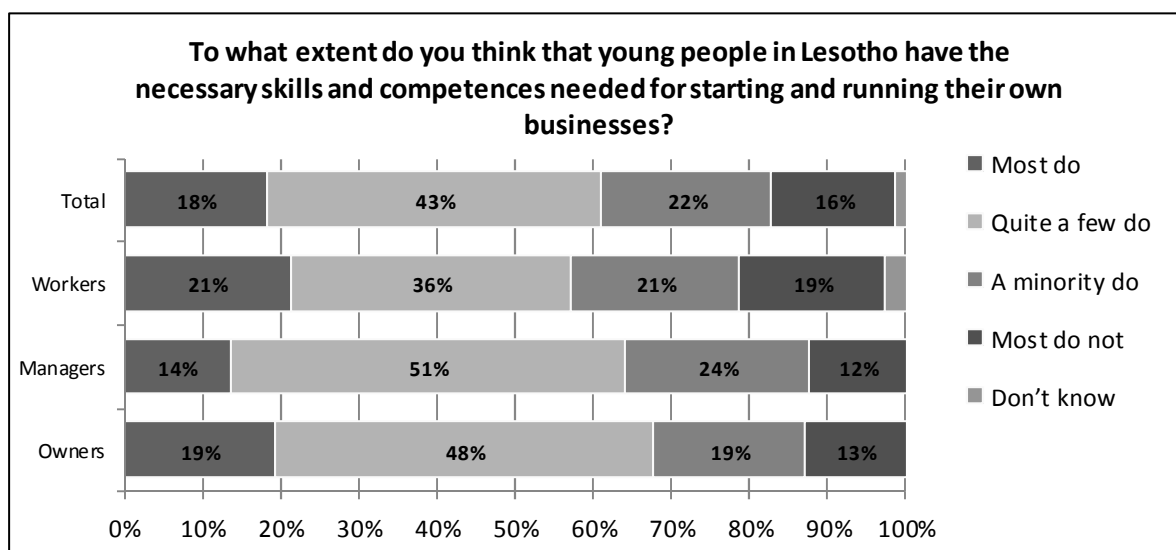
Source: EESE Lesotho survey.

The EESE survey also probed whether business owners, managers and workers perceived any differences between men and women with regards to their attitude towards entrepreneurship. Most respondents (40 per cent) perceived the attitudes between young men and young women to be similar. Workers were most likely (46 per cent) to refute any differences in attitude between young men and women. Business owners (42 per cent) were most likely to consider that young men had a slightly or much more positive attitude to entrepreneurship than young women.



Source: EESE Lesotho survey.

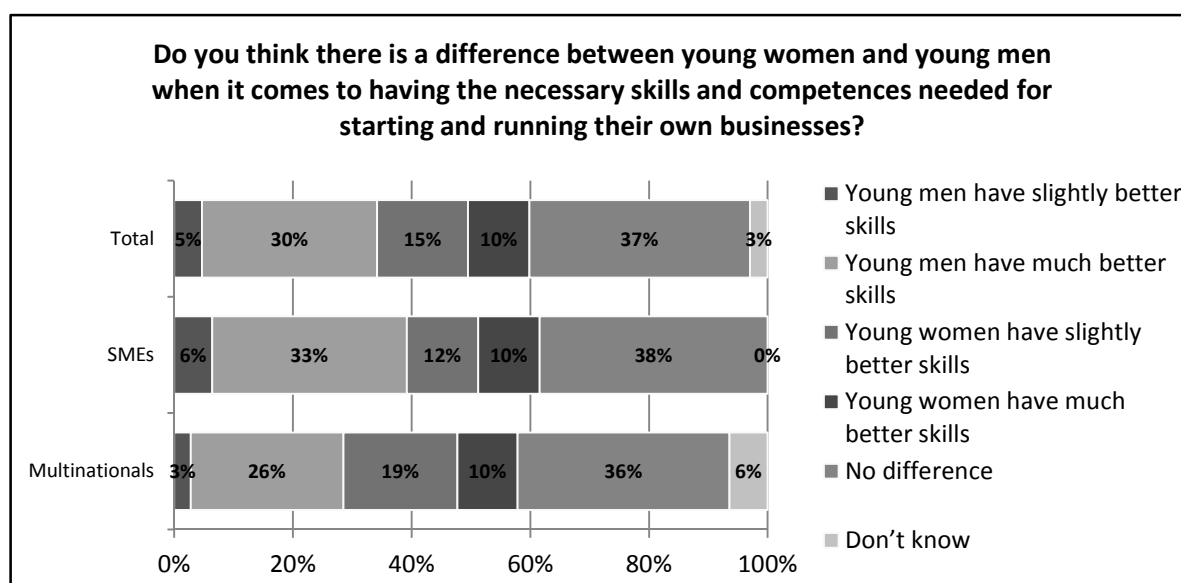
In spite of young people not being credited with particularly positive attitude towards entrepreneurship, findings from the Lesotho EESE survey showed that workers, managers and business owners believed that most young people knew what it takes to start and run a business (18 per cent) or at least that quite a few did (43 per cent). The category of respondents most likely to indicate that most young people, or quite a few young people, had the necessary skills to start and run a business were business owners (19 and 48 per cent respectively).



Source: EESE Lesotho survey.

The Lesotho EESE survey compared the perception that respondents had about the skills that young men and young women have to start and run a business. Here again, young women are at a disadvantage in comparison to young men. Overall, 35 per cent of respondents believed that young men had slightly better or much better skills than women, compared to 25 per cent of respondents who perceived young women to have slightly better or much better skills than men. Slightly more

than a third of respondents (37 per cent) indicated that there were no differences between young men and women. Business owners in particular were dismissive of the ability of young women to start and run businesses: 39 per cent of them indicated that young men had much better skills than women and only 32 per cent indicated that there were no differences. Compared to respondents from SMEs (22 per cent), respondents from MNEs were more likely to credit young women with having slightly or much better skills (29 per cent).



Source: EESE Lesotho survey.

As was mentioned above, Lesotho has gradually taken steps to empower women (see for instance section 2.4 and the adoption of such acts as the 2006 Legal Capacity of Married Persons Act). With regards to entrepreneurship Lesotho has adopted only in 2008 the Companies Amendment Act No7 which repeals the provision that denied women the right to be directors of companies without the consent of their husband. With this act, consent is no longer required and women are free to engage in business in their own right. Another related notable initiative is the Gender Equality in Economic Rights project of the MCA Lesotho. This project aims to promote women's access to economic resources and opportunities for their meaningful participation in economic growth through supportive laws and increased capacity and awareness to address gender equality in economic rights.¹⁴³ Such progress must be seen in conjunction with other acts in the field of access to services (refer to section 3.7 above for details).

With regards to access to entrepreneurship training and business services (such as business advice, mentoring, business plan development, research, product development, and export promotion) for new business start-ups, respondents indicated that access to such services is very limited in Lesotho. This is particularly clear in the case of SME respondents, 51 per cent of whom indicated that access to these services was very limited. A further 31 per cent indicated that new business start-ups have some access to these services. For MNEs, the cumulated percentage is about the same, i.e. 76 per cent indicated that new business start-ups have very limited, or some access to business services and training. They are less likely than SME respondents to claim that access is very limited (41 per cent).

¹⁴³ Southern Africa Gender Protocol Alliance. 2011. Focus group discussions and interviews: Federation of Lesotho Women Entrepreneurs, 8.11.2013.

Key Indicators

New Business Density

The number of newly registered limited liability companies per 1,000 working-age people (those ages 15-64) in that year.

Source: World Bank's Entrepreneurship Survey (World Development Indicators Online)¹⁴⁴

Note: data for Namibia is not available

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---------------------------|------|------|------|------|------|
| Lesotho | 0.9 | 1.1 | 1.2 | 1.4 | 1.2 |
| Botswana | 5.8 | 6.6 | 8.7 | 9.1 | 9.4 |
| South Africa | 1.2 | 0.9 | 0.8 | 0.8 | - |
| Sub-Saharan Africa | 1.5 | 1.6 | 1.6 | 1.6 | 2.0 |
| World | 3.6 | 3.5 | 3.2 | 3.1 | 3.4 |

The number of newly registered limited liability companies per 1,000 working-age people.

4.2 Education, training and lifelong learning

The development of a skilled workforce and the expansion of human capabilities through high-quality systems of education, training and lifelong learning are important in helping workers to find good jobs and enterprises to find the skilled workers they require. Data on “Public Spending on Education” is rather insufficient, but it seems that Lesotho has spent the most on education, reaching 13 per cent of GDP in 2008, while the three other neighbouring countries used for comparison have all spent less in different years. The world mean in 2008 was only 4.6 per cent.

In spite of high public spending, Lesotho's education sector was behind in terms of modern achievements. Free primary education (FPE) was only introduced in the year 2000 as a major strategy towards achieving the Education for All (EFA) goals. This initially led to rapid increase in the net enrolment rate, which currently stands at 82 per cent of primary school aged children (80 per cent boys; 84 per cent girls). Compulsory education up to the age of 13 was only established in 2010 with the Education Act 2010. As a result, Lesotho's prospects of achieving the Millennium Development Goals of universal primary education (MDG2) and eliminating gender disparities in primary and secondary education (MDG3) are promising.¹⁴⁵ It is furthermore important to note that, in addition to improving the quality of education, a main objective of FPE is to make education more responsive to the impact of HIV/AIDS and poverty. Lesotho has one of the highest proportions of orphans in the world at 12 per cent of the population and the third highest prevalence of HIV, with young generations being the most affected and at risk. FPE is tasked with equipped Lesotho's children with the means to make healthy and informed decisions that will improve the quality of their lives.¹⁴⁶

Uneducated adults and out-of-school youth can receive education through the non-formal education component of the education system. Organised non-formal institutions are referred to as skills development centres most of which are community centres rather than government institutions. They receive minimal support from government. Most of these NGOs decide on their programmes on the basis of sponsorship they get from donor agencies. Most of them offer literacy

¹⁴⁴ <http://databank.worldbank.org/data/home.aspx>

¹⁴⁵ UNICEF, 2010.

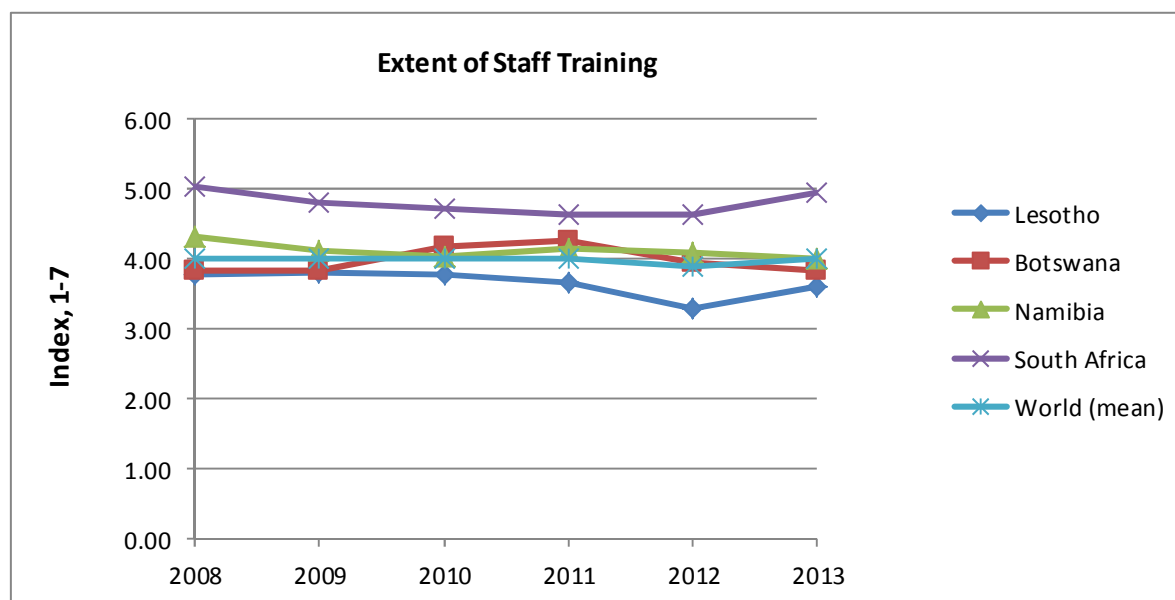
¹⁴⁶ Ibid.

programmes, HIV/Aids related programmes, and economic and political related literacy programmes. There are no benchmarks for non-formal education provision.¹⁴⁷

The “Education Index” measures educational attainment based on the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio on a scale from 0 to 1 with higher values indicating better performance. Over the period 2006-12, Lesotho has maintained rather stable levels, achieving a value of 0.50 in the latter year. This is lower than the values registered for Botswana, Namibia and South Africa.

The formal education system in Lesotho follows a 7-3-2-4 structure with seven years of free primary schooling, three years of junior secondary, two years of high school and four years of university education. Currently about 53,000 children start primary education (99 per cent of the age cohort) but from 2000 to 2010 the percentage of those completing the full seven years of primary schooling varied from 60-76 per cent. The repetition rate is also high (the percentage of repeaters in all primary grades was 20 per cent and in secondary grades was 14 per cent). One of the consequences of this failure to retain learners is that in 2008 only 47 per cent of the labour force had completed primary education. Another is that there is a large number of out-of-school youth.¹⁴⁸ Despite the weaknesses in Lesotho identified until now, it is to be noted that the national education system is under restructuring and that improvements are expected in the near future.¹⁴⁹

When it comes to the percentage of firms offering formal training to their permanent and full-time staff, despite sparse data, Lesotho seems to perform worse than Botswana, but better than South Africa. The only available figure for Lesotho is 42.5 per cent in 2009. Botswana scored 51.9 per cent in 2010 and South Africa 36.8 per cent in 2007. The “Extent of Staff Training” indicates whether companies in a country invest little or heavily in training and employee development to attract, train and retain staff, on a scale from 1 to 7 with higher values indicating more investments. Lesotho does not perform particularly well, in 2012 recording a value of 3.6 in 2013. All of its three neighbouring countries used for comparison perform better, and the world mean for 2013 was 4.



Source: World Economic Forum, The Global Competitiveness Report.

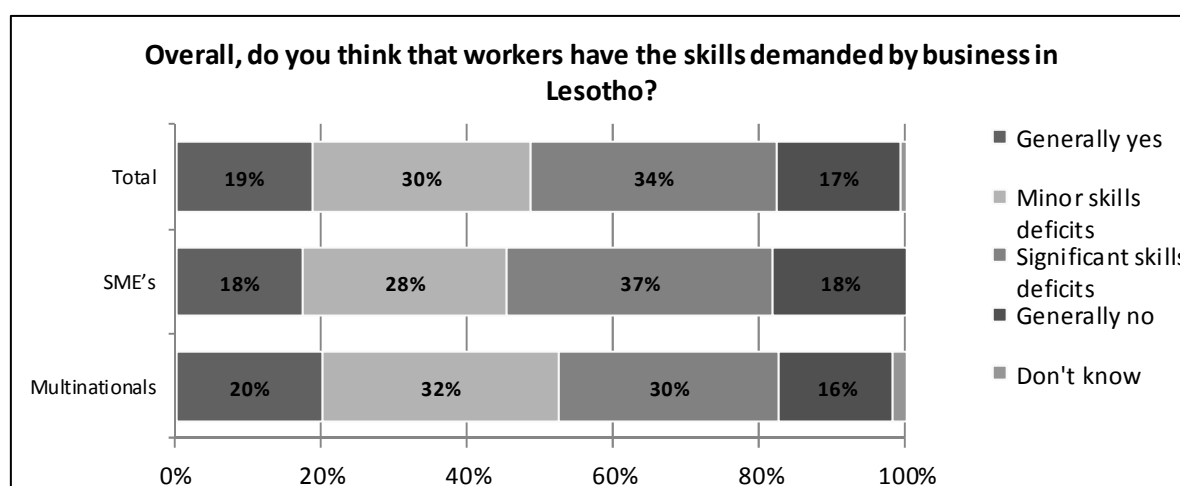
¹⁴⁷ Seto. 2012.

¹⁴⁸ Ibid.

¹⁴⁹ Input provided at the tripartite technical validation workshop, 21 May 2014, Maseru.

Although data is available only for 2010, the “Youth Literacy Rate” for Lesotho is high, standing at 91.9 per cent. Botswana and Namibia perform better, but the Sub-Saharan Africa average was 70.4 per cent in 2011, and the world mean stood at 89.4 per cent in the same year.

The Lesotho EESE survey examined the skills within the country’s workforce, in particular whether workers possess the skills demanded by business. About one-fifth of all respondents (20 per cent from multinational companies and 18 per cent from SMEs) answered that workers generally possessed appropriate and pertinent skills for business operations, 30 per cent remarked that workers had minor skills deficit, 34 per cent complained that workers had significant skills deficit, and up to 17 per cent indicated that workers did not possess necessary skills altogether. Respondents from SMEs were most critical of the skills levels of workers: 28 per cent indicated that there were minor skills deficit and 37 per cent indicated that there were significant skills deficit.



Source: EESE Lesotho survey.

Technical and vocational education is administered by the Department of Technical and Vocational Training. There are a total of 8 TVET institutions and 21 skills training centres in Lesotho that are governed by private bodies or by the Government. Some secondary schools offer pre-vocational training and there are some vocational schools for girls only. The percentage of pupils doing technical and vocational education at secondary level is minute – just 2 per cent. In spite of the many policy references to functional literacy and adult education/non-formal education, the overwhelming impression is that adult education policy is a marginal element of education and development policies in Lesotho. The one specific adult education policy document that exists is in draft form and has not yet been ratified.¹⁵⁰

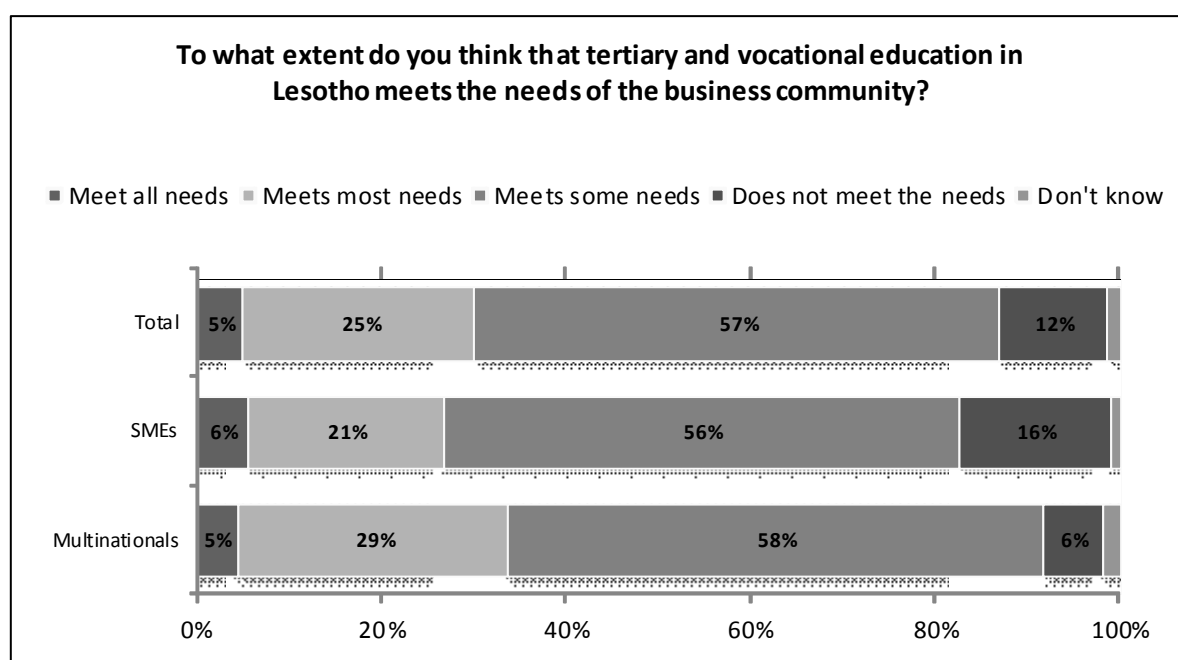
Lesotho has seven institutions of higher learning, three of them under the auspices of the Ministry of Education and Training. Students can receive financial assistance to attend universities, including South African ones providing the course is not already offered in Lesotho. Government support for tertiary level education skews the balance of investment across the education sector as more funds are invested per students in tertiary level education than in primary or secondary level education.¹⁵¹ Demand for tertiary education is growing fast: the gross enrolment ratio went from 4 per cent in 2006 to 11 per cent in 2012.¹⁵²

¹⁵⁰ Seto. 2012.

¹⁵¹ Open Society Initiative for Southern Africa. 2013a.

¹⁵² World Development Indicators. 2012. <http://data.worldbank.org/indicator/SE.TER.ENRR?page=1>

There is a general feeling that the education system is not providing the right tools and that the skills acquired in schools are not in demand in the labour market. Entrepreneurial culture, in particular, is identified as a topic that should be promoted in regular school curricula.¹⁵³ The Lesotho EESE survey asked respondents whether Lesotho's tertiary and vocational education system meets the needs of the business community. Considering that most respondents indicated that workers in Lesotho suffered from more or less acute skills deficit, interviewees in this case were surprisingly lenient with the quality of the education system. Only 12 per cent of respondents indicated that the system did not meet the needs of the business community, with business owners (16 per cent) being the most critical. Overall 57 per cent of respondents agreed that the system met some needs, and one-quarter, 25 per cent, agreed that the system met most needs of the business community. There was not a very big difference in appreciation between MNEs and SMEs, although MNEs tended to be slightly more optimistic about the ability of the tertiary and vocational education systems to meet the needs of the business community. Up to 92 per cent of MNE respondents believed that the right skills were provided, against 85 per cent of SME respondents.



Source: EESE Lesotho survey.

Respondents to the EESE survey were also asked to what extent businesses in Lesotho invest in human resource development through *internal* training. Answers from multinationals and from SMEs to this question were very similar. For 41 per cent of respondents, businesses investments contributed only moderately to human resource development, but 26 per cent believed that the contribution was large, and 22 per cent believed it to be small. The absence of clear-cut positions showed that internal training is not an obvious and central business strategy, although it did get more approval than business contribution to external training or skills transfer – as is explained below.

Answers were a little more varied when it comes to assessing the contribution of businesses through external training. Respectively 41 per cent and 38 per cent of respondents from multinationals believed the contribution of their businesses towards external training was moderate or small. In SMEs, 33 per cent of respondents found the contribution to be moderate, 32 per cent small and 28 per cent non-existent.

¹⁵³ Input provided at the tripartite technical workshop “Enhanced Policy Advocacy for Sustainable Enterprise”, 5-6 November 2013, Maseru.

Finally, when asked whether businesses in Lesotho contribute towards human resource development through skills transfer, 43 per cent of respondents described this contribution as moderate and 33 per cent as small. Opinions were more spread amongst respondents from SMEs, 23 per cent of whom described the contribution as large, 31 per cent as moderate, 20 per cent as small, and 20 per cent as non-existent. The survey therefore highlights that more efforts could be made by firms of all sizes to promote skills acquisition and skills transfer in the national business environment.

Key indicators

Public Spending on Education, total (% of GDP)

Public expenditure on education consists of current and capital public expenditure on education plus subsidies to private education at the primary, secondary, and tertiary levels.

Source: United Nations Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics (World Development Indicators Online)¹⁵⁴.

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---------------------------|-------|-------|------|-------|------|------|
| Lesotho | 14.80 | 13.90 | - | 13.00 | - | - |
| Botswana | 9.50 | - | 8.00 | | 7.80 | - |
| Namibia | - | 6.00 | - | 6.40 | - | 8.40 |
| South Africa | 5.30 | 5.30 | 5.20 | 5.10 | 5.50 | 6.00 |
| Sub-Saharan Africa | 4.10 | - | - | 3.90 | - | 4.30 |
| World | 4.40 | 4.50 | 4.40 | 4.60 | 5.00 | 4.70 |

Public spending on education as share (%) of GDP.

Education Index

It measures the educational attainment. The Education Index is measured by the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio. The adult literacy rate gives an indication of the ability to read and write, while the gross enrolment ratio gives an indication of the level of education from kindergarten to postgraduate education. It is a weighted average of Adult literacy index (with two-thirds weighting) and the combined primary, secondary, and tertiary gross enrolment ratio (Gross enrolment index [0, 100]) (with one-third weighting).

Source: UNDP, Human Development Report¹⁵⁵.

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------------|------|------|------|------|------|------|------|
| Lesotho | 0.49 | 0.49 | 0.49 | 0.50 | 0.50 | 0.50 | 0.50 |
| Botswana | 0.66 | 0.67 | 0.67 | 0.68 | 0.68 | 0.68 | 0.68 |
| Namibia | 0.55 | 0.55 | 0.55 | 0.56 | 0.56 | 0.56 | 0.56 |
| South Africa | 0.69 | 0.70 | 0.70 | 0.70 | 0.71 | 0.71 | 0.71 |

On a scale from 0 to 1. Higher values correspond to better performance.

¹⁵⁴ <http://databank.worldbank.org/data/home.aspx> and <https://data.undp.org/dataset/Public-expenditure-on-education-of-GDP-/bkr7-unqh>

¹⁵⁵ <http://hdrstats.undp.org/en/indicators/default.html>

| Extent of Staff Training | 2009 (GC 09/10) | | | | | 2010 (GC 10/11) | 2011 (GC 11/12) | 2012 (GC 12/13) | 2013 (GC 13/14) | | |
|---|--|------|------|-------|--|--------------------|--------------------|--------------------|--------------------|------|------|
| | The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: “The general approach of companies in your country to human resources is: (1=to invest little in training and employee development, 7=to invest heavily to attract, train, and retain employees)”. | | | | | Lesotho | 3.81 | 3.79 | 3.67 | 3.29 | 3.60 |
| | Source: World Economic Forum, The Global Competitiveness Report ¹⁵⁶ . | | | | | Botswana | 3.84 | 4.18 | 4.26 | 3.95 | 3.83 |
| | | | | | | Namibia | 4.11 | 4.03 | 4.15 | 4.08 | 4.02 |
| | | | | | | South Africa | 4.81 | 4.72 | 4.65 | 4.64 | 4.94 |
| | | | | | | World | 4.00 | 4.00 | 4.00 | 3.90 | 4.00 |
| | 1= to invest little in training and employee development, 7= to invest heavily to attract, train, and retain employees. | | | | | | | | | | |
| Literacy Rate, youth total (% of people aged 15-24) | | | | | | 2009 | 2010 | 2011 | | | |
| | Youth literacy rate is the percentage of people ages 15-24 who can, with understanding, read and write a short, simple statement on their everyday life. | | | | | Lesotho | 83.19 | 0.00 | 0.00 | | |
| | Source: United Nations Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics (World Development Indicators Online) ¹⁵⁷ . | | | | | Botswana | 0.00 | 0.00 | 95.21 | | |
| | | | | | | Namibia | 0.00 | 0.00 | 0.00 | | |
| | | | | | | South Africa | 0.00 | 0.00 | 98.78 | | |
| | | | | | | Sub-Saharan Africa | 0.00 | 0.00 | 70.44 | | |
| | World | 0.00 | 0.00 | 89.44 | | | | | | | |
| % of people | | | | | | | | | | | |

4.3. Social justice and social inclusion

Inequality and discrimination hinder the creation and growth of sustainable enterprises. Explicit policies for social justice, social inclusion and equality of opportunities for employment are needed.

The UNDP Human Development Report 2013 indicates that Lesotho ranks 158 out of 187 countries. The “GINI Coefficient” measures the extent to which the distribution of income among individuals or households within an economy is equal. Absolute equality corresponds to a value of 0, whereas absolute inequality is represented by 100. Data for Lesotho is available only for one year, 2003. It was then 52.5 per cent, which is lower than any other value registered for Namibia and South Africa. No data is available for Botswana.

Economic growth in Lesotho has not been sufficiently inclusive, resulting in persistent high levels of inequality, in particular in rural areas, and widespread unemployment. Unemployment stood at 24 per cent in 2008¹⁵⁸ and slightly more than a third of the 608,000 employed people are in formal wage employment. The rest are in informal (including agricultural) activities where they are sometimes paid in kind.¹⁵⁹ Preliminary Government’s estimates based on the 2010/11 Household

¹⁵⁶ <http://www.weforum.org/issues/global-competitiveness>

¹⁵⁷ <http://databank.worldbank.org/data/home.aspx>

¹⁵⁸ The World Bank. 2013a.

¹⁵⁹ Ibid.

Budget survey place the national poverty rate at 57.1 per cent. In comparison to the situation over a decade ago, figures show that poverty has decreased in urban areas but increased in rural ones. Poverty is indeed concentrated in rural areas, where about three quarters of the population reside, indicating underutilization and misallocation of labour resources. The critical challenges of inclusive growth, a sustainable and effective public sector, and access to quality service delivery define Lesotho's core development agenda.¹⁶⁰

The "Gender-related Development Index" measures average achievements in long and healthy life, knowledge and a decent standard of living, adjusted to account for inequalities between men and women. Higher values indicate a better situation. While Botswana, Namibia and South Africa have been steadily improving over the period 2005 to 2009 and recording better values than Lesotho, this latter country has been recording rather fluctuating values, from 0.49 in 2005, to 0.54 in 2007, and down to 0.51 in 2009. The "Gender Empowerment Measure" is an index measuring gender inequality in economic participation and decision-making, political participation, and decision-making and power over economic resources. The lower the value, the more heavily a society is penalized for having inequalities. Data for Lesotho is available only for 2009 when the country reached a value of 0.59. Of the three neighbouring countries used for comparison, only Botswana recorded a lower value in the same year, with Namibia and South Africa having societies that are less heavily penalized for having inequalities.

The "Gender Equality Rating" measures the extent to which a country has implemented institutions and programmes to enforce laws and policies aimed at promoting equal access for men and women to education, health, the economy, and legal protection. The rating is on a scale from 1 to 6 with higher values indicating better performance. Lesotho is the only country out of the four considered in this report for which data is available. It maintained a steady value of 4 from 2005 to 2012. Both the Sub-Saharan Africa average and the world mean are worse, at 3.2 and 3.4 respectively in 2012.

The "Gender Inequality Index" measures the loss due to inequality in achievements in health, empowerment and the labour market. Values range from 0, reflecting perfect equality, to 1, reflecting total inequality. Although Lesotho has been improving, moving from 0.58 in 2005 to 0.53 in 2012, in this latter year all its three neighbouring countries used for comparison performed better, recording values lower than that registered for Lesotho.

Lesotho has recently made significant progress towards the attainment of gender equality. These include the Sexual Offence Act (2003), the ratification of the Optional Protocol to the Convention on the Elimination of All Forms of Discrimination against Women, in 2004, recognizing marital rape as an offence, the Legal Capacity of Married Persons Act (2006), the Labour Code Wage Amendment Act (2009), the Education Act (2010), which provides for free and compulsory primary education, the Anti-Trafficking in Persons Act (2011), which criminalizes all forms of slavery and provides for harsh penalties for the perpetrators, and the Children's Protection and Welfare Act (2011).

The Global Gender Gap Report 2013 from the World Economic Forum echoes these improvements. It ranks Lesotho very favourably for its gender gap indicator: Lesotho is ranked 16th overall, and ranked first Sub-Saharan Country, just ahead of South Africa, for the fourth year running. In addition, Lesotho is the only country from the region that has closed the gender gap on both the Educational Attainment and the Health and Survival sub-indexes.¹⁶¹

In practice, however, discriminatory practices are still observed, sometimes linked directly to Lesotho's culture and traditions themselves, especially in rural areas and remote communities where the persistence of discriminatory customary laws and practices, with regard to, inter alia, marriage

¹⁶⁰ The World Bank. 2013a.

¹⁶¹ World Economic Forum. 2013.

and its dissolution, inheritance and property rights are strong. Such customs and practices are likely to perpetuate discrimination against women and girls as they reflect the disadvantageous and unequal status of women in many areas, including public life, decision-making and in the persistence of violence against women.¹⁶²

At work, female workers are often disadvantaged and continue to be employed in poorly paid sectors of the economy especially, in the textile and garment industry as well as domestic work. For example, in the textile sector, there is no legal obligation for female workers to be paid whilst on maternity leave and any payment is at the discretion of the employer. An Employment and Earnings Survey carried out by the ILO in 2008 showed that women earned only 45 per cent of the average monthly earnings of men in the private sector, and 83 per cent in the public sector. It also showed that women employment was concentrated in the informal sector, with no social security or other benefits.¹⁶³

In spite of the Sexual Offence Act (2003), domestic and sexual violence remain too often underreported, indicating a political failure to place high priority on the elimination of violence against women. In effect, the Act has not been supported by specific legislation to eliminate violence against women, including domestic violence. With regards to trafficking and exploitation of prostitution, there is a high reported prevalence of trafficking in women and girls in the country.¹⁶⁴

In the education field, after the progress induced by the reforms initiated in 2000, a sharp decline in enrolment for the primary and secondary levels can be observed, as well as a segregation of fields of study at the post-secondary level, characterised by women and girls concentrated in traditionally feminine areas, and by their under-representation in technical and vocational education. Such educational trends have direct consequences on women's under-representation in the paid labour force. Worst still, a high number of girls suffer sexual abuse and harassment either in schools, by both teachers and classmates, or on their way to or from school.¹⁶⁵

¹⁶² CEDAW. 2011.

¹⁶³ Ibid.

¹⁶⁴ Ibid.

¹⁶⁵ Ibid.

Key Indicators

GINI Coefficient

Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A value of 0 represents absolute equality, a value of 100 absolute inequality.

Source: World Bank, Development Research Group. Data are based on primary household survey data obtained from government statistical agencies and World Bank country departments¹⁶⁶.

Note: Data for Botswana is not available

| | 2000 | 2003 | 2004 | 2006 | 2009 |
|---------------------|-------|-------|-------|-------|-------|
| Lesotho | - | 52.50 | - | - | - |
| Namibia | - | - | 63.90 | - | - |
| South Africa | 57.80 | - | - | 67.40 | 63.10 |

0= perfect equality, 100= perfect inequality

Labour Force Participation Rate

The labour force participation rate is the proportion of the population ages 15-64 that is economically active: all people who supply labour for the production of goods and services during a specified period. The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population. The labour force is the sum of the number of persons employed and the number of unemployed. The working-age population is the population above a certain age, prescribed for the measurement of economic characteristics.

Source: ILO KILM¹⁶⁷

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---------------------|------|------|------|------|------|
| Lesotho | 68.4 | 67.6 | 66.8 | 66.9 | 67.1 |
| Botswana | 78.0 | 78.2 | 78.4 | 78.6 | 78.9 |
| Namibia | 64.1 | 64.9 | 65.7 | 65.8 | 66.0 |
| South Africa | 57.0 | 57.5 | 58.8 | 57.0 | 55.2 |

The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population.

Gender-related Development Index (GDI)

A composite index measuring average achievement in the three basic dimensions captured in the human development index – a long and healthy life, knowledge and a decent standard of living- adjusted to account for inequalities between men and women.

Source: UNDP Human Development Report¹⁶⁸.

| | 2005 | 2006 | 2007 | 2009 |
|---------------------|------|------|------|------|
| Lesotho | 0.49 | 0.49 | 0.54 | 0.51 |
| Botswana | 0.56 | 0.56 | 0.64 | 0.69 |
| Namibia | 0.62 | 0.62 | 0.65 | 0.68 |
| South Africa | 0.65 | 0.65 | 0.67 | 0.68 |

The lower the value, the more heavily a society is penalized for having inequalities.

¹⁶⁶ <http://databank.worldbank.org/data/home.aspx>

¹⁶⁷ <http://kilm.ilo.org/KILMnet/>

¹⁶⁸ <http://hdr.undp.org/en/reports/>

| Gender Empowerment Measure (GEM) | 2005 | 2006 | 2007 | 2009 | |
|---|---|------|------|------|------|
| A composite index measuring gender inequality in three basic dimensions of empowerment – economic participation and decision-making, political participation, and decision-making and power over economic resources. <u>Source:</u> UNDP Human Development Report ¹⁶⁹ . | Lesotho | - | - | - | 0.59 |
| | Botswana | 0.51 | 0.50 | 0.52 | 0.55 |
| | Namibia | 0.60 | 0.62 | 0.62 | 0.62 |
| | South Africa | - | - | - | 0.69 |
| | The lower the value, the more heavily a society is penalized for having inequalities. | | | | |
| Gender Inequality Index (GII) | 2005 | 2010 | 2011 | 2012 | |
| The Gender Inequality Index is a composite index measuring loss in achievements in three dimensions of human development—reproductive health, empowerment and labour market, due to inequality between genders. <u>Source:</u> UNDP, Human Development Report ¹⁷⁰ . | Lesotho | 0.58 | 0.55 | 0.47 | 0.53 |
| | Botswana | 0.54 | 0.50 | 0.51 | 0.49 |
| | Namibia | 0.51 | 0.48 | 0.53 | 0.46 |
| | South Africa | 0.51 | 0.47 | 0.49 | 0.46 |
| | Values range from 0 (perfect equality) to 1 (total inequality). | | | | |

4.4. Adequate social protection

Providing citizens with access to key services, such as quality health care, unemployment benefits, maternity protection, and a basic pension, is key to improving productivity. Protecting workers' health and safety at the workplace is also vital for sustainable enterprise development and productivity gains.

Secondary information on social protection in Lesotho, Botswana, Namibia and South Africa is rather inadequate and partly missing. Considering data on total social expenditure as a percentage of GDP, Lesotho performs rather well compared to its three neighbouring countries used for comparison. In 2012, it spent 8.16 per cent of its GDP in this area, with only South Africa investing more, at 9.8 per cent of its GDP. Data on old age expenditure as a percentage of GDP is available only for one year per each one of the four countries. The rate for Lesotho was 1.8 per cent in 2008, in Botswana, it was 1.3 per cent in 2009, in Namibia it was 3.7 per cent in 2011, and in South Africa the rate was 2.2 per cent in 2010. Namibia and South Africa seem to outperform Lesotho in this regard. Data on "Public Expenditure on Health" as a percentage of GDP reveals that Lesotho's spending has been increasing, reaching 9.5 per cent in 2011, outperforming its three neighbouring countries used for comparison as well as the Sub-Saharan Africa average and the world mean for that year. When it comes to Coverage by Healthcare as a percentage of total healthcare, data is rather scanty. This indicator reveals the proportion of total public and private healthcare expenditure not financed by private households. The only figure available for Lesotho indicates that in 2009 the rate for this country was 17.6 per cent. Namibia was spending 28 per cent in 2007, and South Africa as much as 100 per cent in 2010. Lesotho is therefore outperformed by its neighbouring countries for which data is available in this respect.

Yet, given its current socio-economic conditions and fiscal ability, Lesotho has achieved an impressive record in creating a basic social assistance and social protection system, informed by political commitment and through budget reprioritization. It has set up and administered near universal schemes operating at scale with fairly low transaction costs, addressing core areas and serving vulnerable constituencies – including the aged (via a universal Old Age Pension), orphaned

¹⁶⁹ <http://hdr.undp.org/en/reports/>

¹⁷⁰ Ibid.

and vulnerable children (through a sizeable and expanding Child Grants Programme), and school-age children (through a comprehensive school feeding scheme (especially at primary school level) and free primary education.¹⁷¹

At the same time Lesotho is contemplating the establishment of a contribution-based comprehensive national social security scheme, to provide coverage for Lesotho formal sector workers and their families, while envisaging the extension of coverage to the self-employed and informal workers. It has also successfully established a public works programme within the context of the Integrated Watershed Management Project, designed to address, on a comprehensive scale, poverty and land degradation issues. Steps are being undertaken to develop national social protection policy frameworks, supported by existing sectoral policies.¹⁷²

However, some major challenges remain. Lesotho does not have a comprehensive contributory-based social insurance scheme covering workers and their dependants. Social security reforms towards the establishment of a comprehensive national scheme were first initiated more than ten years ago. Social partners have continued to express frustration over lack of progress and commitment from the Government to finalize the draft Social Security policy and legislation for the implementation of the long envisaged National Social Security Scheme. Furthermore, in the absence of a mandatory contributory pension system, the bulk of the workforce, including those working in formal waged employment, notably and foremost in MSMEs, are not covered by any contributory retirement scheme. Other dispositions regarding short-term risks such as occupational/industrial injury, sickness, and maternity protection are out-dated according to international and regional standards and practices. These represent an undue burden on the economy. Trade union federations are keen on extending coverage to include informal sector workers.¹⁷³

With regards to occupational safety and health, Lesotho has neither ratified nor adopted the Promotional Framework for Occupational Safety and Health Convention No. 187 of 2006, and Occupational Safety and Health Convention 155 of 1981 has not been domesticated.¹⁷⁴ Many enterprises fail to integrate worker's wellness programmes as part of business concerns leading to poor work ability and productivity.¹⁷⁵

Lesotho has put an Old Age Pension scheme in place since 2005. The main weakness of this scheme is that, in order to guarantee its financial stability, it relies on cash transfer to limited group of beneficiaries, i.e. those aged 70 and above, thereby excluding those who are too old to work but still not old enough to be eligible. By setting such a high age threshold, it also limits the time each household receives the benefits, because of the low remaining life expectancy of those who have already turned 70. In addition, the amount of pension is very low. As a result, the scheme only amounts to 1.4 per cent of GDP or 2.7 per cent of government expenditures.¹⁷⁶

¹⁷¹ European Commission. 2013.

¹⁷² Ibid.

¹⁷³ ILO. 2012a.

¹⁷⁴ Input provided at the tripartite technical validation workshop, 21 May 2014, Maseru.

¹⁷⁵ ILO. 2012a.

¹⁷⁶ Winnberg. 2012.

Key Indicators

Total Social Expenditure (% of GDP)

Total Social Expenditure
as a percentage of GDP

Source: ILO Social Security
Expenditure Database¹⁷⁷.

| | 1995 | 2000 | 2005 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|-----------------------------|------|------|------|------|------|-------|------|------|------|
| Lesotho | 4.90 | 5.50 | 4.40 | 5.20 | 6.10 | 6.10 | 8.20 | - | 8.16 |
| Botswana | 1.70 | 2.30 | 4.70 | - | - | 6.10 | 6.30 | - | 6.14 |
| Namibia | 3.90 | 6.60 | 4.20 | 5.40 | 6.00 | 6.20 | 6.60 | 7.40 | 7.40 |
| South Africa | 6.80 | 6.90 | 8.90 | 8.90 | 9.10 | 10.20 | 9.80 | - | 9.79 |
| % of government expenditure | | | | | | | | | |

Health expenditure, public (% of GDP)

Public health expenditure consists of recurrent and capital spending from government (central and local) budgets, external borrowings and grants (including donations from international agencies and nongovernmental organizations), and social (or compulsory) health insurance funds.

Source: World Health Organization National Health Account database (www.who.int/nha/en) supplemented by country data¹⁷⁸.

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---------------------------|------|------|------|------|------|------|
| Lesotho | 4.20 | 5.60 | 6.10 | 7.00 | 8.10 | 9.50 |
| Botswana | 4.90 | 6.00 | 3.30 | 3.50 | 3.30 | 3.10 |
| Namibia | 3.10 | 3.80 | 3.70 | 3.50 | 3.00 | 3.00 |
| South Africa | 3.40 | 3.50 | 3.70 | 4.10 | 4.10 | 4.10 |
| Sub-Saharan Africa | 2.70 | 2.80 | 2.70 | 3.10 | 2.80 | 2.90 |
| World | 5.80 | 5.80 | 5.90 | 6.40 | 6.20 | 6.00 |

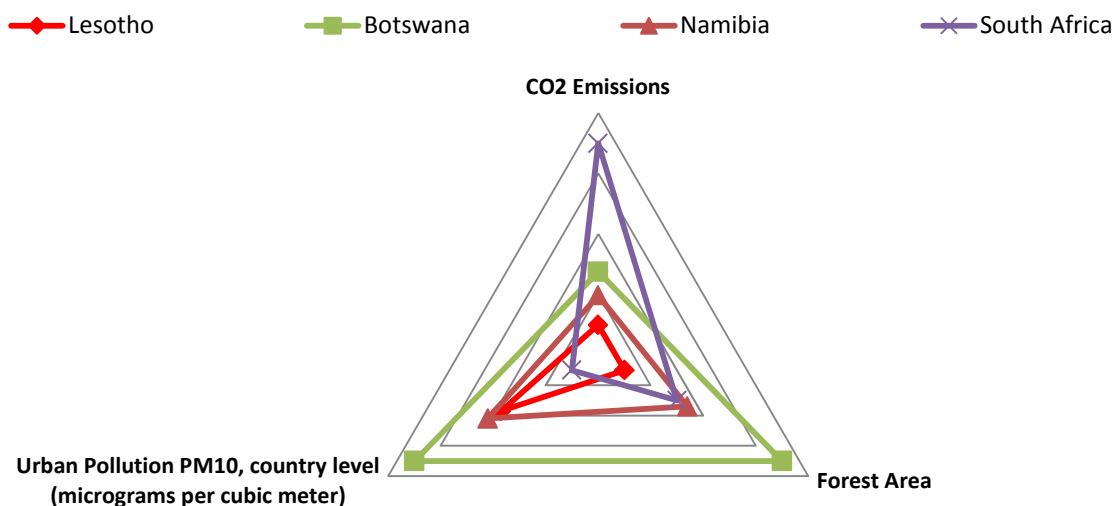
Data as a % of GDP.

¹⁷⁷ <http://www.ilo.org/dyn/sesame/IFPSES.SocialDBExp>

¹⁷⁸ <http://databank.worldbank.org/data/home.aspx>

5. Environmental elements

Indicators* assessing environmental elements of the enabling environment for sustainable enterprises for 2011



**the values for the individual indicators have been harmonized for better presentation. The original values are included in the chapters.

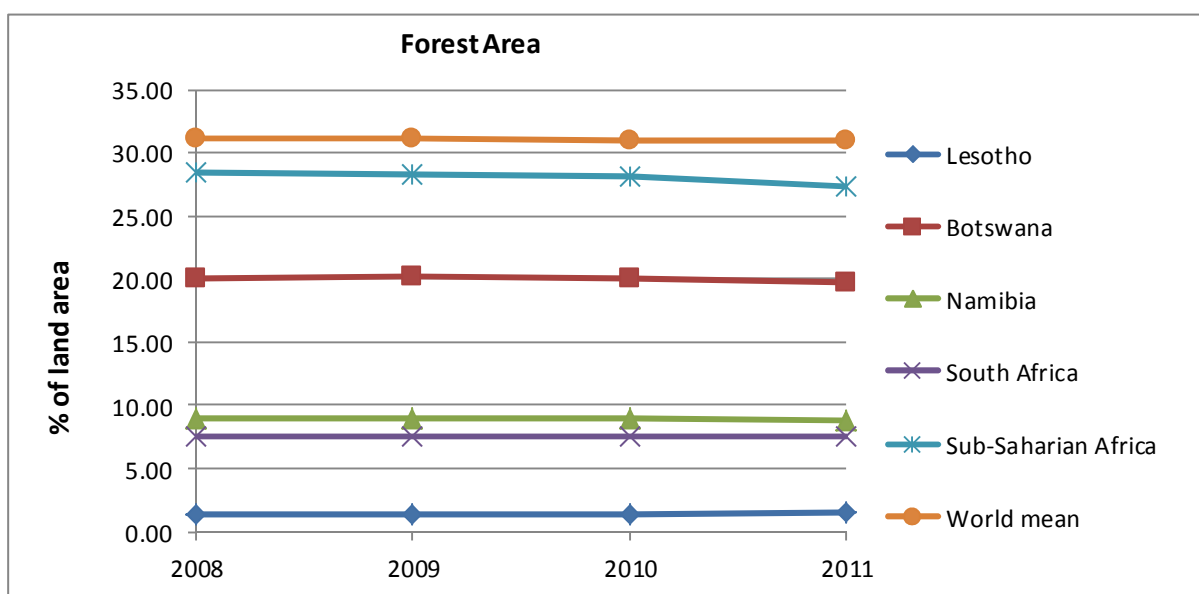
Key findings

- Because of changing climate conditions, Lesotho has undergone a process of desertification which has affected crop production.
- Inappropriate land management practices and farming techniques such as overgrazing by cattle, introduction of foreign and invasive plant species, harvesting of indigenous trees for firewood etc., have resulted in serious environmental issues and contributed to a high vulnerability to flash floods.
- Lesotho has adopted the Environment Act in 2008 which defines the broad activities and general principles of environmental management in the country. It also invests each individual with the right to a clean and healthy environment, imposes a duty to protect, maintain and enhance the environment and defines the right to take legal action against acts or omissions that damage the environment.

5.1. Responsible stewardship of the environment

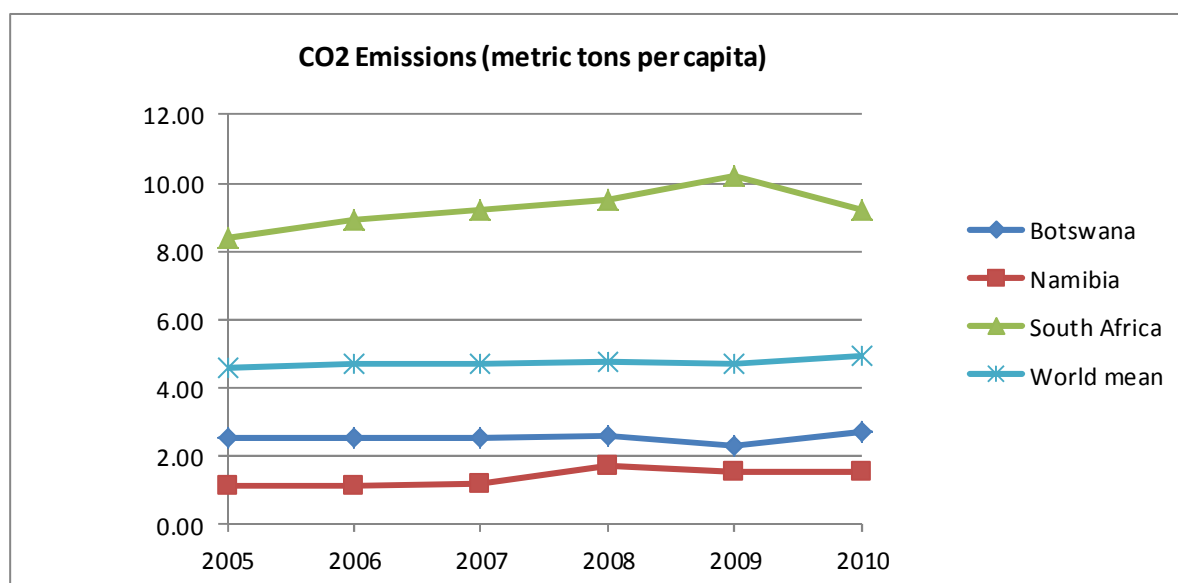
In the absence of appropriate regulations and incentives, markets can lead to undesirable environmental outcomes. The development of sustainable enterprises and the protection of the environment require sustainable production and consumption patterns.

The “Environmental Sustainability Index” benchmarks the ability of nations to protect the environment over the next several decades. Unfortunately, no data is available on Lesotho in this regard. Considering “Total Ecological Footprint”, where lower values indicate better performance, Lesotho has slightly improved from 1.08 in 2005 to 1.07 in 2007. Its neighbouring countries used for comparison perform much worse, with Botswana recording the highest values. Even Africa and world means are worse than the values registered for Lesotho. The “Environmental Performance Index” ranks 149 countries based on 25 indicators. The higher the score, the better is the environmental performance of the country. No data is available on Lesotho in this respect.



Source: Food and Agriculture Organization, electronic files and web site (World Development Indicators Online).

Additional information on responsible stewardship of the environment can be obtained by considering other indicators. For example, carbon dioxide (CO₂) emissions in metric tonnes per capita indicate that Lesotho registers a value equal to 0 in 2010, which means that the negative environmental impact of this country in this regard is negligible compared to Botswana, Namibia and South Africa, as well as the Sub-Saharan Africa region and the world. Contrary to this encouraging finding, Lesotho has a very limited share of forest area in its territory. Despite a small increase from 1.4 per cent of the total land area in 2008 to 1.5 per cent in 2011, the proportion of forest area is much lower than that recorded by Botswana, Namibia and South Africa. The Sub-Saharan Africa and world means are also much higher.



Source: Carbon Dioxide Information Analysis Centre, Environmental Sciences Division, Oak Ridge National Laboratory, Tennessee, United States (World Development Indicators Online).

Challenges to Lesotho's environment are twofold. Firstly, climate change has brought about increasingly frequent and intense droughts as well as higher average temperatures, resulting in a region wide process of desertification. These conditions have made land which was once arable now only marginal, and crop production has been affected as a result. Secondly, environmental challenges brought about by climate change have been exacerbated by land mismanagement and a shortage of protected areas because of the communal land tenure system. Incorrect farming techniques are also a major contributory factor to flash floods. The major problems include overgrazing by cattle; introduction of foreign and invasive plant species that cannot retain moisture and leach soil nutrients; harvesting of indigenous trees for firewood; declining biodiversity in crops, including reliance on maize and sorghum, both alien species that are poorly adapted to Lesotho's climate; and burning of crop residue, which is often used as a fuel source in winter, rather than leaving it on the ground to nourish the soil.¹⁷⁹

In an effort to address these problems, Lesotho has adopted the Environment Act in 2008. The Environment Act defines the broad activities and general principles of environmental management in Lesotho. It also invests each individual with the right to a clean and healthy environment, imposes a duty to protect, maintain and enhance the environment and defines the right to take legal action against acts or omissions that damage the environment. The Act has seen the creation of an inter-ministerial institution – the National Environment Council (NEC) – chaired by the Minister of Tourism, Environment and Culture. Its responsibility is to formulate environmental policy and to facilitate the coordination and harmonisation of such policies on the ground. Further, the Act has introduced the concepts of Environmental Impact Assessment (EIA), audits and monitoring of projects. EIA refers to a study of the environmental impacts likely to arise from a proposed project and the minimising of environmental degradation caused by development.¹⁸⁰

¹⁷⁹ Lesotho Review. 2011.

¹⁸⁰ Ibid.

Key Indicators

Total Ecological Footprint (EFP) (global hectares per capita)

The Ecological Footprint (global hectares per capita) measures the amount of biologically productive land and sea area an individual, a region, all of humanity, or a human activity requires to produce the resources it consumes and absorb the waste it generates, and compares this measurement to how much land and sea area is available.

Source: Global Footprint Network, based on international data (UNSD, FAO, IEA, IPCC)¹⁸¹.

| | 2005 | 2007 | 2009 |
|---------------------------|------|------|------|
| Lesotho | 1.08 | 1.07 | - |
| Botswana | 3.60 | 2.68 | 3.88 |
| Namibia | 3.71 | 2.15 | 3.00 |
| South Africa | 2.08 | 2.32 | 2.74 |
| Sub-Saharan Africa | 1.37 | 1.41 | 1.42 |
| World | 2.66 | 2.70 | 2.59 |

Lower value= better performance. For 2005, humanity's total ecological footprint was estimated at 1.3 planet Earths - in other words, humanity uses ecological services 1.3 times as fast as Earth can renew them.

¹⁸¹ <http://www.footprintnetwork.org/images/uploads/>

6. Assessment results and ways forward

The final results of the overall assessment on an enabling environment for sustainable enterprises in Lesotho based on primary and secondary data, focus group discussions and in-depth interviews, workshop discussions, and a thorough literature review indicate that there is space for improving the situation in all of the 17 conditions.

During the technical workshop held in Maseru in November 2013, participants discussed a draft questionnaire and prioritized 8 top conditions from a total of 17. The global result of the voting gave the following as key EE conditions for the questionnaire:

- Good governance;
- Sound and stable macroeconomic policy and good management of the economy;
- Trade and sustainable economic integration;
- Rule of law and secure property rights;
- Fair competition;
- Access to financial services;
- Entrepreneurial culture; and
- Education, training and lifelong learning.

The preliminary findings of the overall evaluation were presented, discussed and validated at a tripartite workshop held in Maseru in May 2014. There it was agreed that efforts should be concentrated on only three areas in order to maximise the impact of the proposed measures toward improvement:

- Education, training and lifelong learning;
- Access to financial services; and
- Entrepreneurial culture.

Education and training and entrepreneurial culture are to be considered jointly. As a matter of fact, the intention is to build an entrepreneurial culture in the country particularly for the youth and using the education system to that end. Moreover, access to finance is also to be meant for vulnerable groups, including the youth and in particular young women.

An action plan with specific outputs stemming from outcomes linked to priority areas and key players for action has been drafted by tripartite participants at the May 2014 workshop. The action plan will be finalized and adopted at a dissemination workshop to be held in August 2014 in the presence of high-level policy makers. The implementation of the action plan will address some of the main issues emerging from this assessment and will contribute to the improvement of the enabling environment for sustainable enterprises in Lesotho. The action plan covers the period 2014-17.

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