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Highlights of current labor market conditions in Lesotho

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Lesotho is a small, landlocked country, completely surrounded by South Africa. According to the Lesotho Core Welfare INDICATORS questionnaire (CWIQ) Survey, 2002 prepared by the Demographic, Labour and Social Statistics Division (DLSSD) Bureau of Statistics the population of Lesotho is relatively young, with 37.4% under 15 years old, 56.4% between 15 and 64 years old, and 6.2%, 65 years and above.

Lesotho is among the countries with the highest HIV/AIDS prevalence, with about 35% of the population HIV positive. These high HIV rates have a negative impact on employment. Nationally, 39.1% of 25-29 year old pregnant women are infected and in a garment Industry sample of two Maseru factories, there was 33% and 38% prevalence of HIV. There is over 100,000 orphans and vulnerable children. 29, 000 adults and children died of AIDS during 2003. +/- 56,000 people living with HIV/AIDS [PLWHA] need anti-retroviral drugs (ARVs), The actual number on anti-retroviral treatment in the public sector is 2,182 (May 2005).

Despite the high prevalence of HIV, misconceptions about the virus persist. Only 10.9% of the population, for example, knew that infected women could infect their unborn children, and only 8.9% knew of possible infection through breast feeding. This lack of knowledge could be a major cause of the spread of HIV/AIDS.

The Global fund has given a grant of US\$34 million to be spent over five years on HIV/AIDS and Tuberculosis. A drug company, Bristol Meyer-Squibb is working with the Ministry of Health and Social Welfare to establish a testing and counseling clinic and donation of anti-retrovirals. Efforts are underway by the World Bank to assist Lesotho to strengthen its capacity to make effective use of the funds and to account properly for their use including procurement monitoring and evaluation and project approvals. [Budget-Speech by Minister of Finance 16/02/2004]

Many children have lost either or both parents leaving the children to fend for themselves and their siblings as they suffer prejudice and neglect in the hands of guardians and community. The 2002 CWIQ survey shows that 56.6% reported to have cared for a chronically ill person or received care in government health services, while about 31% got help from family or neighbors.

The 2002 Lesotho Reproductive Health Survey conducted by the Bureau of Statistics, indicated that Basotho start engaging in sexual activity as early as age 12. By age 19, 68.2% of boys and girls reported to have had sex.

Since the government accepts child labor, the size of Lesotho's labour force and employment levels include workers as young as 10 years old. Traditionally, boys work as herders and girls are domestic workers in rural areas. Because of the difficulty of creating jobs and because poverty is high, the government does not discourage child labour. It is estimated that 25% of the residents age 10 or older are economically inactive (i.e., housewives, students, disabled, retired, etc.).

Population, by gender (2004)

| | |
|-------------------|-----------|
| Total population: | 2,233,255 |
| Male: | 1,103,959 |
| Female: | 1,129,296 |

Here, unemployment is defined as those persons age 10 or older whom:

- *Have looked for work*, that is, spent most of their time during the reference period actively looking for work, including writing letters of application as well as visiting work places or houses in search of employment, or
- *Wanted and were available for work*, that is, those ready and willing to work but did not actively looking for work.

Hidden unemployment is defined as those who are willing to work and are available, as known by non-governmental organizations. They are part of the 17,000 people the government is unable to create jobs for, although some are in South Africa and not included in the Labor Force Survey.

Migrant workers comprise 20% of the labour force, composed primarily of men working in South African mines.

UNEMPLOYMENT (excluding migrant labour, i.e., those working in another country)

| | |
|---------------|---------------|
| Male: | 46.9% |
| Female: | 56.6% |
| Total: | 51.75% |

UNEMPLOYMENT (includes migrant labour)

| | |
|---------------|--------------|
| Male: | 48% |
| Female: | 59.2% |
| Total: | 53.6% |

TOTAL UNEMPLOYMENT

| | |
|---------------|--------------|
| Male: | 47.5% |
| Female: | 57.3% |
| Total: | 52.4% |

HIDDEN UNEMPLOYMENT

| | |
|---------------|--------------|
| Male: | 57.0% |
| Female: | 70.0% |
| Total: | 63.5% |

LONG-TERM UNEMPLOYMENT

60%-67%

Employment

The Lesotho labour market is characterized by low demand in relation to supply. Unemployment is rising because no jobs are being created but the labour force continues to increase by approximately 25,000 youths as new entrants each year (SADC 1998 and 1999 labour force survey).

As the already high rate of unemployment in Lesotho continues to escalate, the unemployment problem is compounded by a number of factors, the most prominent being diminishing employment prospects in the agricultural and government sectors, a small industrial base, and the retrenchments of South African mining industries. There were 130,000 miners (Southall 1984), but by 1999 the number had dropped to 65,272 and to 62,125 at the end of 2002 (Central Bank of Lesotho). Again, this decline results primarily from the change in the value of the Rand and the price of gold, subsequently affecting the price of imported deep mining equipment and overhead costs.

Other industries are suffering as well, so the government has responded to the crisis with the following strategies:

- Extension of lucrative incentives for foreign capital to invest in the textile factories, which are characterized by poor working conditions. The Textile Industry have lost 14,000 jobs post MFA since January 1st 2005 although some of the jobs have been lost due to bankruptcy of the Companies.
- Promotion of community work schemes through both the Labour Construction Unit (LCU) and the Social Fund for Community Development.
- Adoption of a national employment policy in 1998, which aims to promote fully productive and freely chosen employment, improve productivity of labour, and provide skills and knowledge for the work force.

It is also important to note that the small business sector has been an area of growth, but this growth will be hard to sustain because a lack of collateral makes it difficult for small business owners to obtain loans.

Lesotho has no official poverty line. The average salary is 935 Maloti (approximately US\$136), which is income tax free. However, any amount above that is subjected to a 25% tax. According to a 1999 World Bank report, Lesotho's Gross Domestic Product per person in purchasing power parity terms (measured in U.S. dollars) was \$1,860 in 1997. This figure places Lesotho among the world's 50 lowest income countries.

By defining "poor" as those with monthly expenditures below 80 Maloti (US\$12.34), it is estimated that 68% of the population falls in this category. Out of this group more than 70% are defined as "destitute" with expenditures of less than 40 Maloti (US \$6.17), and making up 49% percent of the total population. With such levels of poverty, it is not surprising that crime is increasing—desperation has led to frequent thefts of groceries.

Basic minimum wages in Maloti/U.S. dollars

| Occupation | Monthly | Weekly | Daily |
|------------------------|-----------|--------|-------|
| Domestic servant | 210/32 | 53/8 | 11/2 |
| Small business | 466/71.86 | 116/26 | 25/4 |
| Messenger | 621/96 | 155/24 | 33/5 |
| Operator – hammer mill | 621/96 | 155/24 | 33/5 |
| Sewing machine | | | |
| – Training six months | 643/99 | 160/25 | 34/5 |
| – Trained | 686/106 | 172/27 | 36/6 |
| Weaver | | | |
| – Training six months | 643/99 | 160/25 | 34/5 |
| – Trained | 686/106 | 172/27 | 36/6 |
| Shop assistant | 684/105 | 171/26 | 36/6 |
| Unskilled labour | | | |
| – heavy physical | 684/105 | 171/26 | 36/6 |
| – light physical | 621/96 | 155/24 | 33/5 |
| Waiter | 703/108 | 176/27 | 37/6 |
| Copy typist | 732/113 | 183/28 | 39/6 |
| Junior clerk | 732/113 | 183/28 | 39/6 |
| Machine attendant | 732/113 | 183/28 | 39/6 |
| Receptionist | 732/113 | 183/28 | 39/6 |
| Telephone operator | 732/113 | 183/28 | 39/6 |
| Ungraded artisan | 790/122 | 198/31 | 42/6 |
| Driver (light) | 849/131 | 212/33 | 45/7 |
| Machine operator | 849/131 | 212/33 | 45/7 |
| Watchman | 863/133 | 216/33 | 45/7 |
| Driver (heavy) | 1191/184 | 298/46 | 63/10 |

Note: Currency conversion used 1 Maloti = 0.1542 U.S. dollar.

Source: Lesotho Central Bank, February, 2005.

The minimum wage of 2005-2006 was not increased and the inflation rate for August 2005 was 3.5%.

- The Schedule to the Labour Code Wages (Amendment No.2) Order 2003 is deleted and substituted with the following-

SCHEDULE BASIC MINIMUM WAGES

| Sector | Monthly | Weekly | Daily |
|--|----------|--------|-------|
| A. CLOTHING, TEXTILE AND LEATHER MANUFACTURING SECTOR | | | |
| (i) Textile General Worker 660/102 | | 164/25 | 35/5 |
| (ii) Textile Machine Operator 710/109 | | 177/27 | 37/6 |
| (iii) Textile Mach Op Trainee 660/102 | | 164/25 | 35/5 |
| B. CONSTRUCTION | | | |
| (i) Construction Machine Operator and Certificated (Bricklayer, Carpenter, Steel Fixer, Welder, Electrician) | 1442/222 | 341/53 | 78/12 |
| (ii) Construction Worker 818/126 | | 205/32 | 43/7 |
| C. RETAIL | | | |
| 1. <u>Wholesale Retail</u> 781/130 | | 196/33 | 41/7 |
| (i) Wholesaler | | | |
| (ii) Bakery | | | |
| (iii) Supermarket | | | |
| (iv) Furnisher shop | | | |
| 2. <u>Retailers</u> 760/127 | | 191/32 | 41/7 |
| (i) Mini-supermarket | | | |
| (ii) Café | | | |
| (iii) Food caterer | | | |
| D. HOTELS | | | |
| (i) Motels | 781/130 | 196/33 | 41/7 |
| RESTAURANTS | 760/127 | 191/31 | 40/7 |
| E. SERVICES SECTOR | | | |
| (i) Security | | | |
| (a) Trainee Security guard 800/123 | | 200/31 | 42/6 |
| (b) Trained Security guard 982/151 | | 245/38 | 52/8 |
| (ii) Funeral parlour | | | |
| (a) With less than 12months service | 810/125 | 202/31 | 43/7 |

| | | | |
|---|----------|--------|--------|
| (b) With more than 12 months with same employer | 818/126 | 205/32 | 44/7 |
| F. SMALL BUSINESS | 466/78 | 116/19 | 25/4 |
| G. DOMESTIC WORKER | 221/36.8 | 56/9.3 | 12/2 |
| H. GENERAL MINIMUM WAGE | 673/112 | 169/28 | 39/6.5 |

Minimum Wages

4. Notwithstanding paragraph 5, an employee who earns average set out in the Labour Code Wages (Amendment No.2) Order, 2003 shall not be paid below the amount and a person whose occupation is not listed in a sector in this schedule shall not be paid less than the General Minimum Wage.” [Legal Notice No.153 of 2004]

Due to the government’s lax enforcement of collective agreements and its promotion of low wages as a way to attract Asian investment in the textile and leather sectors, workers are generally paid the minimum legal salary. This is done despite the fact that Lesotho has ratified the relevant ILO Conventions.

The minimum wages in the textile industry was increased by 3.5% for the General worker and 5.5% for the trained Machinist for the 2005-2006.

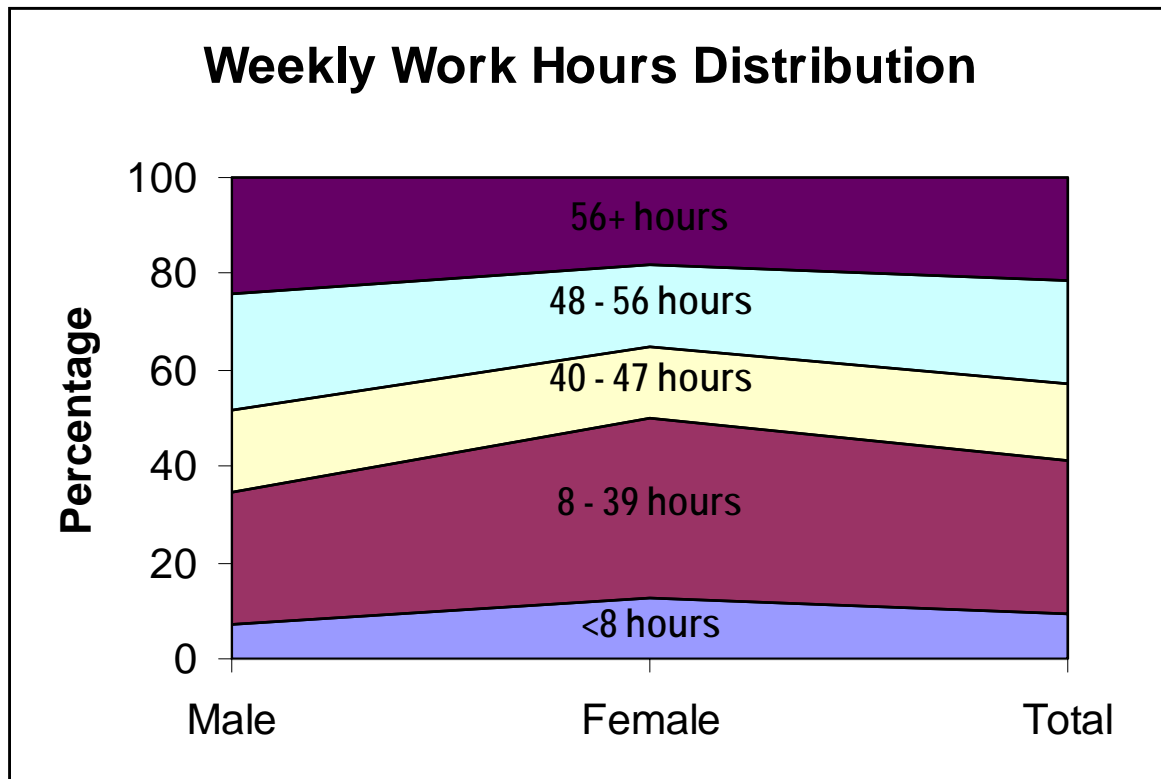
Percentage distribution of employment and Wages and Salaries

| | Employment | Wages and Salaries |
|--|------------|-----------------------|
| Manufacturing of food/beverages | 5% | 16% |
| Manufacturing of textiles and clothing | 79% | 66% |
| Manufacturing of leather and footwear | 11% | 11% |
| All other manufacturing | 5% | 7% |
| Total | 100% | 100% |

This means that the average wages and salaries paid to workers in the textiles and clothing industry are below the average in manufacturing, while wages and salaries are above the average in the food and beverages and all other manufacturing industries [Bureau of Statistics, Lesotho Report No 21:2003 February 2004 Manufacturing 1997-2003, 3rd quarter]

Distribution of employees by weekly hours of work (percent)

| Hours of work | Male | Female | Total |
|---------------|------|--------|-------|
| < 8 hours | 7.3 | 12.6 | 9.6 |
| 8 – 39 | 27.2 | 37.5 | 31.7 |
| 40 – 47 | 17.0 | 14.6 | 15.9 |
| 48 – 56 | 24.5 | 17.2 | 21.3 |
| 56+ | 24.1 | 18.1 | 21.5 |



Source: Bureau statistics.

The labour law of Lesotho states that a worker will work 45 hours a week, with a maximum allowance of eleven hours overtime per week. This law generally gives room for exploitation by foreign employers. Many firms violate the labour laws of the country without being checked by the Department of Labour.

Labour force by industry and gender (percent)

| Industry | Male | Female | Total |
|---|------------|------------|------------|
| Agriculture and forestry | 6.5 | 3.6 | 5.2 |
| Construction | 9.5 | 3.9 | 6.7 |
| Education | 2.2 | 7.4 | 4.5 |
| Electricity, gas, and water | 1.0 | 0.2 | 0.6 |
| Financial intermediation | 0.5 | 0.8 | 0.6 |
| Health and social work | 0.4 | 1.6 | 1.0 |
| Hotels and restaurants | 0.3 | 2.6 | 1.3 |
| Manufacturing and textiles | 3.1 | 9.5 | 5.9 |
| Mining and quarrying | 3.1 | 0.5 | 1.9 |
| Other community, social, and personal services | 0.7 | 1.1 | 0.9 |
| Private household activities | 0.6 | 10.5 | 5.0 |
| Public administration, defense, and social services | 1.8 | 2.3 | 2.1 |
| Real estate, renting, and business activities | 1.1 | 2.0 | 1.5 |
| Subsistence farming | 59.1 | 41.5 | 51.3 |
| Transport, storage, and communications | 4.3 | 0.6 | 2.6 |
| Wholesale, retail, trade, and repair | 5.8 | 12.6 | 8.8 |
| | | | |
| Total | 100 | 100 | 100 |

Source: Labour Force Survey 1997.

Women dominate the clothing and textile industries and the manufacturing, retail and service sectors. More than half of the working population and close to 60% of working males are involved in subsistence agriculture, providing less than 10% of GDP (1996).

Economic performance

The SADC Protocol on Finance and Investment was expected to be finalised by July 2003 and ratified by member states by July 2004. The protocol has the primary objectives of; (i) facilitating the process of integration with regard to finance and investment; (ii) achieving sustainable economic growth and development; (iii) alleviating poverty; and (iv) enhancing the quality of life of all people in the region through integration.

The protocol is particularly aimed at encouraging progress towards regional microeconomic stability through prudent fiscal and monetary policies. It will also lay out framework for co-operation in area of finance among the member states' financial institutions. Lastly, it is also intended to mobilise resources for development as well as promote the formulation of sound policies to enhance savings and investment.

Access to international textile and clothing markets, particularly in the United States under the African Growth and Opportunities Act (AGOA), has led the manufacturing subsector to add more than 15,000 jobs during 2002. Lesotho became a top exporter of apparel to the US in 2003.

Following four consecutive years of negative growth in real gross national income (GNI), a positive increase was realized in 2002. GNI which is GDP plus factor income from abroad, grew by 2,6% in real terms, marginally surpassing the country's population growth rate of 2,3%. GNI per capita also registered a positive annual growth rate of 0.9%. At this level, it fell slightly below the 1.0% growth rate in per capita income targeted by the Government to reverse the trend in the rising incidence of poverty. GNI performance in Lesotho is largely determined by growth of labour income from abroad. Miners' remittances, which constitute the largest share of net factor income from abroad, increased moderately in 2002 as retrenchments of Basotho in the South African mining industry stabilized. The well sustained high price of gold in 2002 helped to increase the number of Basotho employed in the gold industry. The gold price managed to breach the US\$300 mark through the year. Some analysts argue that the gold price will have to be at least US\$350 per ounce in order for the industry to continue to make profits, as well as, expand in short to medium term. Such prices would also further enhance employment prospects for Basotho. At the end of 2002, 62,125 Basotho were employed in the South African mining industry.

The trend in real GDP growth has been attributable to several factors. The first is the reduced production in agriculture, including the quantity and quality of livestock, due to erratic weather conditions. As a result, the share of agricultural output in GDP has dropped from 30% in the early 1980s to 19.1% in 2002. Due to a poor harvest, the country was estimated to face a cereal shortage of 286 000 tonnes in the marketing year 2002/2003. On the 19th April 2002, the Prime Minister of Lesotho Declared a state of famine and appealed for assistance from the international community. A second explanation for the trend is the winding down of phase 1A of the Lesotho Highlands Water Project, leading to reduced output of the building and construction sector. The final factor is the continued restructuring of the South African mining industry, leading to a reduction in employment of Basotho migrant mine workers from 130 000 in 1999 to 62 125 in 2002.

TAX INCENTIVES/EPZ

LRA reported that the Honourable Minister of Finance had approved the proposed tax incentives as indicated below:

- *25% Company Tax*
- *10% tax on manufacturing and farming*

- *0% tax for extra-SACU exporters*

Famine Relief

The Lesotho government has announced a famine relief program that will reduce the impact of the doubled prices of maize to the poor. The program would provide unsifted maize meal at no cost to children, the elderly, and the sick. The unemployed would also receive free unsifted maize meal in exchange for work on public projects. The total cost of the plan is estimated at approximately US\$37 million.

The inflationary pressures were strong in 2002. The inflation rate hit 11,9%, registering double digits for the first time in 7 years. The hike was largely due to: (i) a poor harvest in the SADC region; (ii) a depreciation of 37% in the South African Rand (and, hence, in the Loti); and (iii) a sustained increase in international oil prices. Currently the inflation rate is 6% for December 2003.

The Lesotho Revenue Authority was expected to improve tax revenue collection in its inception in 2003 and it is already reported to have improved customs revenue by 100% at Lesotho border gates.

In terms of social services, Government has steadfastly remained on track to expand the reach of free primary education (FPE). The current budget has raised support to Standard 5 students. Lesotho is on track to meet the goal of universal primary education under the Millennium Development Goals by 2015. FPE is a social safety net that provides nutrition, education, and work for children from poor households or HIV/AIDS orphans, and it is a job-creating scheme that has promoted jobs in catering, construction, and transportation sectors for Basotho entrepreneurs.

The Lesotho Tourism Development Corporation intends to be fully operational in 2004/2005, and will have to be innovative and focused. Its strategy is to develop village-based tourism amenities, especially eco-tourism, which has been identified as a niche through which the country can take advantage of the flow of tourists into the region, thereby creating job opportunities.[Budget-Speech Minister of Finance 16/02/04]