

WAVERLEY GATEWAY GUIDE

Connecting International Capital with Emerging & Frontier Markets

LESOTHO

Africa South

Dialogue | Trust | Partnership

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WHERE AND HOW TO ENTER

KEY INVESTMENT LOCATIONS

Location / Region	Strategic Importance	Priority Sectors
Maseru	Capital, administrative and commercial hub	Government contracts, banking, services
Maseru / Ha Tikoe / Thetsane industrial estates	Core garment and textile manufacturing base, overwhelmingly US-export-oriented	Garment and textile manufacturing, light assembly
Katse and Mohale reservoirs, Lesotho Highlands	Site of the proposed 50-400MW floating solar project and existing Muela hydropower station	Hydropower, floating solar PV, water-export infrastructure
Polihali Dam site, Lesotho Highlands Water Project Phase II	Major bi-national water-transfer infrastructure under construction, ~50% complete as of mid-2026	Water-export infrastructure, construction, engineering services
Letšeng-la-Terae diamond mine, Maluti Mountains	One of the world's highest-dollar-per-carat diamond mines	Diamond mining
Mafeteng / Mohale's Hoek agricultural belt	Agriculture and agro-processing zone	Agro-processing, horticulture
Highlands wind and hydro corridor	Emerging renewable-energy development zone beyond the floating-solar proposal	Wind and small-hydro power generation

INVESTOR ENTRY ROUTES

- Lesotho National Development Corporation (LNDC) registration and facilitation
- AGOA DUTY-FREE US MARKET ACCESS FOR QUALIFYING GARMENT EXPORTERS: Now extended to 31 December 2028, though order-book recovery from the 2025 tariff shock remains incomplete
- LESOTHO HIGHLANDS WATER PROJECT / LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY (LHDA) CO-INVESTMENT: Including the proposed floating solar tender on the Katse and Mohale reservoirs
- Southern African Customs Union (SACU) tariff-free regional market access for manufacturing
- Diamond-sector joint venture or offtake arrangement via Letšeng Diamonds
- Development-finance-institution and climate-finance co-financing routes for renewable-energy and water-infrastructure projects

MARKET-ENTRY OBSERVATION

Lesotho's economy remains structured around four narrow revenue pillars: SACU customs-revenue transfers, migrant-worker remittances from South Africa, water royalties paid by South Africa under the Lesotho Highlands Water Project, and garment exports to the United States under AGOA. The garment sector - Lesotho's dominant private employer, supporting an estimated 40,000 jobs and somewhere between 10% (Oxford Economics) and 20% (IndustriALL) of GDP - was hit hard by the United States' 2025 reciprocal-tariff policy, which initially targeted Lesotho with one of the highest rates of any country given its large per-capita trade surplus with the US. Even after tariffs were reduced to 15% and ultimately lapsed on 29 July 2026, and AGOA itself was extended to 31 December 2028, the damage proved difficult to reverse: US apparel exports fell 28.2% to USD 170.2 million in 2025, several factories went dark, and buyers who cancelled orders during the uncertainty have largely not returned. As one industry assessment put it, 'tariff reprieves do not rebuild cancelled order books.'

The Lesotho Highlands Water Project Phase II offers a partial, longer-horizon counterweight: the Polihali Dam was reported around 50% complete in mid-2026, and water royalties continue flowing to the central budget on a fixed long-term schedule - though that

schedule means water revenue cannot be accelerated to offset a sudden garment-sector shock. The Lesotho Highlands Development Authority is also studying a floating solar project on the Katse and Mohale reservoirs (potentially 50-400MW, roughly R4.9 billion in preliminary cost estimates), which would leverage existing transmission and road infrastructure built for the water project.

INVESTOR RISK & MARKET ACCESS

KEY ENTRY BARRIERS

Issue	Potential Impact	Possible Mitigation
Lingering damage from the 2025 US tariff shock: a 28.2% drop in garment exports to the US, factory closures and thousands of job losses, with cancelled buyer orders largely not yet restored even after tariffs lapsed in July 2026	The AGOA extension to 2028 provides renewed policy certainty but does not by itself rebuild lost commercial relationships or order volumes	Engage directly with buyers and LNDC on current, verified order-book conditions rather than assuming AGOA renewal alone resolves sector risk; diversify export-market exposure where feasible
Chronic political instability: no prime minister has served a full five-year term in the past decade, coalition governments are frequently rickety, and Lesotho has a documented history of coups and attempted coups	Creates policy unpredictability and periodic governance disruption that can affect contract continuity and regulatory follow-through	Structure agreements with government-counterparty continuity risk in mind; engage LNDC and technical ministries directly rather than relying solely on political relationships
Extreme revenue concentration in four narrow pillars (SACU transfers, remittances, water royalties, AGOA-linked garments), each largely outside Lesotho's own control	Limits the government's fiscal flexibility to respond to a shock in any single pillar, as the 2025 garment-sector shock illustrated	Treat Lesotho's fiscal and currency stability as linked to developments in South Africa and US trade policy, not purely domestic conditions
Currency peg to the South African rand (loti)	Ties monetary policy and interest rates to decisions made in Pretoria rather than domestic conditions	Factor South African Reserve Bank policy into Lesotho-specific financial planning
Small, landlocked, mountainous domestic market (around 2.3 million people) entirely surrounded by South Africa	Limits scale for consumer-facing investment and adds logistics complexity and cost	Favour export-oriented, infrastructure-linked or resource-based investment models
Floating solar and other Highlands renewable-energy projects remain at an early feasibility stage with no financing decisions made	Investors cannot yet rely on confirmed project economics or timelines for these specific opportunities	Monitor LHDA tender and feasibility-study outcomes directly before committing capital
High domestic electricity demand exceeding local generation (532GWh generated versus 970GWh consumed in 2024), with the gap imported from South Africa and Mozambique	Signals a genuine underlying power-sector investment need but also current grid-reliability and import-dependency risk	Assess power-supply reliability and import-dependency risk in project feasibility studies

INVESTOR RISK NOTE

Lesotho's defining recent risk event was the 2025 US tariff shock, which struck directly at the garment sector underpinning a large share of formal employment and GDP. Even with tariffs lapsed and AGOA extended to 2028, the sector's recovery has been slower than the policy reprieve alone would suggest - order books do not rebuild as quickly as tariffs can be reversed, and investors should treat the sector's near-term trajectory as still fragile rather than fully restored. This sits alongside Lesotho's chronic political instability: no premier has completed a full term in the past decade, and coalition governments have repeatedly proven unstable, a dynamic unrelated to but compounding the economic shock.

Lesotho's other major revenue sources - SACU transfers, remittances and Lesotho Highlands Water Project royalties - provide some diversification, but each follows its own external logic (South African import volumes, South African labour-market conditions, and a fixed long-term water-royalty schedule respectively) and none can be quickly redirected to offset a shock in another pillar. Investors should size their exposure to Lesotho's narrow revenue base explicitly rather than assuming diversification across these four pillars provides meaningful shock-absorption.

MARKET ACCESS

LNDC's facilitation role and Lesotho's SACU membership continue to provide tariff-free access to the South African market, and the AGOA extension to 2028 restores a measure of medium-term policy certainty for garment exporters even as near-term order-book recovery lags.

The Lesotho Highlands Water Project remains a genuinely significant, bi-national infrastructure asset generating reliable (if fixed-schedule) hard-currency royalties, and its existing reservoir, transmission and road infrastructure gives the proposed floating solar project a real head start versus a greenfield renewable-energy development elsewhere in the region.

WHO SHOULD THE INVESTOR MEET?

INSTITUTIONAL LANDSCAPE

Actor	Why It Matters	Waverley Engagement Angle
Lesotho National Development Corporation (LNDC)	Primary FDI facilitation and investment-promotion agency	Central registration and incentive-coordination contact for new entrants
Office of the Prime Minister / coalition government	Executive authority, historically unstable with frequent coalition turnover	Monitor government stability directly; do not assume policy continuity across a political transition
Lesotho Highlands Development Authority (LHDA)	Lesotho Highlands Water Project Phase II implementation and the proposed floating solar tender	Route for water-infrastructure and renewable-energy co-investment
Central Bank of Lesotho	Monetary policy within the rand-peg currency arrangement, and banking supervision	Confirm current foreign-exchange and banking-sector conditions
Ministry of Trade, Industry, Business Development and Tourism	Trade policy, AGOA administration and garment-sector coordination	Confirm current AGOA-eligibility status and sector-specific support measures
Letšeng Diamonds (Gem Diamonds / Government of Lesotho joint venture)	Major diamond-sector operator	Route for diamond-sector joint-venture or offtake engagement
Southern African Customs Union (SACU) Secretariat	Regional tariff and revenue-sharing administration	Monitor SACU revenue-sharing developments affecting fiscal planning

CURRENT INTERNATIONAL BUSINESS CHANNELS

South Africa is overwhelmingly dominant in Lesotho's economic relationships, through SACU, the currency peg, remittance flows, and the Highlands Water Project itself. The United States remains critical through AGOA and as the primary garment-export market, though that relationship bears the scars of the 2025 tariff episode. Taiwan and other Asian manufacturers have historically anchored garment-sector investment, and development-finance institutions (World Bank, AfDB, and various climate-finance vehicles) are increasingly relevant to the Highlands renewable-energy and water-infrastructure pipeline.

INVESTOR PROFILE BEST SUITED

Lesotho is best suited to infrastructure and renewable-energy investors able to engage the LHDA directly on Highlands Water Project-linked opportunities, diamond-sector investors partnering through Letšeng, and garment-sector investors with a realistic, conservative view of near-term US order-book recovery rather than an assumption that the AGOA extension alone restores pre-2025 conditions.

It is a weaker fit for investors requiring sustained government-counterparty continuity, given the country's decade-long pattern of coalition instability, or for those seeking diversified domestic-market exposure given Lesotho's small, landlocked population.

FROM INTELLIGENCE TO ENGAGEMENT

STEP 1: Confirm the Sector and Entry Vehicle

Determine whether LNDC registration, an LHDA-linked infrastructure route, or a diamond- or garment-sector route fits the project.

STEP 2: Engage LNDC and the Relevant Sector Body Early

Open parallel conversations with LNDC and, where relevant, LHDA, the Ministry of Trade, or Letšeng Diamonds.

STEP 3: Assess Garment-Sector and Political-Continuity Risk Directly

For garment-sector investment, verify current order-book and buyer conditions rather than relying on AGOA renewal alone; for all investments, monitor government stability.

STEP 4: Secure the Licence, Concession or Co-Financing Agreement

Finalise the specific legal and commercial structure for the chosen entry route.

STEP 5: Launch and Monitor

Begin operations while tracking garment-sector recovery, LHDA project developments, and political stability.

WAVERLEY'S ROLE

- Independent due-diligence and structuring advisory across LNDC, LHDA and diamond-sector entry routes
- Introductions to LNDC, LHDA, the Ministry of Trade and Letšeng Diamonds counterparts
- Ongoing monitoring of garment-sector order-book recovery, Highlands Water Project Phase II progress, and political stability
- Coordination with experienced local legal, tax and trade-compliance advisory specialists

INVESTOR CALL TO ACTION

Investors seeking exposure to Lesotho's Highlands Water Project-linked infrastructure, its diamond sector, or a realistically-assessed garment-sector recovery are invited to engage Waverley for a confidential, risk-calibrated structuring consultation.

INTELLIGENCE → RISK ASSESSMENT → STRUCTURING → MARKET ENTRY

WAVERLEY INVESTOR INTELLIGENCE & OPPORTUNITY PIPELINE

Current pipeline items Waverley is tracking include the LHDA's floating solar feasibility study on the Katse and Mohale reservoirs; continued Polihali Dam construction under Lesotho Highlands Water Project Phase II; the pace and durability of garment-sector order-book recovery following the 2025 US tariff shock; and Letšeng Diamonds' ongoing high-value production.

POSITIONING

Waverley approaches Lesotho as a small, structurally vulnerable economy with genuinely significant Highlands Water Project infrastructure assets, now working through the aftermath of a severe 2025 US trade shock to its garment sector.

Our role is to help investors engage the durable infrastructure and diamond-sector opportunities directly, while applying realistic, evidence-based assessment to the garment sector's recovery rather than assuming policy reprieve alone has restored prior conditions.

SELECTED SOURCES

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