Country Focus Report 2023

LESOTHO

Mobilizing Private Sector Financing for Climate and Green Growth

AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

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LIST OF ACRONYMS AND ABBREVIATIONS

CBL	Central Bank of Lesotho
CPI	Climate policy initiative
CSR	Corporate social responsibility
GCF	Green Climate Fund
GDP	Gross Domestic Product
GHG	Greenhouse gas
FDI	Foreign Direct Investment
IMF	International Monetary Fund
LHWP	Lesotho Highland Water Project
LLWP	Lesotho Lowland Water Project
MEMW	Ministry of Energy, Meteorology and Water Affairs
MSMEs	Micro, small and medium-scale enterprises
MW	Megawatt
NAPACC	National Adaptation Programme of Action on Climate Change
NDCs	Nationally Determined Contributions
NSDP II	Second National Strategic Development Plan
OECD	Organisation for Economic Co-operation and Development
PCG	Partial Guarantees Scheme
PPF	Public-private partnerships
PPPs	Project preparation facility
SACU	Southern Africa Customs Union
SADC	Southern Africa Development Community
SDGs	Small and medium-scale enterprises
SMEs	Small and medium-scale enterprises
UNDP	United Nations Development Programme
WDI	World Development Indicators

LESOTHO

KEY MESSAGES

Lesotho does not emit significant amounts of CO2. Lesotho's CO2 emissions in 2021 were 2.28 million tons, accounting for 0.01% of global CO2 emissions that year. Its CO2 per capita emissions in 2012 was 1.0 ton. Hence, the focus is less about reducing CO2 emissions, but the Government's main priority is to conserve the environment, biodiversity and natural capital, and improve sanitation.

However, as enshrined in the National Adaptation Programme of Action on Climate Change (NAPACC) and Environmental Act 2008, the Government seeks to promote green growth.

The Government is committed to reducing greenhouse gas emissions (GHG) by 10% by 2030 with a further 25% reduction which will be achieved by 2050 with additional external resources. The Government is also exploring the possibility of using waste to generate energy in the future and for job creation for the youth.

However, the Government is facing challenges in implementing NAPACC owing to the country's inadequate infrastructure and systems. Private sector financing for green growth and climate change are also constrained by institutional, economic and commercial market barriers, and inadequate technical capacities.

Lesotho's natural capital includes its water as well as significant mineral deposits. Lesotho has benefited from these natural resources that form the lifeline for the country's residents but also earn the country millions of dollars in the form of foreign exchange every year.

In the short- to medium-term, the Lesotho Government should establish a climate change fund to support climate change-related innovations and actions; mobilize the necessary climate financing; develop the capacity for executing budgetary allocation (domestic and foreign) including accountability measures; develop a national programme or plan including fundable project proposals, based on national priorities, with the involvement of key stakeholders; and develop climate change initiatives that will easily attract regional and international climate financing.

In the long term, the Government of Lesotho should strengthen national capacities to directly access funds from the Green Climate Fund (GCF) by establishing a GCF- National Designated Authorities/focal point and enhancing coordination mechanisms); and encourage development financing institutions (e.g. banks, micro-financing institutions) to provide financing for climate change-related programmes.

1. INTRODUCTION

The Country Focus Reports enable the Bank to help regional member countries formulate policies at country level and informs the Bank's operational policies and strategies by providing analysis at country level.

This Country Focus Report (CFR) has three chapters, including (i) economic performance and outlook; (ii) private sector financing for climate and green growth; and (iii) natural capital for climate finance and green growth.

2.0 LESOTHO'S ECONOMIC PERFORMANCE AND OUTLOOK

KEY MESSAGES

- **Lesotho's economy grew by 2.5% in 2022** against a growth rate of 1.6% in 2021. The recovery was driven by growth in the service (2.6%) and the construction sectors (8.1%), fiscal stimulus as well as COVID-19-related expenditures.

- **The recovery was also spurred by the various initiatives taken by the Prime Minister's Delivery Unit** aimed at addressing the challenges and bottle necks in the economy.

- **Lesotho's economy is projected to grow by 2.1% and 2.6% in 2023 and 2024**, respectively, similar to the 2.5% growth rate registered in 2022 which will be driven by the Highlands Water Project, given its huge infrastructure works involving the construction of tunnels and dams. Tailwinds include elevated government capital expenditures.

- **On account of the high level of youth unemployment**, the Bank has finalized a study on the issue to unlock the potential of the youth in the development process.

- **During the COVID-19 pandemic, Lesotho went into lockdown on March 29 2020, even before the first case was recorded on 12th May 2020. The lockdown lasted until 5th May 2020. As at 3rd January 2022**, the number of cases, recoveries and deaths stood at 34,490, 25,980, and 706 respectively.

- **Lesotho successfully conducted a general election on 7th October 2022, in which the Revolution for Prosperity party, formed some six months before the election and led** by businessman Sam Matekane, won 56 out of 120 seats in parliament, short of the required parliamentary majority to form a Government. The Democratic Congress won 29 seats while All Basaotho Convention, which led the outgoing government, secured only eight seats. Mr. Matekane is leading a coalition government with a focus on good governance (eliminating corruption and enforcing fiscal discipline) and reducing inequality by accelerating inclusive economic growth.

- **Social indicators: Poverty remains endemic, with 50% of the population living below the national poverty line**. The Gini Coefficient is expected to increase from 0.446 in 2020 to 0.48 in 2021 through to 2022. Youth unemployment stands at 33.2%, compared with an overall unemployment rate of 24% while half a million people are food insecure.

2.1 Macroeconomic Developments

Despite global disruptions caused by the Russian invasion of Ukraine, Lesotho's economy remained resilient, growing by 2.5% in 2022 driven by growth in the service (2.6%) and the construction sectors (8.1%), fiscal stimulus, as well as COVID-19-related expenditures. This is an improvement on the growth rate of 1.6% registered in 2021 (Table 1). The Lesotho economy is projected to grow by 2.1% and 2.6% in 2023 and 2024 respectively, similar to the 2.5% growth rate registered in 2022 to be driven by the Highlands Water Project, given its huge infrastructure works involving the construction of tunnels and dams

> " Despite global disruptions caused by the Russian invasion of Ukraine, Lesotho's economy remained resilient growing by 2.5% in 2022"

(Table 1). Possible tailwinds include elevated government capital expenditures. Real GDP per capita is estimated to increase by 0.3% in 2021, compared to 1.5% in 2022 and projected to increase by 1% and 1.5 % in 2023 and 2024, respectively (Table 1).

Monetary policy and inflation: I**nflation increased to 8.3% in 2022 owing to an increase in inflation in South Africa, the country's main trading partner.** This represents a deterioration compared to 6.1% registered in 2021 (Table 1). Inflation is projected to narrow at 6.5% and 5.5% in 2023 and 2024, respectively, down from 8.3% in 2022 owing to further projected marginal increases in food prices (Table 1).

Fiscal and current account balances: **In 2022, the fiscal deficit narrowed to 4.3% of GDP due to a rebound in Southern Africa Customs Union (SACU) revenues, compared to 4.8% in 2021**. It was financed with Government savings with the banking sector and borrowing. The fiscal deficit is projected to increase to 5.5% and 5.1% in 2023 and 2024, respectively, up from 4.3% in 2022 owing to a projected decrease in Government revenues arising from a fall in SACU revenues (Table 1). The current account deficit increased to 6.8% of GDP in 2022 owing to an increase in imports, compared to 4.2% in 2021 (Table 1). The deficit was financed with South African capital transfers. The current account deficit is projected to narrow to 5.8% and 5.1% of GDP in 2023 and 2024 respectively, down from 6.8% in 2022 due to projected recovery in remittances (Table 1).

Real GDP per capita: Real GDP per capita increased by 0.3% in 2021, compared to 1.5% in 2022 and is projected to increase by 1% and 1.5 % in 2023 and 2024, respectively.

Financial sector: **Non-performing loans in Lesotho increased from 4.1% in 2021 to 4.4% in 2022 owing to payment arrears due to suppliers.** The return on assets increased from 1% in 2021 to 1.4% in 2022 and the return on equity increased from 8.3% in 2021 to 11.7% in 2022 owing to the buoyancy of the financial market. (Central Bank of Lesotho, Financial Sector tables).

Table 1: Lesotho Macroeconomic Indicators 2018 - 2024

	2018	2019	2020	2021	2022(e)	2023(p)	2024(p)
Real GDP Growth	-1.5	-0.8	-5.6	1.6	2.5	2.1	2.6
Real GDP per capital growth	-2.7	-2.0	-6.9	0.3	1.5	1.0	1.5
CPI inflation	3.9	5.2	5.0	6.1	8.3	6.5	5.5
Budget balance % GDP *	-4.5	-7.0	0.2	-4.8	-4.3	-5.5	-5.1
Current account balance % GDP	-2.8	-4.0	-2.0	-4.2	-6.8	-5.8	-5.1

Source: Data from domestic authorities; estimates (e) and prediction (p) based on authors' calculations.
** Data for fiscal year: April to March.*

Poverty and social indicators: **According to World Bank data (WDI), poverty remains endemic in Lesotho, with 50% of the population living below the poverty line (USD 1.9) in 2017**. The Gini Coefficient is expected to increase from 0.446 in 2020 to 0.48 in 2021 through to 2022. Youth unemployment stands at 33.2%, compared with an overall unemployment of 24% while 500,000 people are food insecure

The main risk to Lesotho's macroeconomic outlook remains the fragile fiscal situation given the huge fiscal gap. The Russian invasion of Ukraine will also present major headwinds to growth in the form of accelerating inflation, causing weaker demand for Lesotho's exports and declining investor confidence. Additionally, sluggish growth in South Africa can only impact negatively on Lesotho's growth prospects.

3. PRIVATE SECTOR FINANCING FOR CLIMATE AND GREEN GROWTH IN LESOTHO

3.1 INTRODUCTION

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

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

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

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

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

" Lesotho is particularly prone to a number of environmental hazards such as drought, soil erosion, land degradation, deforestation, loss of biodiversity, and drying up of the wetlands and mountain sponges", page

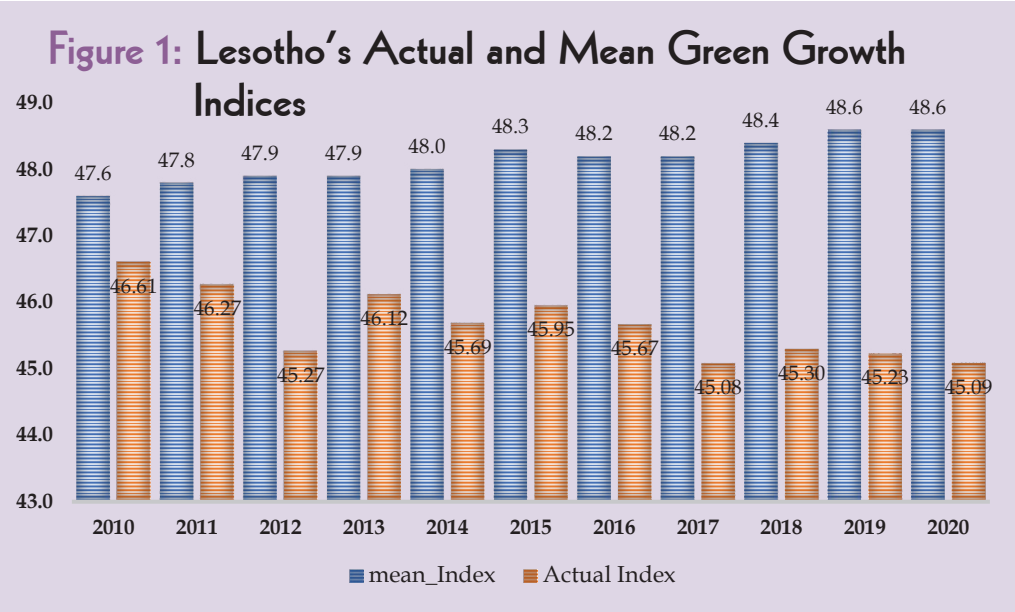
The PPP policy is a relatively new modality in Lesotho for infrastructure development, although PPPs have been used in small social sectors, such as public health and education, and not for large infrastructure projects in climate resilience priorities sectors. The only PPP project in infrastructure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

Due to limited technical capacity to fully assess the cost of climate and associated technology needed to build resilience and enable the transition to a low carbon economy, estimation of climate finance in Lesotho has only covered conditional mitigation finance. This is estimated at USD0.6 million between 2015 and 2030, equivalent to 0.2% of its GDP.

The climate finance landscape in Lesotho is dominated by the public sector. Lesotho's total finance needs amount to USD49.7 million. The public sector contributes about USD272 million while the private sector accounts for USD16.4 million during the period 2019-2020. The private sector share has declined since 2018. For instance, it declined from USD19.9 million in 2019 to USD0.27 million in 2020. Commercial financial institutions contribute a large share of 3% (USD6.97 million) while corporate sources account for 1.2% (USD2.99 million) and institutional investor shares are negligible, accounting for 0.058% (USD0.14 million).
nstitutional investors in Lesotho include the Climate Finance Facility of the Development Bank of Southern Africa. The Facility is a blending finance instrument aimed at filling capital market gaps and crowding in private sector investment targeting adaptation and mitigation infrastructure projects in SADC member states, including Lesotho.

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

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



Source: World Development Indicators: World Bank

" Lesotho's Growth Index has increased form 47.6 in 2020 to 48.6 in 2020",

Lesotho's average green Growth Index score is 45.6 and the median is 45.5 while that of Southern Africa is 49.3 and 49.2, respectively (Figure 2).

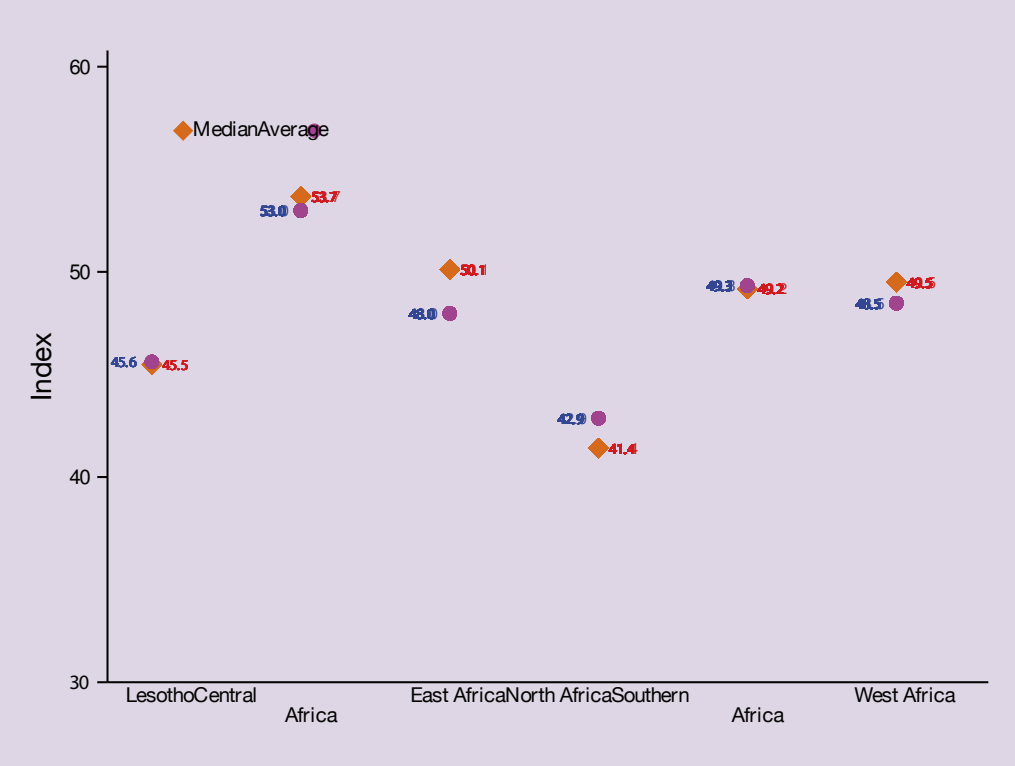
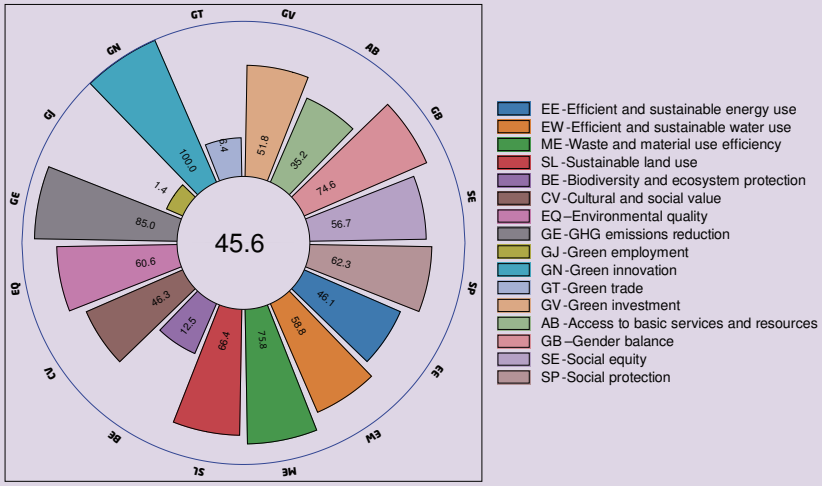


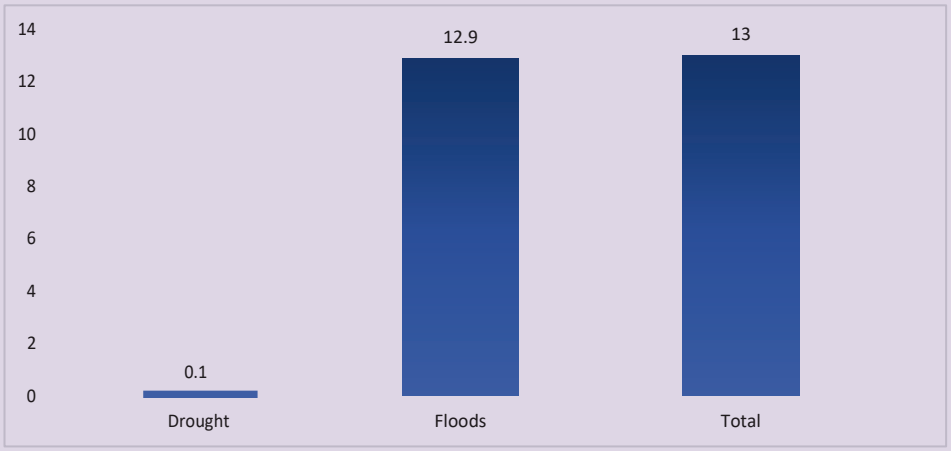
Figure 3: Drivers of Green Growth in Lesotho



The average GGI in Figure 3 is 45.6 and the main driver of green growth in Lesotho is green innovation while the least contributor to green growth is green employment.

In order for Lesotho to achieve green growth, it has to mobilize private capital on a significant scale. Lesotho will have to deploy 13% of its GDP to adapt to the effects of droughts and floods (Figure 4).

Figure 4: Private investment opportunities to adapt to droughts and floods in Lesotho between 2021 and 2040 (% of GDP)



Source: World Development Indicators: World Bank

Lesotho's Second National Strategic Development Plan, (NSDP II) touts the private sector as the engine of economic growth, putting emphasis on environmental preservation as a means of achieving sustainable and balanced development.

3.2 PRIVATE SECTOR FINANCE FLOWS, GAPS AND NEEDS FOR GREEN GROWTH AND CLIMATE ACTION IN LESOTHO

Finance flows to climate action and green growth to date identify sectoral and country patterns.

Although the climate financial flows in Lesotho are serrated, there is a consensus that the country's overall attributed climate finance has decreased owing to limited local capacity to mobilize finance. Climate action finance flow accounts for 5% of Lesotho's sustainable development goals (SDG) financing (OECD, 2023). Analysis of the landscape of climate finance in Africa by the Climate Policy Initiative (CPI, 2022) has indicated a significant decline in Lesotho's climate finance between 2019 and 2020. In 2020, the country received USD14 million against USD461.84 million in 2019 of which public sector finance accounted for 98% in 2020 and 86% in 2019. On average, the country has received USD238 million for 2019-2020.

In terms of sectoral disaggregation, the water sector, mainly water supply and wastewater treatment account for 73% (USD174 million) of the sectoral climate finance 11% (USD27 million) followed by cross-sectoral finance estimate while the agriculture, forestry, and other land use and energy sector respectively account for 3% (USD15 million) and 4% (USD20 million). The allocation for the infrastructure sector is relatively negligible (CPI, 2022).

Lesotho's climate finance gap during the period 2020-2030 ranges from USD0.54 billion to USD0.47 billion with an average of USD0.5 billion. The scale of the average annual financing gap of USD0.5 billion during the period 2020-2030 will severely limit the country's ability to build climate resilience.

3.2.1 Private sector finance needs for the future

Lesotho's first NDCs, submitted in 2018, identify adaptation needs in the energy, agriculture, land use, land use changes and forestry and the health and water sectors. For improved mitigation, the NDCs identify its priority sectors as energy, industrial processes, agriculture, land use, land use change and forestry and waste. The estimated cumulative financing needs for Lesotho to respond adequately to climate change range from USD1.18 billion to USD1.89 billion, averaging USD0.307 billion per year in 2020–30, with lower and upper amounts of USD0.51 billion and USD0.58 billion, respectively.

The estimated financing needs do not include the cost of adaptation which has not been estimated. This could, therefore, be an underestimation, due to a lack of data and technical expertise to estimate the true cost of adaptation measures.1 It could cost even more in future on account of the frequency of droughts, and the fast pace of desertification and soil erosion. Mitigation accounts for USD0.3 billion while loss and damage cost estimates range from USD0.12 to USD0.189 billion.

3.2.2 Emerging innovative private sector financing mechanisms for green growth and climate action

Despite its relatively small size, gross capital formation in Lesotho has increased from 23% of GDP in 2018 to 31% of GDP in 2020 (World Bank, 2022). Lesotho's private-sector financial market is made up of both of domestic and international actors.

Domestic private finance is bank-based including commercial banks, insurance institutions, and assets management1(Central Bank of Lesotho, 2021). There are no secondary financial markets (stocks, bonds, options or futures) in the country. The banking industry's total assets constitute 67.1% of the total financial sector assets and 58.2% of GDP at end-2021(GCR rating2, 2022). However, the Lesotho banking industry has a very high foreign asset holding of about 90%. Existing financing instruments from the domestic financing market include bank credit or line of credit, corporate social responsibility,

"Although climate finance flows in Lesotho are serrated, there is a consensus that the country's overall attributed climate finance has declined owing to limited local capacity to mobilize finance",

partial guaranties schemes, equity finance, project preparation facility, foreign direct investment and pension funds, equity fund vs. private debts. Each of these is explained below.

Bank credit or line of credit: Credit line use in Lesotho increased from 18.7 percent in 2016 to 32.2 percent in 2020 (UNDP, 2021). The majority of these are used by households while only 2% of MSMEs access credit lines. Credit to business enterprise grew by 2.8% in 2021(CBL, 2022). MSMEs have limited access to finance in Lesotho therefore 91% self-finance and 7% use informal lending. The growing industry of microfinance provides a better alternative for individual entrepreneurs and MSMEs in Lesotho (IMF, 2019). Established banks are increasingly introducing a microfinance instrument into their business model.

Corporate Social Responsibility (CSR): CSR is emerging as an alternative source of private sector financing, given the relatively small size of the private sector. The secondNationalStrategicDevelopment Plan (NSDP II) Financing Strategy outlines CSR as a potentially important development flow and is being implemented in the mining and brewery sector by two government-owned entities namely Letšeng Diamond Mining and Maluti Mountain Brewery. In the banking sector, Standard Lesotho Bank runs its own CSR programme, under the banner of 'Corporate Social Investment' which enabled the country to launch, the Entrepreneurship Development Programme in 2018. This initiative supports the entrepreneurship hub in Lesotho and endeavours to support local entrepreneurs through the supplier development project by enhancing the capacity of local companies to be credible suppliers of choice.

Partial Guaranties Scheme (PCGs): The Partial Guarantee Fund was introduced in Lesotho in 2011 and restructured in 2020. It is operated within the Lesotho National Development Corporation, the Ministry of Small Business Development, Cooperatives and Marketing and its partners banks are First National Bank, Lesotho Post Bank Nedbank, and Standard Lesotho Bank. It supports term loans (short-, medium-, and long-term); working capital; and leasing finance. It covers 50% to 75% of the loan; waives all fees; covers all sectors and business activities except normal negative list activities; and increases the maximum guarantee amount from USD 265,252to USD424,403. The facility has 60 months of loan maturity and the lender can accept any collateral but usually is provided with at least 7.5% collateral (or as required by the bank). However, the PCG is yet to prove effective in improving access to credit. PCGs can be a good vehicle for the Government to provide guarantees for MSMEs operating in climate priority areas and reduce their risk of lending including collateral. It is administered by the Lesotho National Development Corporation.

Equity Finance: The equity finance product is part of the Corporation's managed facilities and is currently only available to support strategic, NSDP II-aligned projects initiated or promoted by the Corporation. The product will be made available to the private sector in due course depending on resource availability. However, private sector entities are free to approach the Corporation with project proposals where they deem fit.

Project Preparation Facility (PPF): The PPF offers grants for preparation activities including pre-feasibility and feasibility studies; financial, technical, and environmental feasibility assessments; and advisory services. It targets standard project investments with an average size of USD7585.5 while large projects should have an average size of USD50570. The facility applies a 2.5% application fee to promoters on requested funding within three days of the application's submission, 5% administrative fees to partners on funding contributions; and is charged on a declining basis.

Foreign Direct Investment (FDI): FDI is the largest international private finance instrument and the most common form. However, it has declined over recent years. According to the United Nations Conference of Trade and Development report in 2022, FDI in Lesotho has

significantly declined from USD159 million to USD30 million between 2016 and 2021, indicating a decrease of 81% over a five-year period owing to perceptions of political instability. In 2021, the total value of green field investment in Lesotho was estimated at USD183 million against USD314 million in 2019 for the same reasons.

Pension Fund, equity fund vs. private debts: The pension fund is also an emerging market for equity funds and private debt. An estimated 100 active retirement funds exist in Lesotho. A study published by Intellidex (Pty) Ltd. analysed policy and regulatory development to catalyze a larger uptake of private equity and private debt investments by pension funds in Lesotho, among other SADC countries. The research indicates the Public Officers Defined Contribution Pension Fund is the largest pension fund in the Kingdom, with assets under management of about USD616 million in 2021. However, its policy does not allow allocation for private equity or private debt. Although the Pension Funds Act was only promulgated in 2019, there is no clear guidance or regulatory framework for private equity. In addition to restriction with allocation, political instability, and lack of confidence in government. The small market size with limited investment opportunities, limited understanding of asset class, and lack of technical skills are the major private market barriers for the pension fund.

3.3 OPPORTUNITIES AND BARRIERS FOR MOBILIZING PRIVATE SECTOR FINANCE FOR GREEN GROWTH AND CLIMATE ACTION

3.3.1 Opportunities for private sector investments

There are a number of factors which provide significant opportunities for private sector finance for green growth and climate action in Lesotho. Firstly, Lesotho is a lower-middle-income country focusing on increasing industrialization and is therefore poised for an growth in demand for energy for both domestic and industrial use. This provides an opportunity for the private sector to step up its investment in renewable energy which is clean and cheap. Secondly, the country's booming textile industry also provides an opportunity for more private sector investments in alternative sources of energy to meet the increase in energy demand. Thirdly, the introduction of the Economic Laboratories, an initiative introduced in March 2019 emanating from the desire to effectively and efficiently implement NSDP II, with a focus on private sector led-growth, also implies additional increases in energy consumption and hence potential investments by the private sector in energy. Finally, the increasing pace of urbanization also guarantees higher energy consumption thus calling for more private sector finance for green growth and climate action.

3.3.2 Barriers to private sector investments

Private sector growth and financing in Lesotho are constrained by institutional, economic and commercial market barriers and inadequate technical capacities. The following barriers have been identified:

I) Institutional barriers:

- Inadequate dedicated private financing mechanisms including the lack of a public-private partnership framework to enable private investor capital deployment in climate change priorities sectors in the country; and,
- Weak coordination mechanisms and legal frameworks.

II) Economic and commercial barriers:

- The potential value of the capital market is relatively small;
- Limited private sector capacity for supply, distribution, installation, and maintenance of climate adaptation and mitigation technologies, including climate services;
- Limited business and entrepreneurship skills;
- Lack of suitable financing arrangements for companies and end-users to overcome the high capital costs at an earlier stage of project design; and,
- Low-income levels of the rural population to afford climate-smart services including renewable energy technologies, leading to a small

Table 2: Innovative instruments used to mobilize private sector finance in Lesotho

Type of Instrument	Bank credit or line of credit	Partial Guarantee Schemes (PCG)	Pension fund, private equity, and debt-equity	Project Preparation Facility
Description and current performance	Bank credit increased from 18.7% in 2016 to 32.2% in 2020. Only 2% of MSMEs have access to bank credit in Lesotho.	PCG was restructured in 2020 to enhance MSME access to credit. It is yet fully operational in Lesotho. It supports term loans (short-, medium-, and long-term); working capital; leasing finance. It covers 50% -75% of the loan; waives all fees; covers all sectors and business activities except normal negative list activities; and increases the maximum guarantee amount from M5 million to M8 million.	Equity and debt finance in Lesotho is predominantly from pension funds. As of 2022, investments in the asset class are small, about 3%. Investments in private equity include projects in the healthcare sector, property, agriculture, infrastructure, and SMEs	PPF is a facility grant for pre-feasibility and feasibility studies; financial, technical, and environmental feasibility assessments; advisory services. The performance is yet unestimated. However, it is a good vehicle to enhance project design including the integration of climate actions.
Contextual challenges to scaling up Lesotho	-Collateral is a major constraint for private sector access in Lesotho. -High-interest rates is another factor limiting MSMEs access to a line of credit, especially in the agriculture sector .	- PCGs can be a good vehicle for the Government to provide guarantees for MSMEs operating in climate priorities areas and reduce their risk of lending including collateral. -The ticket size is relatively small and unable to accommodate large-scale projects.	- The permitted allocation to private equity is between 1% and 5% to private debt. This limits exposure to large-scale investment. - Small market size with limited investment opportunities, limited understanding of asset class, and limited technical skills.	- Small-size projects for the PPF is USD7958 while large projects should have an average size of USD53,050 1,000,000.
Key factors to enabling successful use of instrument	-Bank credit facility is also extended to micro-insurance companies in Lesotho. - Established banks are also introducing corporate socially responsible finance which can support physical and social infrastructure to build resilience.	-PCG currently is managed by a government agency and can support the operationalization of the Public-Private Partnership Framework including reducing collateral. - Providing additional support to extend PCG size to large-scale projects can enhance private sector appetite.appetite.	-Pension fund is the largest source of equity and debt finance in Lesotho and has great potential for growth. -Asset managers' appetite for establishment in Lesotho has improved over recent years. - Need to extend the exposure of pension fund private equity finance to large-scale projects.	-Specific priority sectors are not indicated by having potential for climate priorities areas. -Need to extend the ticket size for a large project.

energy customer base.

III) Technical barriers

• Limited skilled manpower for building, operating, and maintaining climate-smart technologies, including renewable energy installations, and low retention of trained workers;

• Inaccessibility of the rural population to service centers and towns; and,

• Lack of access to necessary information and lack of public awareness of the technologies.

3.4 PATHWAYS TO MOBILIZING PRIVATE SECTOR FINANCE FOR GREEN GROWTH AND CLIMATE ACTION IN LESOTHO

The Government of Lesotho can take a number of initiatives to mobilize private finance for green growth and climate action. These include the following:

I) Strengthening national capacities to directly access funds from the GCF by establishing the GCF- NDA/focal point and enhancing coordination mechanisms;

II) Developing a national plan including fundable project proposals based on national priorities, with the involvement of key stakeholders at national level;

III) Establish climate change fund designed to support climate change-related innovations and actions;

IV) Encourage the establishment of development financing institutions (e.g. banks, micro-financing institutions) to provide financing for climate change-related programmes; and,

V) Public-private partnerships should play a role in climate finance, support climate change activities and provide valuable and adaptable conceptual frameworks to support cooperation and collaboration between public and private entities, as well as a means to increase public leverage of private climate finance.

4. NATURAL CAPITAL FOR CLIMATE FINANCE AND GREEN GROWTH

4.1 INTRODUCTION

Lesotho is often eclipsed by its larger neighbour South Africa, both literally (as South Africa surrounds the country) and economically. However, the small nation is home to a thriving economy pivoting on its natural resources. Natural resources found in the country include its water as well as significant mineral deposits. They are not only the lifeline for the country's residents but also earn the country millions of dollars in the form of foreign exchange every year.

Water and mineral resource are considered key natural resources in Lesotho. Water is the most valuable natural asset with three major catchments (Senqu, Mohokare, and Makhaleng) and two major water projects, namely the Lesotho Highland water project (LHLWP) and Lesotho Low Land Water Project(LLWP)). The water sector contributes 8-10% of the country's GDP while the LHWP contributes roughly 4% of the GDP (RENOKA6, 2021). LHWP's revenue is estimated at USD65,738,121.45 in 2019.

Table 3 below shows the planned and actual deliveries and the variance in water deliveries in Lesotho as well as the actual royalties. The revenue from water royalties and electricity sales from the LHWP is estimated at 14% (USD13,846153)and 9% (USD2,652,520), respectively in 2019. Although the revenue generated from water usage is relatively small in the agriculture, forestry and fishery sector, the sector remains the main water user, especially in the livestock sector. Meanwhile, water revenue from the textiles, clothing, footwear, and leather industries is relatively high. The development of the garment industry in Lesotho provides an opportunity for higher tax collection enhancing the economic benefit of water usage in the sector. In contrast, water usage in the mining and quarrying sector is relatively small, less than 2.5 Mm^3 per annum.

Table 3: Water: Planned Deliveries, Actual Deliveries, %Variance and Actual Royalties

Year	Planned Deliveries	Actual Deliveries	% Variance in Deliveries	Actual Royalties (M million)
2015/16	780	779.9	-0.01	736.9
2016/17	780	794	1.8	861.8
2017/18	780	810	3.8	942.5
2018/19	780	777.7	-0.3	937.5
2019/20	639	640.6	0.25	839.5
2020/21	799.7	799.1	-0.9	1073.8

Source: Ministry of Water, Lesotho

The value of Lesotho's water resources is derived from its strategic position in the Orange-Senqu River Basin, one of Africa's most economically important rivers. Revenue from the water sector in the Kingdom of Lesotho accounts for 48% of government health expenditure and 41% of government education expenditure. The water sector is a major source of employment, with over 1600 jobs created in 2019. In terms of cross-border water transfer to Gauteng, the industrial heartland of South Africa, 95% of it is through Lesotho. The LHWP alone facilitates investments of more than USD$3 billion and provides sustained revenues that amount to nearly USD800 million since 1996. However, the country's exposure to environmental and climate stress such as land degradation, loss of biodiversity, wetlands degradation, food insecurity, water scarcity, and extreme weather events such as droughts, floods, and strong winds increases the vulnerability of the water sector. This in turn can reduce government revenue mobilization capacity as well as suppressing public investment capacity.

Thus, building water sector resilience and enhancing investment in it through non-traditional instruments could significantly improve the country's fiscal space as well as enable the implementation of the country's SDG-related ambitions including climate change objectives. Those objectives seek to reduce GHG emissions by 10% by 2030 and a further 25% reduction should be achieved by 2050 with additional external resources according to its nationally determined contributions' commitments to the Paris Agreement (Ministry of Energy and Meteorology, 2017).

Table 4 below shows the volume of diamonds produced, their value and exports. Diamond mining in Lesotho is a relatively recent activity, with the earliest commercial diamond mining in the country being traced back to the mid-20th century. The industry experienced exponential growth in the first decade of the 21st century when it went from having an insignificant contribution to the GDP to a level where it accounted for an estimated 4% of the GDP in 2011. The most important mine for diamonds in the country is the Letseng Mine. Nestled at an elevation of 10,200 feet in the Maluti Mountains, the mine is considered as the highest globally. While its diamond industry is not as large as in neighbouring Botswana, Lesotho's diamonds can be among the largest in the world. The country's mines produced one of the largest diamonds in 2018, a 910-carat diamond. Other exceptionally large specimens sourced from the country include the 550-carat Letseng Star and the 603-carat Lesotho Promise.

Table 4: Lesotho Kimberley Process Certification Scheme Official Diamond Production and Export Data 2010 – 2021 as Supplied by Ministry of Mines

Year	Volume Produced (CTS)	Volume Produced (USD)	Volume Exported (CTS)	Volume Exported (USD)	Ave Exch Rate M/Us$	Exp minus Prod (CTS)	Exp minus Prod (USD)	Exp minus Prod Maloti
2010	108,827	187,699,207	102,063	184,174,819	7.32	-6,764	-13,524,388	-98,998,520
2011	224,180	359,147,279	214,078	365,772,505	7.26	-10,102	6,625,226	48,099,141
2012	478,926	301,452,475	440,266	287,852,342	8.21	-38,660	-13,600,133	-111,657,092
2013	414,014	242,149,037	44,982	248,528,789	9.65	30,968	6,376,752	61,564,607
2014	346,017	342,617,761	329,374	339,265,029	10.85	-16,643	-3,352,732	61,564,607
2015	304,232	283,359,306	261,291	243,144,860	12.78	-42,941	-40,214,446	-513,940,620
2016	342,014	364,546,094	245,752	214,353,617	14.7	-96,262	-150,192,477	-2,207,829,412
2017	1,126,409	342,657,690	1,001,622	294,336,961	13.31	-124,787	-48,320,729	-643,148,903
2018	1,194,283	377,263,476	1,278,287	377,423,491	13.25	-15,996	160,015	2,120,199
2019	1,113,526	290,104,516	1,306,578	287,035,062	14.45	193,052	-3,069,929	-44,360,474
2020	481, 243	261,212,516	539,965	256,093,809	16.47	58,722	-5,118,707	-84,305,104
2021	339,452	256,553,926	352,033	316,696,752	14.79	12.581	60.142,826	889,512,397

Lesotho Tribune

Lesotho's natural capital declined from USD26.6 billion in 2017 to USD25.9 billion in 2018. In per capita terms, the evolution of natural capital is much less encouraging in Lesotho. Between 2017 and 2018, Lesotho's per capita natural capital declined by 2.2%. In addition to population increase, several factors are at play, including high population growth, decline in unit rents from some form of natural capital, lack of tenure and mismanagement. The decline in per capita value is a concern for sustainability and green growth in developing countries where a large part of the population depends heavily on natural resources for their livelihood.

A decline in the value of that capital both in physical quantity and unit value will result in poverty, exacerbate inequality, and increase vulnerability to climate risks. With most African countries over-reliant on primary commodities and unprocessed raw materials exports, low and volatile global commodity prices have eroded their export revenues. Prices of agricultural commodities such as coffee and cocoa have been declining since the 1970s, whereas prices of crude oil, natural gas and minerals exhibit volatility (figure 3.8). In addition to boosting the efficient use and better measurement of natural capital, sustainable growth necessitates increasing the revenue per unit through various policies. This includes adding value to the raw minerals and commodities including a market form of franchising.

4.2 OVERVIEW OF THE COUNTRY'S NATURAL WEALTH

• Mining and quarrying

Mining and quarrying are the backbone of Lesotho's economy and a source of Foreign Direct Investment (FDI). In 2021, the diamonds were the most exported commodity in Lesotho with a total export volume of USD373million indiamonds, making it the 21st largest exporter ofdiamondsin the world. The country's diamond mines produce the highest dollar-per-carat value in the world. The mining and quarrying sector's contribution to GDP grew from 5.2% in 2019 to 8.5% in 2020 before declining to 5.1% in 2021 due to the COVID-19 pandemic (Lesotho Bureau of Statistics (BOS), 2022). However, analysis of the sectoral growth rate indicates a 16.3% decrease in 2020 and recovery to a 22.8% increase in 2021(BOS, 2022).

• Water Resources

Lesotho is a water abundant country. With an annual mean precipitation of 800mm, varying between below 300mm in the western lowlands and 1,600mm in the northeastern highlands, the country is drained by three major catchments.

The Mohokare catchment of a total 13 370 km² fills the Metolong Dam, which provides water to Maseru and other towns in the West. Metolong dam is part of the Lesotho Lowlands Bulk Water Supply Scheme with a storage capacity of 53Mm³

I) The Makhaleng of total 2988 km² is the smallest catchment.

II) The Senqu is the largest catchment, draining two-thirds of the country, and has an area of 24485km².

The water sector accounts for 8-10% of GDP. The sector's exposure to climate change and environmental risks and its low investment in resilience infrastructure results in the State's limited capacity to fully capture the benefit of the water resource. For instance, intensive grazing is the source of soil erosion, triggering greater risks of flood during heavy rain and increased water pollution.

• Land Resources

Lesotho's land can be characterized as agricultural while the remainder is located on steep, inaccessible slopes. Analysis of the country's 2021 land use indicates that grassland accounts for 64.6% of the total land, while agricultural use accounts for 16.8%; shrubland 12.4%; and forest is very little, at about 3%.

The agriculture sector is primarily made up of small-scale farming and its contribution to the national GDP in Lesotho grew from 4.2% in 2018 to 5% in 2020 before declining to 4.2% in 2021(BOS, 2023). The sector is dominated by livestock farming which grew from 3.2% of GDP in 2018 to 4% of GDP in 2020 before declining to 3% of GDP in 2021. From 2018 to 2021, the contribution of the forestry sector remains 0.2% of the GDP. Fishery and aquaculture production is almost negligible in Lesotho, accounting for only 0.1% of the GDP in 2018 and 0% in 2021.

The horticulture sector is a newly emerging economic sector in Lesotho. The country's climatic conditions which include having water availability for irrigation is suitable for fruit and vegetable production which can grow two to three weeks earlier than in South Africa. However, fruit and vegetable production in Lesotho is primarily undertaken by smallholder subsistence farmers who suffer from low skills and productivity, while an estimated 80% of fruit and vegetable in Lesotho is from imported markets. The main fruit and vegetable farmers' challenges in Lesotho are limited access to markets and the lack of irrigation infrastructure.

Arable land in Lesotho was reported at 19.63% in 2020 (by % of land area), according to the World Bank. Cereal yield per hectare in Lesotho was reported at 508.300 kg/ha in 2016 which represents a decrease from the previous year's level of 586.600 kg/ha. Lesotho cereal yields per hectare data is updated yearly, averaging 719.700 kg/ha from December 1961 to 2016, with 56 observations. The data reached an all-time high of 1,507.700 kg/ha in 1977 and a record low of 375.100 kg/ha in 1972. Hectares per person in Lesotho were reported at 0.125 ha in 2015. This records a decrease from the previous number of 0.127 ha for 2014. Hectares per person data is updated yearly, averaging 0.199 ha from December 1961 to 2015, with 55 observations. The data reached an all-time high of 0.413 ha in 1961 and a record low of 0.117 ha in 2013.

Organic farming has become very common among Lesotho farmers. Through this form of agriculture, farmers in Lesotho have achieved their best yields with low cost

Energy Resources

Table 5 below shows total energy supply in Lesotho. In Lesotho, only 47% of the population has access to electricity, 40% have access to clean cooking while renewable energy accounts for 40% of the country's energy mix. The Lesotho energy sector profile is characterized by a high reliance on hydropower; biomass and imported coal and petroleum resources. In 2019, 36% of the energy supply was coal; 23% petroleum oil; and 40% from renewable sources (of which 91% of bioenergy and 9% of hydro) (Table 5).

Overall, electricity accounts for 17% of the total renewable energy consumption and bioenergy 83% (Table 5). The main source of electricity is the Muela hydropower plant with an estimated 7 ecapacity of 154Mw. Thus, the country's electricity demand is partially satisfied by domestic generation and imports from Electricidade de Moçambique (in Mozambique and Eskom in South Africa within the Southern African Power Pool (2022).

According to Lesotho's Department of Energy, Lesotho could potentially produce 450 MW of hydropower and several hundred more with wind power.The potential for solar energy is estimated between 1600-1800 Kwp while the potential for wind energy is estimated at 936W/m2. This is relatively higher than the world average (Table 5). However, only 17 percent of this potential is currently being exploited, 96 percent of it at the 'Muela hydropower plant and the rest from mini hydro-power plants at Mants'onyane, Mokhotlong, Tsoelike, and Semonkong.

Like the other economic sectors, investment in the power sector is dominated by public spending. This was estimated at USD14 million in 2019. Breeze Power, a company owned jointly by the government of Lesotho and Harrison & White Investments, is investigating twelve possible new sites for wind power generation.

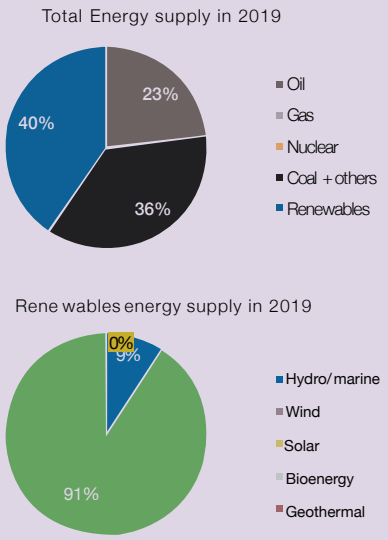
Table 5: Total Energy Supply in Lesotho

TOTAL ENERGY SUPPLY (TES)

Total Energy Supply (TES)		2019
Non-renewable (TJ)	26 694	26668
Renewable (TJ)	22 656	18121
Total (TJ)	49 349	44790
Renewable share (%)	46	40

Growth in TES	2614 19	2018-19
Non-reneewable (%)	-0.1	+1.3
Renewable (%)	-20.0	-0.2
Total (%)	-9.2	+0.7

Primary energy trade	2014	2019
Import (TJ)	27 682	28 623
	11	3
Net trade (TJ)	-27671	-38 620
	56	64
	0	0
	44	36



4.3 OPPORTUNITIES FOR INCREASING THE CONTRIBUTION OF NATURAL CAPITAL IN FINANCING THE LESOTHO'S CLIMATE CHANGE AND GREEN GROWTH

In order to increase the contribution of natural capital, efforts should be made to enforce relevant laws such as those that making the expansion of cultivation to marginal and sensitive lands illegal, which today is very common.

Through the relevant departments, the Government should continue to increase tree cultivation and ensure balance between the indigenous and exotic plant species. Public awareness and environmental education should be intensified, including incorporating it into the school curriculum, to inculcate the critical importance of taking care of the environment in the minds of all Basotho.

To promote green agriculture, public investment is necessary for enhancing and expanding 'supply-side capacities' through training of farmers, provision of extension services and development of demonstration projects on green farming practices that are appropriate for specific local conditions.

The Government should also invest in appropriate and relevant research and development on achieving and maintaining soil fertility, crop and livestock diversity, pest control and management and post-harvest loss reduction, as well as encourage organic farming, amongst other things.

The Government and donor agencies should continue to intervene by providing subsidies. The Government of Lesotho is already providing subsidies on agricultural inputs. Fertilizers are planned to be subsidized by 80 percent, while seeds and other agrochemicals will be subsidized at 60 percent.

The financial sector should also devise appropriate financial instruments that could be used to extend credit to farmers. Clear and viable recovery strategies would need to be developed and Government involvement should be minimized as history has taught us that it does not result in expected returns.

4.4 THE GOVERNANCE OF NATURAL WEALTH AND ILLICIT FLOWS IN LESOTHO

The Lesotho Highlands Development Authority manages and coordinates the management of water resources. The Ministry of Natural Resources/Commission of Mines collects rent, dividends and royalties and the proceeds are retained in the Ministry's account at the Central Bank.

Mining is governed by the Mines and Minerals Act 2005. Lesotho is not a member of the Extractive Industries Transparency Initiative, which promotes the open and accountable management of oil, gas and mineral resources. However, Lesotho is a member of the Kimberley Process, and has adhered to recommendations imposed by the process from time to time through its core document, internal control measures, peer review mechanism, statistical reporting, and annual reporting.

Illicit financial flows in Lesotho are about 15% of GDP, which is a high amount for a small country like Lesotho (Report of the High Level Panel on Illicit Financial Flows from Africa). The Directorate on Corruption and Economic Offences is trying to reverse the situation by relying on whistle-blowers.

5. CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

In global terms, Lesotho is not a significant emitter of CO2 or environmental polluter. Its CO2 emissions in 2021 were 2.28 million tons, representing 0.01% of global CO2 emissions in that year. Its per capita CO2 emissions in 2012 was 1.0 tons. Therefore, there is no need for strong mitigation plans to reduce CO2 emissions.

However, the country remains committed to promoting green growth, as evidenced in the National Adaptation Programme of Action on Climate Change and Environmental Act 2008, which seeks to enhance the management of the environment, targeting in particular the energy sector as a major climate change mitigation measure through increasing its renewable energy mix for better rural access.

The Government is also committed to reducing GHG emissions by 10% by 2030 and a further 25% reduction can be achieved by 2050 with additional external resources. In addition, it is exploring the possibility of using waste for energy in the future and providing an opportunity for job creation for the youth.

Recommendations relating to macroeconomic performance and outlook:

I) The Government of Lesotho should institute fiscal consolidation measures on both the expenditure and revenue sides to restore fiscal balance and sustainability to address the fiscal and liquidity crisis;

II) The Government of Lesotho should move up the regional and global value chain to process goods for local consumption and exports while at the same time creating jobs; and,

III) The African Development Bank should provide Post Bank, a local bank in Lesotho, a line of credit for on-lending to SMES to boost their businesses and create jobs.

Recommendations for private sector financing to promote climate change and green growth

In the short- to medium-term, the Lesotho Government should establish a climate change fund to support climate change-related innovations and actions; enhance the capacity of Lesotho to mobilize necessary climate financing; develop the capacity of executing budgetary allocation (domestic and foreign) including accountability measures; develop a national plan including fundable project proposals based on country priorities, with the involvement of key stakeholders and develop climate change programmes and initiatives that will attract regional and international climate financing.

In the long term, the Government of Lesotho **should strengthen national capacities to directly access funds from the GCF by establishing the Green Climate Fund-National Designated Authorities focal point** and enhance coordination mechanisms); and encourage development financing institutions (e.g. banks, micro-financing institutions) to provide financing for climate change-related programmes. The following additional recommendations can also be made:

Enhance concessional blended finance in Lesotho for debt sustainability. Blended concessional finance is emerging as an innovative instrument that can be deployed to strengthen concessional finance in Lesotho. It

[15] Climate Finance Landscape Report 2021.

can improve the capacity of existing financing instruments in Lesotho such as the partial credit guarantee instrument; the equity debt finance and the project preparation facility and can also reduce the country's debt burden as it is below the market rate.

Enhanced Government commitment to climate actions is also essential to provide an enabling blending of concessional financing in Lesotho. Lesotho has a climate change policy but lacks a climate change bill and market mechanism. Furthermore, the ***integration of climate change into the Ministry of Finance portfolio as a line ministry will be an important step***.

The African Development Bank recently approved a climate change action window of approximately $12bn over three years as an anchor to its 16th African Development Fund which can support climate finance in Africa. The facility provides an opportunity for adaptation, mitigation finance, and technical assistance for Lesotho.

Strengthen land-based investment legislation for climate action finance in Lesotho and enable private MSMEs' participation. Lesotho has the potential for nature-based solution financing. However, collaterals are a major constraint for the private sector in Lesotho including MSMEs' access to credit.

Strengthen capital market enablers in Lesotho for sustainable finance. Capital markets can play a crucial role in green finance by enabling the deployment of investments that support climate mitigation, adaptation and resilience.

Develop a national programme including fundable project proposals, based on national priorities, with the involvement of key stakeholders at national level;

Establish a climate change fund intended to support climate change-related innovations and actions;

Encourage the establishment of development financing institutions (e.g. banks, micro-financing institutions) to provide financing for climate-change related action;

Enhance the capacity of Lesotho to mobilize the necessary climate financing;

Develop climate change initiatives that will attract regional and international climate financing;

Recommendations for increasing the contribution of natural capital to climate finance and green growth:

I) The Government of Lesotho should undertake proper due diligence in order to better assess the potential positive and negative outcomes of mining processes before issuing a lease to mining companies. The effects on the environment and respect for the human rights of surrounding communities are key aspects to assess as well as ensuring free prior informed community consent.

II) The Government of Lesotho should make an inclusive environmental impact analysis that requires full transparent public participation and monitoring mandatory for mining operations .

III) The Government of Lesotho should form a regulatory framework to guide interactions between the mining industry and communities. Conflict resolution, community consultation, monitoring and corporate social responsibility should be included in this framework.

IV) The Parliament should reform the Mining and Minerals Act of 2005 so that artisanal and small-scale mining is no longer illegal, but exclusively reserved for Basotho nationals that live in the country's resource-rich areas. The Land Act of 2010 should be amended to incorporate the provision that social consent for mining operations becomes an obligation. This will empower adjacent communities to safeguard their rights to land when dealing with demands from mining companies. The reformed laws should suit the most recent developments so as to respond to the modern challenges.

V) The Government of Lesotho should consider that a local community member be appointed to represent affected communities on the Board of any mining company.

VI) Diamond mining companies should uphold the highest environmental and human rights standards when conducting their operations to

ensure harm to communities is prevented and mitigated. They should do this in line with national and international regulation and guidance frameworks.

VII) Diamond mining companies should execute corporate social responsibility programmes that align with real-life community needs. Regular community consultations will be key to ensure this, as well as obtaining in every case free prior informed community consent.

viii) Mining companies should create transparent, fair and effective grievance mechanisms that are easily accessible for all those claiming harm by their operations.

ix) Diamond mining companies should prioritize employment for locals and ensure the transfer of labour skills to those local employees, through training and capacity-building.

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ANNEX

Annex 2: Lesotho Selected Indicators

Indicators	Unit	2010	2015	2018	2019	2020	2021	2022 (e)	2023 (p)	2024 (p)
National Accounts										
GNI at Current Prices	Million US $	2,549	2,712	2,594	2,827	2,592	2,761	...	...	...
GNI per Capita	US$	1,260	1,280	1,180	1,270	1,150	1,210	...	...	...
GDP at Current Prices	Million US $	2,386	2,184	2,459	2,380	2,130	2,362	2,133	2,196	2,279
GDP at 2010 Constant prices	Million US $	2,386	2,907	2,874	2,852	2,692	2,734	2,803	2,861	2,935
Real GDP Growth Rate	%	6.1	3.1	-1.5	-0.8	-5.6	1.6	2.5	2.1	2.6
Real per Capita GDP Growth Rate	%	5.4	2.0	-2.7	-2.0	-6.8	0.3	1.4	1.0	1.4
Value Added: Mining and quarrying	Million US $	122	183	145	124	181	120	121	...	...
Value Added: Mining and quarrying	% GDP	5.2	8.4	5.9	5.2	8.5	5.1	5.5	...	...
Value Added: Fishing	Million US $	2	2	2	2	1	0	1	...	...
Value Added: Fishing	% GDP	0.1	0.1	0.1	0.1	0.0	0.0	0.1	...	...
Prices and Money										
Inflation (CPI)	%	3.3	3.2	3.9	5.2	5.0	6.1	8.3	6.5	5.5
Exchange Rate (Annual Average)	local currency/US$	7.2	13.8	13.8	14.8	16.4	14.9	16.4	17.2	17.9
Government Finance										
Total Revenue and Grants	% GDP	52.2	49.4	47.5	45.2	55.4	53.0	52.8	49.9	46.6
Total Expenditure and Net Lending	% GDP	55.5	50.6	52.0	52.2	55.2	57.9	57.1	55.4	51.7
Overall Deficit (-) / Surplus (+)	% GDP	-3.3	-1.3	-4.5	-7.0	0.2	-4.8	-4.3	-5.5	-5.1
External Sector										
Terms of Trade Growth	%	6.6	6.1	-0.4	2.0	4.0	-2.3	-3.0	2.1	1.5
Current Account Balance	Million US $	-159	-72	-69	-95	-42	-100	-144	-128	-117
Current Account Balance	% GDP	-6.7	-3.3	-2.8	-4.0	-2.0	-4.2	-6.8	-5.8	-5.1
Debt and Financial Flows										
Debt Service	% exports	3.5	4.7	5.1	6.0	7.2	5.3	5.6	5.7	6.2
External Debt	% GDP	31.1	38.2	36.0	37.5	46.6	41.0	42.5	44.6	44.5
Net Total Financial Flows	Million US $	240	83	149	123	167	172	...	...	...
Net Official Development Assistance	Million US $	256	86	154	140	171	177	...	...	...
Net Foreign Direct Investment	Million US $	10	207	129	36	30	27	...	...	...
Demography										
Total Population	Millions	2.0	2.1	2.2	2.2	2.3	2.3	2.3	2.3	2.4
Population Growth Rate	%	0.7	1.1	1.3	1.3	1.3	1.2	1.1	1.1	1.1
Urban population	% of total	25.0	27.6	29.0	29.4	29.9	30.4	30.9	31.4	32.0
Life Expectancy at Birth	Years	45.6	51.1	53.7	54.2	54.7	53.1	53.0	54.9	55.1
Fertility Rate	births per woman	3.2	3.3	3.1	3.1	3.0	3.0	3.0	2.9	2.9
Poverty and Income Distribution										
Pop. living below national poverty line	% of total population	...	...	...	...	...	...	...	...	...
Population living below $2.15 a day	% of total population	...	...	...	...	...	...	...	...	...
Gini Index	%	...	...	...	...	...	...	...	...	...
Labor Indicators										
Labor Force participation (total)	%	67.0	65.0	64.8	64.8	64.1	64.1	64.3	64.4	...
Labour Force participation (youth)	%	49.4	44.0	43.0	42.7	42.3	42.3	42.5	42.4	...
Unemployment rate (total)	%	16.9	16.9	16.9	16.9	18.5	18.3	18.0	17.9	17.7
Unemployment rate (youth)	%	24.2	24.8	25.1	25.1	27.9	26.9	26.7	26.4	26.2
Natural Resources rents										
Total natural resources rents	% GDP	3.9	6.2	3.4	3.9	5.1	...	...	...	...
Oil rents	% GDP	...	...	...	...	...	...	...	...	...
Natural gas rents	% GDP	...	...	...	...	...	...	...	...	...
Mineral rents	% GDP	...	...	...	...	...	...	...	...	
Forest rents	% GDP	3.9	6.2		3.9	5.1			...	
Coal rents	% GDP									
Natural Capital Renewable Resources										
Arable land			219.0	429.3	138.0	596.0	...	...	...	
Agricultural land	1000 hectare	2,326.0	2,223.0	2,433.3	2,142.0	2,600.0			...	
Other land	1000 hectare	675.5	778.5	568.2	859.5					
Forest land	1000 hectare	34.5	34.5	34.5	34.5	34.5				
Planted Forest	1000 hectare	8.7	8.7	8.7		8.7				
Annual freshwater withdrawals, total	% of internal resources	0.8	0.8	0.8	0.8	...	...	...	...	
Total Fisheries Production	metric tons	345.4	1,053.0	2,552.5	2,602.0	2,657.0	...	...	...	
Climate Finance and Green Growth										
Total Climate Finance*	Million US $	...	...	...	...	309.4	...	...	...	
Green Growth Index**	%	46.6	46.0	45.3	45.2	45.1	45.1	...	...	

Source : AfDB Statistics Department: African; IMF: World Economic Outlook,April 2023 and International Financial Statistics, April 2023;
AfDB Statistics Department: Development Data Portal Database, April 2023. United Nations: OECD, Reporting System Division.

Notes: ... Data Not Available (e) Estimations (p) Projections

* Source: Climate Policy Initiative (www.climatepolicyinitiative.org)

**Source: Global Green Growth Institute (GGGI). The scores for the Green Growth Index range from 1 to 100, with 1 having the lowest or very low performance and 100 having the highest or very high performance

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