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TIME TO RETHINK WATER DEAL, SAYS LESOTHO

Lesotho is signalling it may rethink its water deal with South Africa—an agreement long seen as mutually beneficial, but one that Maseru now says no longer reflects economic or climate realities also raising questions about fairness, pricing, and who really benefits from one of southern Africa's most critical resources.

The mountain Kingdom of Lesotho is an independent landlocked country surrounded by South Africa, bordering the Free State province. The former British protectorate had its borders protected against the Boers and achieved its independence in 1966.

The country relies on textiles and diamonds for its economy, but it has an abundance of water. And one thing that Africa's economic powerhouse, Gauteng, lacks in abundance is water. So in 1986 at the height of apartheid, a water treaty was signed with Lesotho.

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No public consultation happened at the time between the apartheid state and the landlocked Lesotho. The country now receives millions of dollars in royalties from South Africa, significantly contributing to its GDP. In 2025, Lesotho's GDP was estimated at approximately $2.4 billion.

Joburg's water lifeline
The 1986 treaty was aimed at securing a reliable water supply for Gauteng, but it was signed during the height of apartheid and lacked transparency and detail about how royalties were calculated, as well as the impact it would have on Lesotho's resources, particularly regarding how the water extraction affected local communities and their access to clean water. Over the years, the arrangement has sparked debates about water rights and the equitable distribution of natural resources in the region.

Now to put this in perspective, Lesotho supplies approximately 60% of Johannesburg's water through the Vaal River, and the Lesotho Highlands project is considered an engineering feat. According to research done by Prof. John Aerni-Flessner, the Lesotho Highlands project "transfers, via gravity-fed tunnels under the mountains, billions of litres of water a year to South Africa." It is estimated to transfer about 800 million cubic meters of water. To put this figure into perspective, imagine 508,000 Olympic-sized swimming pools; that is the amount of water supplied by the highlands project, and without it, Johannesburg will not be able to function as South Africa's economic powerhouse. The project not only plays a crucial role in sustaining the water supply for Johannesburg but also highlights the intricate dependencies between South Africa and Lesotho.

Rethinking the royalty deal
Lesotho's population is about 3 million people and its economy is a fraction of that of its bigger neighbour South Africa. It relies on textiles and diamond exports. It has long relied on duty free access , for its textiles to the US, but that has changed and the new tariffs have caused havoc for the landlocked country. This has led to significant economic challenges such as reduced export revenues and increased unemployment rates. The government is now under pressure and is exploring several alternative economic strategies, including diversifying its export markets and investing in sustainable agriculture but this will take time.

Water is Life and right now a key income stream for the country, and through the highlands project. It has been a major contributor to the country's GDP. Years later, Lesotho is saying that it is time to re-evaluate the deal to reflect the current economic realities, especially with a compensation framework set to expire in 2044. It is estimated that Lesotho received close to $300 million (about R4 billion) per year; this amount is about 10% of the government's budget.

In an interview with Bloomberg, Lesotho's Natural Resources Minister Mohlomi Moleko said in an interview that the country wants to re-look at the "royalties and compensation for a water-sharing deal. We need to reassess the impact of compensation, ensuring that when someone receives it, their quality of life does not deteriorate. It has to be higher. Therefore, we will revisit that issue."

Currently, royalties are tied to the country's cost savings before shifting to a system based largely on water volumes. Talks with South Africa are due to commence in April. South Africa's Department of Water and Sanitation has remained mum on the issue and has not yet publicly responded to the minister's comments.

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Water expansion plans

Lesotho is crucial to Johannesburg's water security. The city is already experiencing water issues, such as taps running dry owing to inadequate or non-existent maintenance on its water infrastructure.

The Lesotho Highlands Project is also currently expanding with the construction of a new dam and transfer tunnel, funded by South Africa, which will increase the water supply to over one billion cubic meters. The Lesotho Highlands Water Project Phase 2 (LHWP2) is aimed at securing affordable water supplies across Gauteng, the Free State, and North West. Phase 2 of the water transfer part involves building a concrete-faced rockfill dam that is about 165 meters high and a concrete-lined gravity tunnel that is about 38 kilometres long, connecting two different reservoirs.

"These dams could have been built in South Africa," Lesotho's Moleko stated, adding that the review will evaluate whether the financial returns adequately benefit his nation. It is clear that Lesotho recognises the significance of this expansion for South Africa and are considering the potential impact of increased royalties for their country. Last year, South Africa's water minister, Pemmy Majodina visited Lesotho and Phase 2 of the project is set to be completed by 2028.

Once completed, Phase 2 will increase the annual water transfer from Lesotho to South Africa by an additional 490 million cubic meters, raising total transfers from the current 780 million cubic meters per year to 1260 million cubic meters per year.

With these numbers, it is evident that South Africa cannot do without Lesotho and Lesotho knows the stakes. The talk of re-looking at the royalty deal points to a country struggling with its economy, as Lesotho relies heavily on these royalties for its financial stability and development.

However, Phase 2 has had several setbacks. According to local media reports, construction had to be halted because a contractor was polluting nearby rivers and the Katse Dam, which contaminated crucial drinking water supplies with acidic wastewater. There've also been several delays in the project and costs have ballooned, primarily due to the environmental issues caused by the contractor's pollution, which has necessitated additional regulatory compliance and remediation efforts.

These setbacks have raised concerns among community members and environmental advocates, prompting calls for stricter oversight and accountability.

Tariff cuts and other economic woes

According to an African Development Bank (AfDB) Country Focus released in July 2025, In 2024 the country's economic growth was 2.4%; it dropped to 1.1% in 2025 and is expected to be 0.5% in 2026.04.06

The AFDB argued that the slowdown was driven by 'declining Southern African Customs Union revenues, a decrease in foreign aid, and rising trade-related risks, including the US trade tariffs, as well as the sudden cancellation of US aid.'

Textiles provides the majority of jobs in the country and is also Lesotho's largest private employer; it retrenched thousands of workers and saw the closure of factories.

> LESOTHO WILL MOST CERTAINLY DEMAND A FAIRER PRICE FROM SOUTH AFRICA FOR ITS WATER RESOURCE WHEN NEGOTIATIONS RESUME THIS MONTH

Despite the 15% tariff, factories are still shutting down, arguing that they are now less competitive. Under the Africa Growth and Opportunity Act, AGOA, the country's textiles paid no duties.

With Africa's economic outlook appearing bleak for countries like Lesotho, it seems they have no option but to explore their resources to ensure they can maintain essential services in the country. This exploration may involve diversifying their economic activities, such as investing in agriculture or tourism, to create new job opportunities.

Lesotho will most certainly demand a fairer price from South Africa for its water resource when negotiations resume this month.

In March, speaking at the South Africa Investment conference in Johannesburg, President Cyril Ramaphosa told investors that the Lesotho Highlands Water Project will be managed by a new national agency.

Ramaphosa told Lesotho's Prime Minister, Ntsokoane Samuel Matekane, that "God and providence have given them something free that just falls on their mountains and they now sell it to us. It is extraordinary," Ramaphosa said.

"What you get free from nature you now package and sell to us and you [PM] then ask us to build the dam and bring free water to Gauteng and then you want money from it," the Prime Minister answered.

"That is what small countries do," Ramaphosa added.

The country's decision to implement water royalties seems to arise from its necessity for economic survival. This move is clearly also intended to ensure sustainable management of water resources while also generating revenue for the country. Lesotho may well demand a fairer price for its water, but economic realities mean those negotiations with South Africa will be difficult and hard-fought. South Africa holding economic leverage so the negotiations will be anything but easy.

- Crystal Orderson is the Executive Producer at AJ+, a journalist and analyst, and a Pritzker Fellow at the Institute of Politics at the University of Chicago. She is based in South Africa.

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