Leveraging International Trade for Climate Action in Africa: Opportunities and Challenges for Lesotho

Presented at the 3rd Annual NUL-WTO Research Chair Seminar
Thabo Qhesi, Private Sector Foundation of Lesotho

September 5th 2024

Executive Summary

Lesotho's topographical variability and microclimatological influences define the ecological zones of the country: the Lowlands (17%), Foothills (15%), Mountains (59%), and Senqu River Valley (9%). Economic activities are concentrated in the lowlands and foothills, while the mountainous regions are more suitable for grazing and water resource development. The water resources, wool, and mohair are the main exports of Lesotho, and they originate from mountainous regions. Once Lesotho has experienced climatic fluctuations, the water bodies, roads, and bridges are adversely affected thereby restricting the movement of people and animals. The limited movement of people and animals negatively affects Lesotho's exports in the global market because of limited economic activities.

Lesotho faces many key challenges in the climate change and energy sector. However, Government of Lesotho has introduced various measures to address the challenges of the climate change and energy sector, but the coordination and cooperation of key relevant stakeholders are still insufficient to bear fruitful results. Despite the challenges that Lesotho has experienced concerning climate change, there are ample opportunities, including funding from various financial institutions which can be accessed for private investment.. Therefore, it is recommended that an office of the National Designated Authority be strengthened with technical expertise and financial resources to play a sufficient facilitation role. Lastly, a Climate Change Commission should be established to improve coordination and proper planning on climate change initiatives.

Cite [with APA 7] as:

Qhesi T. (2024, September 5). Leveraging International Trade for Climate Action in Africa: Opportunities And Challenges For Lesotho. Presented at the WTO Research Seminar. Retrieved from https://nulwtochair.org.ls/wp-content/uploads/2024/12/Thabo-Qhesi.pdf

The Policy problem

With Least Developed Country (LDC) status, Lesotho is a small landlocked country surrounded by Republic of South Africa (RSA) (World Bank, 2021). Topographical variability and microclimatological influences define the ecological zones of the country: the Lowlands (17%), Foothills (15%), Mountains (59%) and Senqu River Valley (9%) (**Figure 1**). Economic activities are concentrated in the lowlands and foothills, while the mountainous regions are more suitable for grazing and water resource development (UNDP, 2014). Lesotho exports wool and mohair as well as water resources from mountainous regions.

Once Lesotho experiences climatic fluctuations, the water bodies, roads, and bridges are adversely affected thereby restricting the movement of people and animals. The limited movement of people and animals affects Lesotho's exports negatively in the global market because of limited economic activities. The net effects are reduced balance of payments and livelihoods of local communities since almost 80% rely on subsistence agriculture. As per the Integrated Food Security Phase Classification (IPC) Acute Food Insecurity analysis (2024), it is estimated that approximately 293,000 people in rural Lesotho (19 percent of the population) are facing severe food insecurity, classified as IPC Phase 3(Crisis) or worse, from May to September 2024.

Figure 1: Lesotho Ecological Zones

The findings

A.1 Climate change:

According to World Bank (2021), Lesotho experiences climatic fluctuations, including periods of drought and heavy rainfall, which have severe consequences for its ecosystem as shown below:

1. Increased seasonal mean temperature (0.7°C)

1.1. Impact:

a) Perennial springs running dry;
b) Diminishing river and water bodies;
c) Decline in subsistence farming;
d) Reduced maize yields; and
e) Impacted livestock farming due to limited water availability.

2. Heavy rainfall

2.1 Impact:

a) Roads especially in rural areas become inaccessible due to landslides and rocks fall; and
b) Damaged drainage systems causing flooding on some roads and bridges.

3. Freeze-thaw

3.1 Impact:

a) Damaged the base and paved surface.

The net effect is low competitiveness due to limited economic activities and non-productive labour force.

A.2 Energy sector in Lesotho

As per Lesotho Energy Policy (2015), Lesotho has faced key challenges in the energy sector which are presented as follows:

a) Participation of the local private sector players in the energy business is limited;
b) Dwindling forest reserves due to the prevailing drought conditions and excessive harvesting;
c) Obsolete network infrastructure for electricity transmission;
d) Reliance on imported electricity made high electricity prices;
e) Coordination of the energy sector is inadequate;
f) Insufficient accountability due to limited clarity on institutional responsibilities;
g) Few energy efficiency programmes and activities;

h) Low demand for renewable energy technologies and services due to poor information dissemination about the benefits of renewable energy;
i) Inadequate storage facilities for petroleum products;
j) Collateral is one of the prohibiting factors from accessing funding that supports energyinitiatives; and
k) Inadequate participation of Basotho in the supply chain of petroleum products.

A.3 Constraints Limiting Renewable Energy Development

A.3.1. Regulatory framework: According to Parthan (2013), the Lesotho Renewable Policy draft recommended that Lesotho be a full member of the International Electro technical Commission (IEC) and develop national standards on renewable energy installations and appliances. However, Lesotho is still an affiliate member of IEC and there are no technical standards on renewable energy installations and appliances. This creates a fertile ground for pirated imports and counterfeits which may discourage new investments due to unfair business practices.

A.3.2. Environmental barriers: This entails declining biomass stock and limited availability of suitable land for renewable energy development can increase the cost of renewable development (World Bank, 2021).

A.4 International Trade

As of 01st October 2023, the European Union (EU) introduced the Carbon Border Adjustment Mechanism (CBAM) whose objective is to put a fair price on the carbon emitted during the production of carbon-intensive goods that enter the European Union and to encourage cleaner industrial production in non-EU countries.

This means that exporting countries will be compelled to have a high procedural burden placed on them to determine the embedded carbon in their products (European Commission, 2023).

According to UNCTAD (2022), the CBAM will have a spill-over effect for Least Developed Countries (LDCs) which can be devastating, given the complex trade linkages between LDCs and countries that have not implemented similar climate policies. South Africa is not ready financially and administratively to comply with CBAM requirements during the transition period ending in December 2025 and the key industries to be affected are iron, steel, and aluminium (Maimele, 2024).

It is estimated that South Africa exported around US$1.5 Billion of iron, steel, and aluminium to the EU between 2017 and 2021. The iron, steel, and aluminium sector has employed 28,000 employees (Presidential Climate Change Commission, 2023). Magacho et al. (2022) suggested that South Africa is approximately the 18th most affected country, with approximately 0.4% of its output exposed to the CBAM.

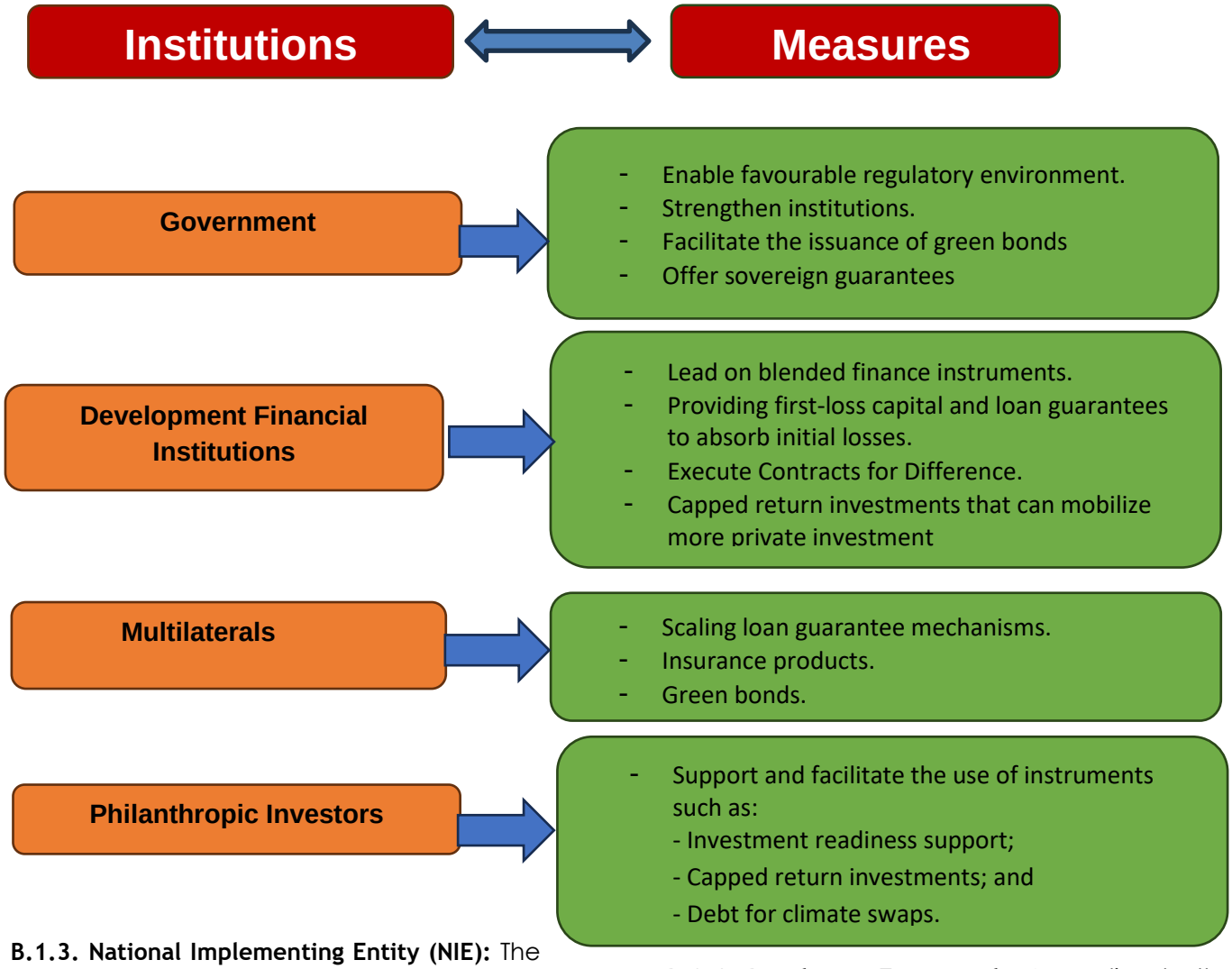
Once South Africa is negatively affected by the CBAM, there shall be direct bearing on the Southern African Customs Union (SACU) Revenue Pool. SACU transfers to Botswana, Lesotho, Namibia, and Swaziland (BLNS) are heavily dependent on South Africa's GDP and import projections (Basdevant, 2013). Almost 40% of Lesotho's national budget emanates from the SACU revenue pool (Fraser and Hadley, 2023). This simply means that Lesotho will be adversely affected by the CBAM.

B.1 Opportunities

Despite the challenges that Lesotho has experienced concerning climate change, there are ample opportunities that can be identified and are presented as follows:

B.1.1. Commitment: Lesotho committed to reducing greenhouse gas emissions (GHG) by 10% by 2030 with a further 25% reduction which will be achieved by 2050 with the support of external resources (Ministry of Energy and Meteorology, 2017). This provides an opportunity for the private sector to establish its investment in renewable energy which is cleanand affordable.

B.1.2. Funding: According to Hill et al (2024), different stakeholders can play a critical role in de-risking capital so that the private sector will access finance without stringent conditions and these measures are presented as follows:



B.1.3. National Implementing Entity (NIE): The Government of Lesotho (GoL) should establish the NIE to widen access to Green Climate Fund(GCF) supported projects (GCF, 2024).

Additionally, there are some other funding agencies such as:

a) African Development Bank (AfDB) – Africa Climate Change Fund (AfDB, 2024);
b) Development Bank of Southern Africa (DBSA) – Climate Change Fund (DBSA, 2024);
c) Global Environment Facility (GEF) - Least Developed Countries Fund (GEF, 2024);
d) EU – Global Gateway (EU, 2024); and
e) Investment Facility (World Bank, 2017)

B.1.4. Regulatory Framework: According to the National Adaptation Program of Action on Climate Change (2022) and Environment Act 2008, the GoL seeks to enhance the management of the environment, targeting the energy sector as a major climate change mitigation measure. Hence, the priority is on access to alternative (off-grid) sources of energy together with hydropower, solar, and wind. The GoL introduced regulatory measures to promote private sector participation which include the Energy Policy 2015-2025, the Electrification Master Plan 2018-2035, the National Climate Change Policy 2017- 2027, and the Implementation Strategy (AfDB, 2023). In 2018, the GoL developed the Public Private Partnership (PPP) policy (The Economic Intelligence Unit, 2019).

B.1.5 Priorities: According to Lesotho's Nationally Determined Contribution (Ministry of Energy and Meteorology, 2017), there are the main opportunities for mitigation which are presented as follows:

a) **Energy Efficiency**: Increase the number of renewable energy sources. i.e. Hydro, solar, and wind energy;
b) **Building Construction:** New standards and regulations for the designof new buildings; and
c) **Waste Sector:** Recycling and installing biogas digesters to generate cooking gas.

The three above measures are indeed opening potential investment opportunities for the private sector at large.

C.1 Conclusions

The above discourse depicts that Lesotho is being adversely affected by climate change fluctuations such as increased temperature, heavy rainfall, and freeze-thaw cycles. The net effects of climate change fluctuations are limited economic activities and a non-productive labour force due to a lack of movement because of broken bridges, landslides, and rocks falls. This simply implies wool and mohair business will be negatively affected since livestock farming occurs in the mountainous areas which are subject to climate change fluctuations.

The diminishing water bodies will negatively affect the selling of water to the RSA as well as local power generation at 'Muela Dam. There are so many key challenges that Lesotho faces in the climate change and energy sector such as lack of suitable land for renewable energy initiatives and obsolete electricity infrastructure for transmission.

Although the GoL has introduced various measures to address the challenges of the climate change and energy sector, the coordination and cooperation of key relevant stakeholders are still insufficient to bear fruitful results.

The absence of national standards on renewable energy appliances and installations has created a lot of uncertainty which may compromise potential investment from the private sector.

The low demand from households and industries to use modern and clean forms of energy can be attributed to inadequate information dissemination about the benefits of renewable energy. Hence, there are few Basotho players in the supply chain of the energy sector.

The reliance of Lesotho to source electricity externally shall compromise its competitiveness due to the high costs of production emanating from the high costs of imported costs electricity.

The GoL has made strides in putting appropriate measures such as:

a) The Lesotho Energy Policy 2015 – 2025;
b) The Nationally Determined Contribution – 2017;
c) The Lesotho National Climate Change – 2017;
d) Public Private Partnership Policy – 2018; and
e) Electrification Master Plan 2018 - 2035.

Once the GoL establishes the National Implementing Entity, it would be possible to utilize funds for climate change from various funding agencies to generate clean energy for local consumption and export purposes. This simply implies that Lesotho stands a better to produce cheap and clean energy, thereby making Lesotho a better destination for Foreign Direct Investment (FDI). With increased numbers of FDI, more job opportunities shall be created to decrease the high unemployment and poverty levels.

D.1 Recommendations

a) The office of the National Designated Authority should be resourced in terms of technical expertise and financial resources.

b) Lesotho should be a full member of International Electrotechnical Commission in order to access all benefits which include capacity building of technical experts on standards of renewable energy initiatives.

c) Lesotho Standards Institute should be empowered to introduce standards on appliances and installations of renewable energy initiatives.

d) For the private sector to grab the opportunities that accrue from local and global development frameworks Lesotho should establish a Climate Change Commission (CCC) as a matter of urgency to improve planning and coordination.The establishment of CCC is also being advocated by the National Reforms Agenda through Multi-Stakeholder National Dialogue Plenary Report II (LCN, 2019). The CCC should house the NIE as the structure dedicated to mobilizing funds for climate change initiatives.

e) The CCC shall provide the Government of the day with advice, monitoring, and reporting that support Lesotho's transition to a climate-resilient and low emissions future. This simply means that the CCC will be able to develop programs that enable the private sector to play a meaningful role in the climate change space, especially power generation for local consumption and export purposes as well as massive food production. With the vibrant local private sector in the climate change space, it will be possible to offer a wide portfolio of low-carbon solutions that help access the EU market and others. The ultimate results are more job opportunities and a reduction in poverty levels and crime rate.

REFERENCES:

AfDB. (2023) *Africa Climate Change Fund Brochure 2023. Côte d'Ivoire: AfDB.* Available at: https://www.afdb.org/en/documents/africa-climate-change-fund-brochure-2023. (Accessed 22 August 2024).

AfDB. (2023) *Lesotho Country Focus Report 2023: Mobilizing Private Sector Financing For Climate and Green Growth.* Côte d'Ivoire: AfDB.

Basdevant, O. (2013) *Designing Fiscal Policies within the Southern African Customs Union*. IMF. Washington.

DBSA. (2024) *Climate Change Fund*. Pretoria: DBSA. Available at: https://www. dbsa.org/ solutions/climate- financing#:~:text=The%20Climate%20Finance%20Facility%20is,with

%20a%20blended%20finance%20approach. (Accessed 22 August 2024).

European Commission. (2023) *Carbon Border Adjustment Mechanism*. Brussels: European Commission.

EU. (2024) *Global Gateway*. Brussels: EU.

Fraser, A. and Hadley, S. (2023) *National budget trends in the Southern African Customs Union: struggling for control?*. ODI: London.

GEF. (2024) *Least Developed Countries Fund*. Washington. Available at:https://www.thegef.org/what-we-do/topics/least-developed-countries-fund-ldcf. (Accessed 22 August 2024).

GCF. (2024) *Entity Accreditation*. Incheon: GCF.

IPC. (2024) Lesotho: Acute Food Insecurity Situation for May - September 2024. Available at https://www.ipcinfo.org/ipc-country-analysis/details-map/en/c/1157117/?iso3=LSO. (Accessed 26 August 2024).

Hill, K., Mitchell, C., Schenck, M., Dupoux, P., and Chetty, W. (2024) *More Money, Fewer Problems: Closing Africa's Climate Finance Gap*. Boston Consulting Group.

LCN. (2019) *Multi-Stakeholder National Dialogue Plenary II*. Maseru. Pp 23.

Le Roux, A. (2024) *Lesotho Geographic Futures*. ISS publications. Available at: https://futures.issafrica.org/geographic/countries/lesotho/ (Accessed 26 August 2024).

LMS. (2015) *Lesotho Energy Policy 2015-2025*. Ministry of Energy and Meteorology. Government of Lesotho.

LMS. (2017) *Lesotho National Climate Change Policy*. Ministry of Energy and Meteorology. Government of Lesotho.

Magacho, G., Espagne, E., and Godin, A. (2022) *Impacts of CBAM on EU trade partners:Consequences for Developing Countries, AFD Research Papers, Issue 238*. Available at: https://www.cairn-int.info/journal-afd-research-papers-2022-238.htm?WT.tsrc=pdf. (Accessed 26 August 2024).

Maimele, S. (2021) *TIPS South Africa's Iron, Steel and Aluminum Industries Readiness to Respond to CBAM*. Pretoria.

Ministry of Energy and Meteorology, Lesotho. (2017) *Nationally Determined Contribution under UNFCCC*. Maseru. Government of Lesotho.

Parthan, B. (2013) *Lesotho Renewable Energy Policy draft*. GoL. Available at: https://nul-erc.s3.amazonaws.com/public/documents/reports/lesotho-renewable-energy-policy-draft-1532182953.pdf. (Accessed 26 August 2024).

Statista. (2024) *Socioeconomic Indicators – Lesotho*. Statista: Hamburg.

The Economist Intelligence Unit. (2019) *Measuring the enabling environment for public-private partnerships in infrastructure: Lesotho Country Summary*. EIU, New York.

The Presidential Climate Change Commission. (2023) *Carbon Border Adjustment Mechanisms and Implications for South Africa*. Pretoria.

UNCTAD. (2022) *The low-carbon transition and its daunting implications for structural transformation*. Geneva. Available at: https://unctad.org/system/files/official- document/ldc2022overview_en.pdf. (Accessed 26 August 2024).

UNDP. (2014) *Reducing Vulnerability from Climate Change in Lesotho's Foothills, Lowlands and the Lower Senqu River Basin*. Available at https://www.adaptation- undp.org/projects/reducing-vulnerability-climate-change-lesothos-foothills-lowlands- and-lower-senqu-river (Accessed 26 August 2024).

World Bank. (2017) *Africa Climate Resilient Investment Facility*. Washington: World Bank.

World Bank. (2021) *Climate Risk Country – Lesotho*. Washington: World Bank.