



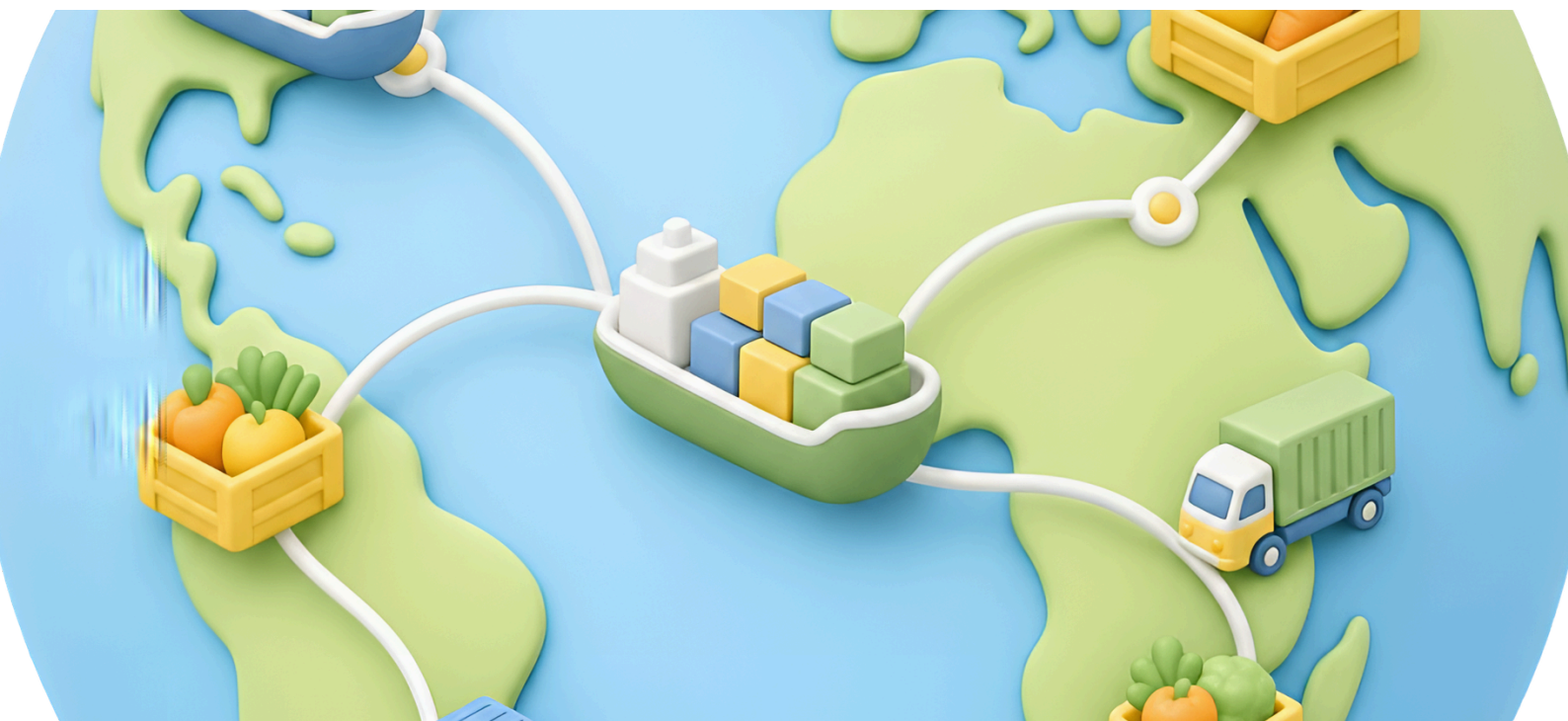
THE KINGDOM OF LESOTHO
**MINISTRY OF FINANCE AND
DEVELOPMENT PLANNING**

**ECONOMIC
AND INVESTMENT
SECTOR BRIEF**

2025-2026

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LIST OF ACRONYMS AND ABBREVIATIONS

AGOA	African Growth and Opportunity Act
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IGF	Inclusive Growth Facility
LHWP	Lesotho Highlands Water Project
MSMEs	Micro, Small and Medium Enterprises
PPP	Public-Private Partnership
SACU	Southern African Customs Union

EXECUTIVE SUMMARY

The Economic and Investment Growth Sector is central to Lesotho's strategy to achieve inclusive economic growth, create employment opportunities, reduce poverty, and strengthen economic resilience. During the 2025/26 fiscal year, Government continued to prioritize investments and reforms aimed at expanding productive capacity, improving infrastructure, strengthening the investment climate, and promoting private sector-led development.

Economic performance remained subdued, with real GDP growth estimated at 1.3 percent. Growth was supported primarily by the continued implementation of Phase II of the Lesotho Highlands Water Project (LHWP II), public infrastructure investment, and progress in renewable energy development.

Inflation moderated to 4.4 percent, while public debt remained within sustainable levels at an estimated 52.4 percent of GDP. However, unemployment remained high at 16.3 percent, highlighting the need for stronger job creation and economic diversification.

Notable achievements during the year included continued progress on LHWP II, expansion of rural electrification initiatives, operationalisation of the M400 million Inclusive Growth Facility (IGF), and ongoing reforms to strengthen Public-Private Partnerships (PPPs).

These initiatives are expected to support investment, enterprise development, and long-term economic transformation.

Despite these gains, significant challenges remain. The economy continues to depend heavily on a limited number of growth drivers, including construction, SACU revenues, and a narrow export base.

The manufacturing sector is projected to contract by 4.2 percent due to external market uncertainties, while recurrent droughts and climate variability continue to affect agricultural productivity.

The sector has been allocated M1.3 billion in 2025/26, representing approximately 5 percent of the national budget. Effective implementation of development programmes, improved budget execution, and increased investment in productive sectors will be critical to accelerating economic growth, creating employment opportunities, and improving the welfare of Basotho.

INTRODUCTION

The 2025/26 fiscal year budget is implemented under the theme "Building Strategies for Inclusive Growth," reflecting Government's commitment to fostering a more diversified, productive, and resilient economy.

The Economic and Investment Growth Sector plays a critical role in advancing this agenda through investments in infrastructure, agriculture, manufacturing, energy, tourism, digital transformation, and private sector development. These investments are intended to enhance productivity, improve competitiveness, attract investment, and create sustainable employment opportunities.

Although the economy continues to face challenges, including high unemployment, climate-related risks, external economic uncertainty, and dependence on volatile Southern African Customs Union (SACU) revenues, the medium-term outlook remains positive. Economic growth is projected to reach approximately 3.4 percent in 2025/26, supported by major infrastructure projects, structural reforms, and measures aimed at improving the business environment.



Economic growth remained modest during the review period, with real GDP growth estimated at 1.3 percent. Growth was supported primarily by large-scale infrastructure projects, particularly LHWP Phase II, while weaknesses in export-oriented manufacturing and broader structural constraints continued to limit economic expansion.

Agriculture remained an important contributor to economic activity, accounting for approximately 12 percent of GDP. While favourable rainfall conditions supported production, the sector remains vulnerable to recurrent droughts and climate-related shocks, which continue to undermine productivity and food security.

Inflation declined to 4.4 percent, reflecting lower imported food prices and relatively stable fuel costs. As a member of the Common Monetary Area, Lesotho's inflation dynamics remain closely linked to economic conditions in South Africa.

The external sector remained relatively stable, supported by SACU revenues and water royalties, which contributed to a current account surplus of 1.4 percent of GDP. Public debt stood at 52.4 percent of GDP and remained within sustainable levels.

Despite these positive developments, labour market conditions remain challenging. Unemployment is estimated at 16.3 percent, with limited private-sector job creation, skills mismatches, and weak industrial performance continuing to constrain employment growth, particularly among youth.

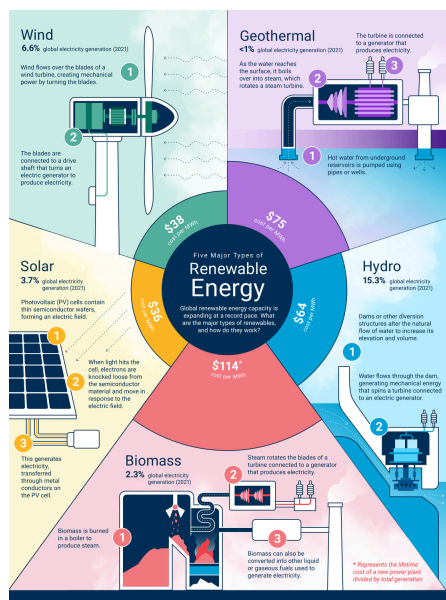
KEY ECONOMIC INDICATORS

Economic Indicator	Value
Real GDP Growth Rate	1.30%
Inflation Rate	4.40%
Unemployment Rate	16.30%
Current Account Balance	1.4% of GDP
Public Debt-to-GDP Ratio	52.4% of GDP
Agriculture Share of GDP	12.00%
Foreign Direct Investment (FDI)	USD 5.6 million

Performance of Key Economic
Growth Drivers and Strategic
Investment Initiatives

Infrastructure Development and the Lesotho Highlands Water Project (LHWP Phase II) 	Infrastructure development continued to play a pivotal role in supporting economic growth during the 2025/26 fiscal year. The ongoing implementation of Phase II of the Lesotho Highlands Water Project (LHWP II) remains one of the country's largest strategic investments, contributing significantly to economic activity, employment creation, and infrastructure expansion. Progress on the Polihali Dam and associated infrastructure has sustained growth in the construction sector, stimulated demand for goods and services, and created opportunities for local businesses and communities. As a result, construction has remained one of the fastest-growing sectors of the economy and a key driver of overall economic performance.
Agriculture Commercialization and Food Security 	Agriculture continued to support inclusive growth, rural livelihoods, and national food security during the review period. Government maintained investments in livestock production, irrigation development, climate-smart agriculture, and horticulture value chains to enhance productivity and strengthen resilience against climate-related shocks. While crop production contracted by an estimated 5.1 percent due to recurring droughts and changing weather patterns, the livestock subsector recorded growth of 3.5 percent, supported by improvements in animal husbandry and the continued strength of the wool and mohair industry. These interventions remain critical in promoting agricultural commercialization and improving household incomes in rural areas.

Renewable Energy Investments



The renewable energy sector continued to make important strides towards strengthening energy security and supporting sustainable economic growth. Government expanded investments in hydropower, solar energy, and rural electrification initiatives as part of its broader commitment to increasing access to affordable and reliable energy.

Notable achievements included the connection of 564 households and the electrification of eight schools under the Renewable Lesotho Programme. Preparatory work also continued on strategic energy projects, including the 80 MW Oxbow Hydropower Scheme and proposed 574 MW floating solar developments.

In addition, the implementation of LHWP II is expected to increase electricity generation at the 'Muela Hydropower Station from approximately 480 GWh to more than 620 GWh annually. These developments are expected to reduce dependence on imported electricity, attract private investment, promote green growth, and provide the energy foundation necessary to support industrialization and economic diversification.

Private Sector Development and Investment Promotion



Government continued to implement reforms aimed at improving the business environment, enhancing competitiveness, and attracting both domestic and foreign investment. Efforts to simplify business registration, licensing, and regulatory procedures have reduced administrative barriers and improved the ease of doing business, particularly for emerging entrepreneurs and small enterprises.

A major milestone during the fiscal year was the operationalization of the M400 million Inclusive Growth Facility (IGF), designed to expand access to finance, stimulate enterprise development, and support job creation. Of the total allocation, M300 million was provided through Lesotho PostBank to support Micro, Small and Medium Enterprises (MSMEs), while M100 million was channelled through FNB Lesotho to strengthen the textile and apparel industry.

	Importantly, 70 percent of the facility, equivalent to M280 million, has been reserved for youth- and women-owned enterprises, reinforcing Government's commitment to inclusive economic participation and empowerment. Government also made progress in strengthening the policy and institutional framework for Public-Private Partnerships (PPPs). Although many PPP initiatives remain at the feasibility and planning stages, these reforms are expected to increase private sector participation in infrastructure development, mobilize additional investment, improve service delivery, and reduce pressure on public finances over the medium term.
Manufacturing and Industrial Development 	The manufacturing sector faced significant challenges during the review period and is projected to contract by 4.2 percent in 2025/26. Performance was negatively affected by uncertainty surrounding access to the United States market under the African Growth and Opportunity Act (AGOA), weakening global demand, and ongoing competitiveness constraints. These challenges adversely affected output, exports, and employment within the textile and apparel industry, which remains one of Lesotho's most important export-oriented industries and a significant source of formal employment. Despite these setbacks, Government continued to promote industrial development through measures aimed at supporting export growth, agro-processing, industrial estate development, and increased domestic production. Sustained investment in industrial infrastructure, innovation, value addition, and market diversification will be essential to strengthening the sector's resilience and competitiveness.

Digital Transformation and Public Sector Modernization



Digital transformation and public sector modernization remained important priorities during the 2025/26 fiscal year. Government continued to invest in digital infrastructure, e-government services, institutional strengthening, and skills development to improve public sector efficiency and service delivery.

The implementation of modernization initiatives, including the Lesotho Public Sector Foundation for Service Delivery Project, contributed to strengthening institutional capacity and enhancing government performance. These investments are expected to reduce transaction costs, improve transparency and accountability, increase efficiency in public service delivery, and support the development of a modern digital economy.

ECONOMIC AND INVESTMENT GROWTH SPENDING



This budget brief assesses the allocation and utilization of resources within the Economic and Investment Growth Sector and examines the sector's contribution to achieving national development goals, economic transformation, and inclusive growth.

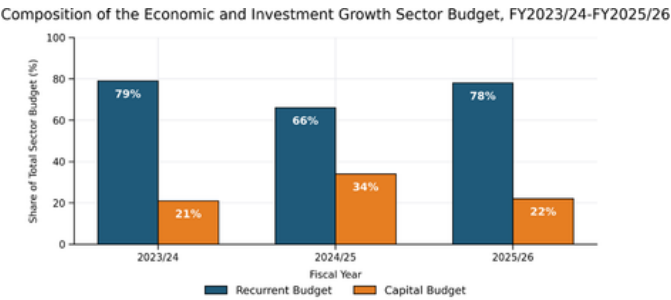
The sector has been allocated M1.3 billion in the 2025/26 fiscal year, representing approximately 5 percent of the total national budget. Of this amount, M1.0 billion (78 percent) has been allocated to recurrent expenditure, while M286.5 million (22 percent) has been earmarked for capital expenditure.

The predominance of recurrent spending reflects the resources required to sustain core government functions, policy implementation, regulatory oversight, and service delivery across sector institutions.

Meanwhile, the development budget is intended to finance strategic investments in infrastructure, enterprise development, agricultural productivity, energy security, digital transformation, and other interventions designed to stimulate economic activity and attract investment.

While the allocation demonstrates Government's commitment to supporting economic growth and private sector development, the relatively modest capital budget may constrain the pace of infrastructure expansion and economic transformation.

Effective prioritization of development projects strengthened implementation capacity, and improved execution of capital budgets will therefore be critical to maximizing the sector's contribution to growth, employment creation, and long-term economic resilience.



Recurrent Budget Allocation and Expenditure

The recurrent budget of the Economic and Investment Growth Sector is distributed among key ministries responsible for promoting economic development, investment, productivity, and service delivery. The allocation pattern reflects Government's strategic priorities of strengthening agriculture, supporting local economic development, promoting trade and tourism, and enhancing the overall enabling environment for economic growth.

The Ministry of Agriculture, Food Security and Nutrition received the largest allocation of approximately M517.7 million, representing about 40 percent of the sector's total budget. This allocation underscores Government's continued commitment to improving agricultural productivity, enhancing food security, supporting rural livelihoods, and promoting agricultural commercialization.

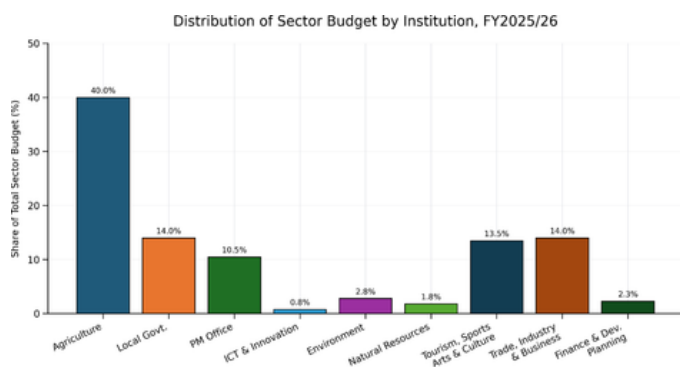
The Ministry of Local Government, Chieftainship, Home Affairs and Police, the Ministry of Tourism, Sports, Arts and Culture, and the Ministry of Trade, Industry and Business Development each account for approximately 14 percent of the sector's total allocation.

These ministries play an important role in supporting local economic development, promoting investment and enterprise growth, expanding tourism opportunities, and creating an enabling environment for job creation and income generation.

In contrast, the Ministry of Information, Communications, Technology and Innovation received the smallest allocation of approximately M11.2 million, representing about 1 percent of the sector budget. While comparatively small, this allocation supports ongoing efforts to advance digital transformation, strengthen innovation, and improve access to information and communication technologies.

Overall, the sector's budget distribution reflects Government's emphasis on agriculture, local economic development, private sector growth, and investment promotion as key drivers of economic transformation.

The allocation is intended to support programmes that stimulate productive economic activity, generate employment opportunities, improve livelihoods, and contribute to the achievement of inclusive and sustainable economic growth during the 2025/26 fiscal year.



Expenditure Performance

Expenditure performance across the Economic and Investment Growth Sector was generally positive, with most ministries achieving budget utilization rates ranging between 88 percent and 96 percent. This suggests that, overall, ministries were able to implement a significant proportion of their approved programmes and activities during the period under review.

However, variations in expenditure performance indicate differences in implementation capacity, programme execution, procurement processes, and absorptive capacity across institutions.

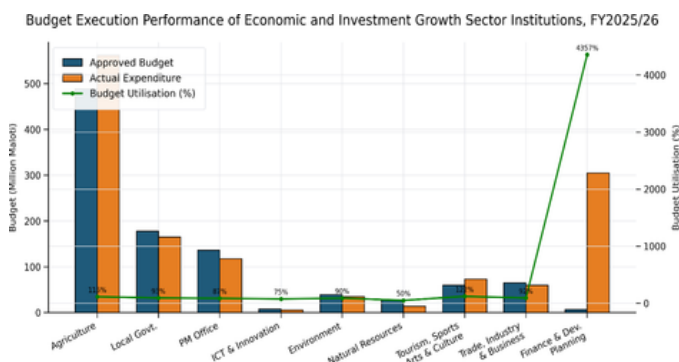
While some ministries recorded expenditure levels broadly aligned with their approved budgets, others experienced either over-expenditure or under-expenditure. These trends suggest that although progress was made in programme implementation, challenges related to project execution, budget planning, and expenditure management persisted in certain areas of the sector.

The Ministry of Agriculture, Food Security and Nutrition recorded expenditure of M564.6 million against an approved budget of M488.4 million, resulting in a budget execution rate of 115.6 percent. The higher-than-budgeted expenditure reflects Government's continued prioritization of agriculture as a key driver of economic growth, employment creation, food security, and poverty reduction.

The over-expenditure was largely driven by the expansion of agricultural support programmes, increased provision of production inputs and subsidies, implementation of climate-smart agriculture initiatives, and interventions aimed at enhancing domestic food production and strengthening the resilience of rural livelihoods.

The ministry's expenditure performance demonstrates Government's commitment to addressing food security challenges, supporting agricultural commercialization, and reducing vulnerabilities associated with climate change and external economic shocks. Continued investment in the sector is expected to contribute to improved productivity, increased household incomes, and greater resilience within the agricultural value chain.

More broadly, expenditure trends across the sector highlight the importance of strengthening planning, project management, and budget execution processes to ensure that allocated resources are utilized efficiently and effectively. Improved expenditure management will be essential in maximizing the impact of public investments and supporting the achievement of the sector's economic growth and development objectives.



Recurrent Budget Allocation by Programme

Despite its central role in driving economic growth, investment promotion, employment creation, and private sector development, the Economic and Investment Growth Sector continues to operate within a relatively constrained resource envelope.

The sector has been allocated M1.0 billion for recurrent expenditure, representing approximately 4 percent of the total approved national recurrent budget for the 2025/26 fiscal year.

The relatively modest allocation raises concerns about the sector's capacity to effectively deliver on its broad mandate, particularly given the significant investments required to support agricultural modernization, industrial development, tourism promotion, enterprise growth, digital transformation, and investment attraction.

Limited recurrent resources may also constrain the sector's ability to provide the institutional support, technical services, regulatory oversight, and programme implementation necessary to stimulate sustainable economic growth.

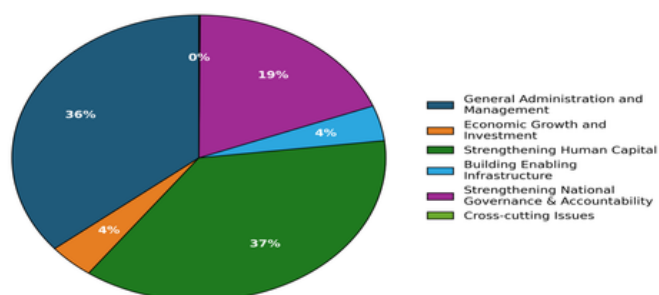
Furthermore, the demands associated with addressing persistent development challenges, including high unemployment, low levels of economic diversification, climate-related vulnerabilities, and weak private sector growth, require substantial and sustained public investment. As such, the current level of funding may limit the scale and pace of interventions needed to accelerate structural transformation and enhance the economy's productive capacity.

While Government's continued support for key growth-enhancing programmes remains commendable, there is a need to strengthen resource mobilization and improve expenditure efficiency to maximize development outcomes.

Increased investment in productive sectors, entrepreneurship development, innovation, infrastructure, and business support services will be crucial to unlocking economic potential, attracting private investment, and fostering inclusive and sustainable growth.

Consequently, ensuring adequate financing for the Economic and Investment Growth Sector should remain a policy priority, given its strategic importance in generating employment opportunities, expanding the domestic production base, and advancing Lesotho's long-term development objectives.

Budget Allocation by Programme



Despite positive developments in infrastructure, renewable energy, private sector reforms, and investment promotion, several challenges continue to constrain the sector's ability to achieve broad-based and inclusive economic growth.

Although economic growth remains positive, current growth levels are insufficient to generate the scale of employment and income growth required to meaningfully reduce poverty and unemployment. The economy continues to rely heavily on a narrow range of sectors, particularly construction activities associated with the Lesotho Highlands Water Project, SACU revenues, and a limited number of export industries.

The manufacturing sector remains vulnerable to external market conditions, particularly uncertainty surrounding AGOA market access and weakening global demand, which have negatively affected production and employment within the textile and apparel industry.

In agriculture, recurrent droughts, climate variability, and limited irrigation coverage continue to undermine productivity and food security.

Access to finance remains a significant constraint for many Micro, Small and Medium Enterprises, despite recent interventions through the Inclusive Growth Facility. Infrastructure gaps, particularly in transport, energy, and digital connectivity, continue to increase the cost of doing business and reduce competitiveness. High youth unemployment and limited private sector job creation also remain major socioeconomic challenges.

In addition, relatively low levels of capital expenditure within the sector may limit the pace of infrastructure expansion, industrial development, and investment promotion initiatives required to support long-term economic transformation.

RECOMMENDATIONS

To accelerate economic transformation and strengthen the contribution of the sector to inclusive growth, the following priority actions are recommended:

- Increase investment in productive sectors, particularly agriculture, manufacturing, tourism, renewable energy, and digital infrastructure, to support economic diversification and employment creation.
- Accelerate implementation of key infrastructure projects, including LHWP Phase II, energy generation projects, transport networks, and digital connectivity programmes.
- Strengthen support for Micro, Small and Medium Enterprises through improved access to finance, business development services, innovation support, and market access initiatives.
- Expand climate-smart agriculture, irrigation infrastructure, and agricultural value chains to improve productivity, food security, and resilience to climate change.
- Strengthen industrial policy interventions aimed at increasing value addition, export diversification, and competitiveness within the manufacturing sector.
- Enhance implementation of Public-Private Partnership frameworks to attract private investment and reduce financing constraints for strategic infrastructure projects.
- Strengthen labour market programmes, entrepreneurship development, and skills training initiatives to address youth unemployment and improve workforce productivity.
- Improve budget execution, project management, and monitoring systems to ensure efficient utilization of public resources and achievement of development outcomes.

CONCLUSION

The Economic and Investment Growth Sector remains fundamental to achieving Lesotho's long-term development objectives. During 2025/26, progress was made in infrastructure development, renewable energy expansion, agricultural support, digital transformation, and investment promotion. Key initiatives, including LHWP Phase II and the Inclusive Growth Facility, continue to provide opportunities for economic growth and job creation.

However, structural constraints, including unemployment, limited economic diversification, climate vulnerability, and pressures on export-oriented industries, continue to inhibit stronger growth. Addressing these challenges will require sustained reform efforts, improved implementation capacity, and increased investment in productive sectors.

Going forward, successful execution of development programmes, stronger public-private collaboration, and strategic investment in growth-enhancing sectors will be essential to building a more competitive, inclusive, and resilient economy capable of delivering improved livelihoods for Basotho.



GLOSSARY

AGOA	U.S. trade programme providing eligible African countries with preferential access to U.S. markets.
FDI (Foreign Direct Investment)	Investment by foreign entities in businesses and productive assets within a country.
GDP (Gross Domestic Product)	Total value of goods and services produced in a country.
Real GDP Growth	Increase in economic output adjusted for inflation.
Inflation	Rise in the general price level of goods and services over time.
Economic Diversification	Expanding economic activity across multiple sectors to reduce dependence on a few industries.
Inclusive Growth	Economic growth that benefits all segments of society.
MSMEs (Micro, Small and Medium Enterprises)	Small businesses that contribute significantly to employment and economic development.
LHWP Phase II (Lesotho Highlands Water Project Phase II)	Major water and hydropower infrastructure project supporting economic growth.
IGF (Inclusive Growth Facility)	Government financing facility supporting MSMEs and the textile sector.

PPP (Public-Private Partnership)	Collaboration between government and private sector to deliver infrastructure and public services.
SACU (Southern African Customs Union)	Regional customs union that provides a significant source of revenue for Lesotho.
Renewable Energy	Energy generated from naturally replenished sources such as solar, wind and hydropower.
Agricultural Commercialization	Transition from subsistence farming to market-oriented agricultural production.
Youth Unemployment	The share of young people who are willing and able to work but cannot find employment.



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