

KEY MOTIVATIONS

- ❑ The recent twin crises of the Covid-19 pandemic and the Russia-Ukraine war have caused global economic effects, with gross variation, across countries triggering a retrospection by Policymakers on [self-sufficiency](#).
- ❑ Sustainable Industrialisation stands out as the 9th [Sustainable Development Goals](#) (SDGs) of the 2030 global Agenda for Sustainable Development.
- ❑ One of the 5 key areas of focus of the [African Development Bank](#) is to industrialise Africa
Popularly referred to as 'The High 5'
- ❑ the African Union upholds trade and industrial development as one of its key programme areas
- ❑ Empirical works that investigate this relationship for Lesotho in the public domain are generally very scarce
- ❑ Industrialisation has the potential to drastically improve the economic status of Lesotho

RELEVANT STATISTICS IN THE REGION

❑ According to the World Bank

😓 Industry value added as a percentage of Gross Domestic Product (GDP) in Sub-Saharan Africa (SSA) dropped from 35.5% in 1981 to 27.3% in 2021 – 4 decades after.

😓 Likewise, manufacturing value added as a percentage of GDP for SSA dropped from 18% in 1981 to an all-time low of 10% in 2012 and then slightly improved to 12% in 2021 (World Bank, 2022).

RELEVANT STATISTICS IN LESOTHO

❑ Interestingly, Lesotho shows a more promising trend.

😊 Industry value added as a percentage of GDP increased from 22.4% in 1981 to 35.1% in 2021

😊 while manufacturing value added as a percentage of GDP increased from 8% in 1981 to 15% in 2021.

😊 This is largely credited to the growing industrialisation of textiles, clothing, footwear, food processing and mining-related products.

😊 In particular, the United States-led African Growth and Opportunity Act (AGOA) and the World Trade Organization's Agreement on Textiles and Clothing, which propelled textile exports to reach **\$305.4 million in 2020** (International Trade Administration 2021).

SO WHY WORRY(1/2)



- ❖ In view of this relatively encouraging performance, the question of, to what extent industrialisation in Lesotho has impacted economic growth and development becomes imperative
- ❖ The relevance of this question is based on the recent gloomy economic outlook of Lesotho.
- ❖ In the last decade, the Lesotho government's Debt to GDP ratio has not gone below 35% and is currently higher than 50% of African countries (World Bank, 2022).
- ❖ The current account deficit reduced from 7.9% of GDP in 2017 to 2.8% in 2021
- ❖ Fiscal deficit increased from 3.8% in 2017 to 5.8% of GDP in 2021 (African Development Bank 2022)

SO WHY WORRY(2/2)

- ❖ Lesotho recorded about 50% of the poverty headcount in 2021
- ❖ Unemployment increased from 23.6% in 2018 to 33% in 2021.
- ❖ GDP growth has dropped steadily from an all-time high of 26.4% in 1973 to -7.6% in 2020,
- ❖ GDP per capita increased from 2,128 Maloti in 1960 to its all-time high of 10,845 Maloti in 2016 but has dropped to 9,536 in 2021 (World Bank, 2022).



OBJECTIVES

- ❖ To analyse the impact of industrialisation on economic growth and development in Lesotho
- ❖ To re-ignite critical thinking and discourse on industrialisation as a priority for Lesotho and key to economic development.

INDUSTRIALISATION VS OTHER SECTORS

- ❖ Of all the sectors, Lesotho seems to have a comparative advantage in the industrial sector.
 - This is primarily thanks to its huge mineral deposits,
 - And existing international trade agreements,
- ❖ On the other hand
 - Its service sector is still developing while the agricultural sector is largely limited by the geographical composition of Lesotho.
 - Lesotho has limited arable land, it is predominantly mountainous and records extreme weather conditions that keep it largely reliant on food imports. Lesotho recorded arable land of about 14.14% in 2018.



INDUSTRIALISATION VS OTHER SECTORS

❖ This is reflected in their current contribution to GDP.

❖ Lesotho's composition by sector shows that the

\$ Agriculture, forestry, and fishing, value added (% of GDP) is 4.9 %,

\$ Industry (including construction), and value-added (% of GDP) is 35.12 %

\$ While trade in services (% of GDP) is 16.9 % .

(World Bank 2021)



LINKING INDUSTRIALISATION TO ECONOMIC GROWTH AND DEVELOPMENT

- ❑ Industrialisation can be broadly referred to as the process of changing from an agrarian-based production economy to the mass production of finished and semi-finished products
- ❑ According to Kirk-Greene (1981), it is the massive use of machinery and capital assets that hugely drives economic activities within a formal employment framework.
- ❑ Generally, it is a major change in economic activity that increases money in circulation, creates subsidiary industries across vertical and horizontal lines, increases employment, increases productivity and increases exports.
- ❑ This actually defines economic growth which generally refers to the increase in economic goods and services over time
- ❑ and by extension economic development which translates to long-term well-being or standard of living in terms of health, education and income.

THEORETICAL AND EMPIRICAL JUSTIFICATION OF THE LINK

- ❑ The famous new classical Solow growth highlights the accumulation of capital and technological progress as key attributes to economic growth
- ❑ Kaldor (1967) first law states that there exists a positive relationship between industrial output and economic growth
- ❑ While empirical evidence in the majority of works exhibits a positive and significant relationship, some show a positive but non-significant relationship, and, conversely, others a negative relationship.
- ❑ This is not completely strange as economic growth theory, especially that of Solow, presupposes that growth rate depends principally on capital accumulation as well as other facilitating conditions.
- ❑ This invariably means that the extent to which industrial development affects the economic growth or development of a country/economy is dependent on that country/economy

CONTEXT OF INDUSTRIALISATION IN LESOTHO

SECTOR-SPECIFIC ANALYSIS 1/2

In terms of the manufacturing subsector

- ❖ Lesotho is predominantly engaged in small-scale enterprises that produce candles, ceramics, furniture, food products, fertilizers, televisions and jewellery (Britannica, 2022).
- ❖ Also, other economic activities, such as weaving, canning, diamond cutting, and polishing constitute some of the small-scale industries in the manufacturing sub-sector.
- ❖ The textile and garment industry is Lesotho's largest private employer – approximately 36,000 Basotho, producing garments for export to South Africa and the US (The World Fact Book, 2022)

CONTEXT OF INDUSTRIALISATION IN LESOTHO

SECTOR-SPECIFIC ANALYSIS 2/2





In terms of the mining subsector

- ❖ Lesotho witnessed a tremendous boost since Gem Diamond Mining of the United Kingdom purchased 76% shares from **Letšeng Diamonds Ltd in 2006** (Newman, 2006).
- ❖ The 603-carat Lesotho Promise diamond is the 15th largest rough diamond ever discovered, and the biggest diamond uncovered this century (Lesotho Embassy Rome, 2016).
- ❖ Diamond mining in Lesotho accounted for nearly 35% of total exports in 2015 (The World Fact Book, 2022).
- ❖ Besides diamonds, the Letšeng mine is a major source of uranium, base metals and clay.
- ❖ Meanwhile, there exists commercial reserves of coal, bituminous shale, sandstone etc in other parts of Lesotho.
- ❖ Apart from the well known Letšeng Mining, there exist the likes of Kao and Liqhobong as other major mining in the country which sharpens the livelihoods of Basotho through artisanal mining.






CONTEXT OF INDUSTRIALISATION IN LESOTHO

CHALLENGES

Electricity






-  Only 47.36 % of Basotho had access to electricity in 2021;
-  71.8 % of firms experienced electrical outages in 2016, and
-  2.5 % of firm sales were lost due to electrical outages (for affected firms) in 2016 (World Bank 2022),
-  Excess electricity demand of about 41% had to be supplied by more expensive imports from the Electricity Supply Corporation of Mozambique (Thamae et al., 2015).

Other challenges include

-  low labour productivity, especially in the manufacturing sector,
-  lack of adequate physical infrastructure, such as good road infrastructure
-  High road transportation costs and inadequate rail systems,
-  Hesitation to mechanise production by employers due to scarce availability of spare parts,
-  Limited availability of high technical skills

CONTEXT OF INDUSTRIALISATION IN LESOTHO

POTENTIAL FOR INDUSTRIAL DEVELOPMENT

-  It has huge deposits of diamonds, gold and other minerals.
-  Lesotho recorded an adult Literacy rate of 76.6 % (2014 estimates) which was higher than the 2014 SSA average of 63% (World Bank 2022).
-  The AGOA presents a good opening for exports, relative to other non-AGOA participants in African Countries.
-  In terms of political stability, Lesotho recorded 34.1 percentile rank among all countries (Worldwide Governance Indicators, 2022).
-  Its geographical location also exposes it to the huge market and skills of South Africa and neighbouring countries which could be an opportunity if well managed.


CONTEXT OF INDUSTRIALISATION IN LESOTHO

REGIONAL AFFILIATIONS

 Lesotho is a member of the Southern African Development Community (SADC) and the Southern African Customs Union (SACU), African Development Bank and United Nations

 SADC's Vision 2050 and the SADC Regional Indicative Strategic Development Plan 2020–2030 highlights industrial development as a pillar

 SACU adopted industrial development as an overarching objective to drive the region's development and integration agenda.

 The African development bank and United Nations all prioritise industrialisation and Lesotho should too; being a signatory.

CONTEXT OF INDUSTRIALISATION IN LESOTHO

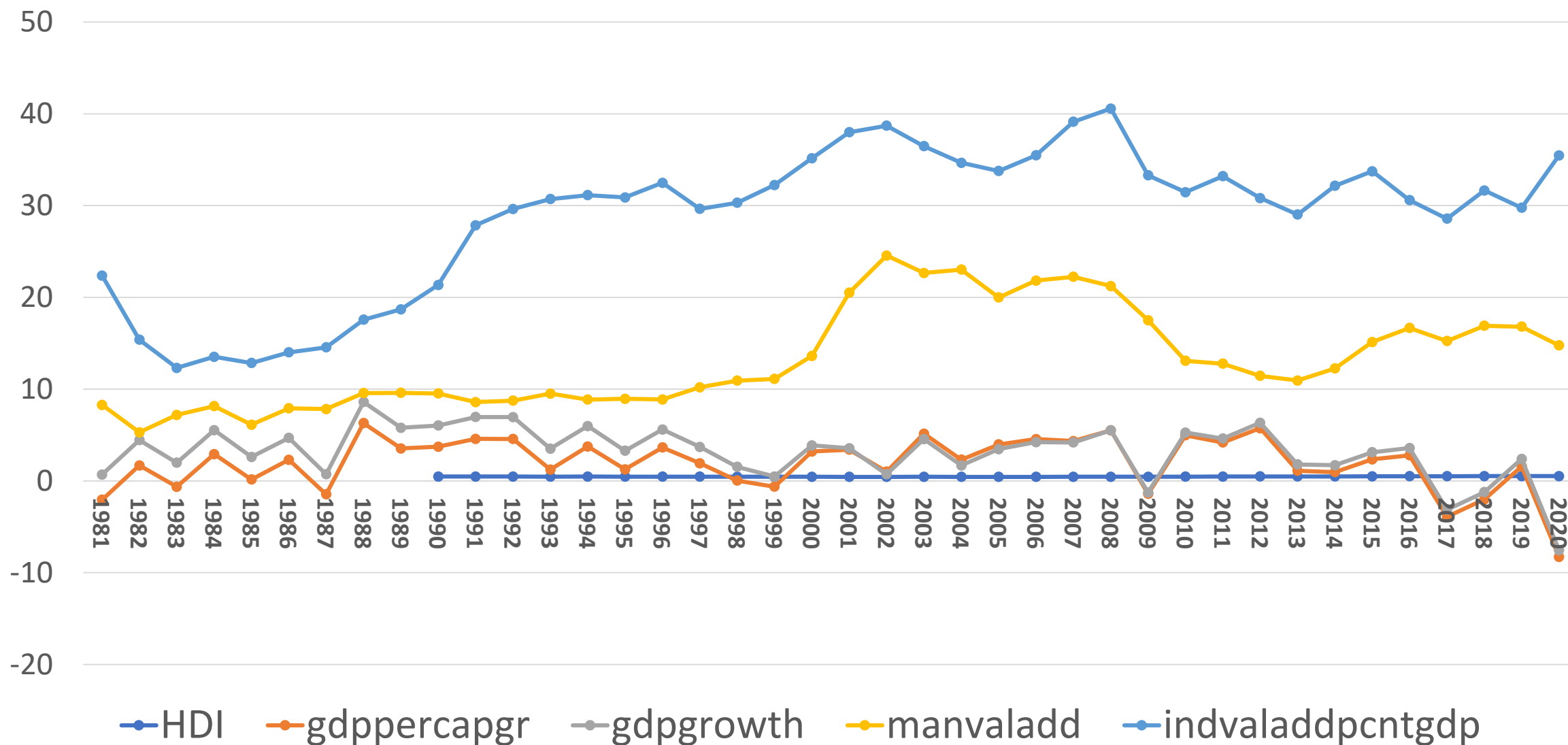
INDUSTRIAL-RELATED POLICIES IN LESOTHO

- ❑ Industrial-related policies in Lesotho such as Lesotho Growth Strategy Industrialization Master Plan (IMP) 2007-2010, Investment Policy 2009, SME White Paper (2002), State of Small Enterprise (2008), Industrial Policy [Draft] (2012) are mostly perceived to have underperformed (Tlhatlosi and Pekeur 2018). The most recent industrial policy in Lesotho is the Industrial Policy [Draft] (2015-2017)

- ❑ The policies with inadequate implementation were challenged by the
 - lack of political will;
 - lack of coordination and cooperation;
 - lack of implementation mechanisms and foreign influence, especially where stakeholders expect the alignment of Lesotho and South African industrial laws (Tlhatlosi and Pekeur, 2018).

- Other policies such as Vision 2020 introduced the Poverty Reduction Strategic Paper (PRSP) policy 2002/3 – 2005/6, National Strategic Development Plan (2012/13 – 2016/17), have been perceived to have had greater implementation rates.

Trends of Industrialisation, Economic Growth and Development





METHODOLOGY



- ✓ The study employs the autoregressive distributed lag model (ARDL) model which estimates the outcome variable based on its lag values as well as current and lag variables of explanatory variables. Econometrically specified thus:

$$Y_t = \delta_{0j} + \sum_{i=1}^p \alpha_j Y_{t-i} + \sum_{i=0}^r \pi_j I_{t-i} + \sum_{i=0}^q \varphi_j X_{t-i} + \varepsilon_{jt}$$

- ✓ Where p , r , and q are optimal lag orders; α , π , φ are coefficients; ε_{jt} is a vector of the error terms – unobserved zero mean white noise vector process; δ is the constant; $j = 1, \dots, k$. The control variables include domestic credit to the private sector, foreign direct investment as a percentage of GDP and real effective exchange rate.
- ✓ These control variables are informed by some empirical and theoretical determinants of the outcome variable subject to data availability.
- ✓ The study employed time series data for Lesotho from 1981 to 2020, accounting for 40 years

Short Run	
Description	Coefficient
ΔFDI	2.647* (0.055)
FDI (-1)	3.385*** (0.008)
FDI(-2)	2.044* (0.060)
FDI (-3)	0.853 (0.191)
$\Delta DCPS$	0.317 (0.224)
DCPS (-1)	0.224 (0.224)
$\Delta LIND$	10.858* (0.056)
LIND (-1)	16.792** (0.017)

Longrun	
Description	Coefficient
FDI	-1.302 (0.195)
DCPS	-0.180** (0.010)
LIND	1.818** (0.018)
REER	0.022** (0.025)
ECM	-1.514*** (0.000)
Constant	-55.670** (0.033)
R squared	0.8102
Number of Observation	36

KEY RESULTS



The findings show that the lag of industry value added significantly and positively affects GDP growth rate both in the short run and long run.



In the short run, both the current and first lag of industry value added is positive and significant at a 10% and 5% level of significance.



And in the long run, industry value added is equally positive and significant at 5% significant level.









This empirical evidence for Lesotho buttresses the need to re-energise this sector to optimise its full potential to ultimately improve economic growth and development.



This is especially relevant since the Kingdom of Lesotho seems to have a comparative advantage in the industrial sector.

RECOMMENDATIONS

-  Besides the national all-inclusive NSDP policy documents, there currently exists no specific policy documents dedicated to industrialisation in Lesotho in spite of its relevance to the economy.
-  This is not only important in addressing some of the specific challenges faced in this sector within the framework of the NSDP, but it also indicates to investors the key subsectors and direction of interest of the government.
-  The Lesotho Embassy in Rome (2016) posits that it is the prerogative of the **Ministry of Trade and Industry, Cooperatives and Marketing** to develop the requisite institutional capacity to promote industrial expansion and development of investor-friendly **master plan** (last was 2007-2010) or policy (last was 2015-2017)
-  While the Lesotho National Development Corporation whose role is to **promote and facilitate the investment and development of manufacturing and processing industries, mining and commerce, to promote economic growth** in Lesotho need to intensify efforts in light of this potential.
-  It is necessary to promote foreign direct investment and domestic credit to the private sector to potentially improve the desired impact on economic growth in Lesotho
-  Electricity production and distribution needs to be improved to boost industrialisation



**THANKS
FOR
LISTENING**