Sovereign Debt News Update No. 185: Between Debt Relief and New Borrowing: China’s Waiver and the World Bank’s Financing in Lesotho’s Evolving Debt Landscape

By:

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In April 2026, Lesotho’s debt trajectory entered a significant moment following the announcement that the People’s Republic of China waived two interest-free loans amounting approximately M214.466 million (approximately US$11.8 million) in debt owed by the Kingdom of Lesotho. Presented by both governments as a gesture of solidarity and friendship, the waiver has been welcomed as immediate fiscal relief for a country navigating mounting economic vulnerabilities, constrained fiscal space, and growing pressure to finance development priorities. Yet, beyond the diplomatic symbolism, the development raises deeper questions about the structure of Lesotho’s debt, the sustainability of its financing model, and the extent to which episodic debt relief

can address structural vulnerabilities rooted in dependence on external borrowing, volatile revenues, and underperforming domestic growth. For Lesotho, the central policy challenge is not merely the cancellation of one debt obligation, but whether such relief creates meaningful space for transformative economic recovery or simply postpones deeper fiscal pressures.

The debt waiver also comes at a time when Lesotho remains heavily exposed to external shocks. The economy continues to face pressures linked to declining diamond revenues, uncertainty in textile exports, climate-related vulnerabilities, and dependence on Southern African Customs Union receipts. While debt relief from bilateral creditors may ease short-term repayment obligations, long-term sustainability depends on broader structural reform, stronger domestic resource mobilisation, and strategic public investment. This update examines the significance of China's debt waiver, Lesotho's wider debt position, the role of multilateral financing including new World Bank support, and the broader political economy implications for debt justice and sovereign fiscal autonomy.

China's Debt Waiver and the Politics of Bilateral Solidarity

China formally waived M214 million (US$11.8 million) owed by Lesotho in a move announced by the Lesotho government through the Ministry of Foreign Affairs and International Relations. The waiver followed high-level diplomatic engagement between the two states and was framed as an outcome of longstanding bilateral cooperation. According to a statement by the government of Lesotho, the loans had been extended to Lesotho under bilateral cooperation agreements signed in 2011 and 2012. An amount of M119.805 million (approximately US$6.6 million), agreed on 20 December 2011, was allocated for the refurbishment of the Maseru Manthabiseng Convention Centre. This project aimed to enhance the country's capacity to host national, regional, and international events. A second loan of M95.904 million (approximately US$5.3 million), signed on 27 June 2012, funded the JUNCAO Mushroom Cultivation Project under the Ministry of Agriculture. The project introduced modern agricultural techniques, enabling farmers to adopt efficient, low-cost mushroom production methods while strengthening food security and livelihoods. These loans were due for repayment by the end of December 2024.

The government stated that the decision reflects "*the strong and enduring friendship between Lesotho and the People's Republic of China.*" Chinese debt relief in African countries has often been positioned as development-oriented diplomacy, combining financial relief with strategic geopolitical engagement. In Lesotho's case, the waiver immediately reduces obligations owed to a bilateral creditor, lowering short-term repayment pressures and freeing limited fiscal resources for competing national priorities.

Chinese debt cancellation in Africa often attracts polarized commentary. On one side, Beijing is portrayed as offering flexible relief through bilateral negotiation. On the other, critics caution that debt write-offs should not obscure broader dependency dynamics tied to infrastructure finance and strategic lending relationships. In Lesotho's case, the waiver has been publicly welcomed, but the size of the relief should be understood relative to total debt exposure. While M214 million (US$11.8 million) is significant in local fiscal terms, it constitutes only a fraction of Lesotho's overall debt burden. As such, the waiver offers relief but not transformation. It reduces immediate obligations without fundamentally altering the structural debt trajectory. This distinction is critical in evaluating the long-term significance of the announcement.

Lesotho's Wider Debt Landscape

To understand the significance of the waiver, it is necessary to situate it within Lesotho's broader debt profile. According to the 2026/27 budget speech delivered in February 2026 by Finance Minister Retselisitsoe Matlanyane, Lesotho's total public debt stood at approximately M22.7 billion (approximately US$1.25 billion), equivalent to 50% of GDP, as of the end of January 2026. This marked a decline from M23.4 billion (US$1.29 billion) in the previous fiscal year. The government noted that external debt constituted 83.1% of total debt, while domestic debt accounted for 16.9%. Importantly, the external debt portfolio remains largely concessional, with 88% contracted on concessional terms, reducing immediate repayment risks but not eliminating vulnerability to future external shocks.

The government further acknowledged that Lesotho remains at moderate risk of debt distress, with limited capacity to absorb major shocks. This assessment is consistent with broader concerns among debt justice advocates that even

concessional borrowing can become unsustainable when economic growth remains weak, and export earnings stagnate. Finance Minister Matlanyane stated that "*borrowing will remain prudent and strategic*," adding that government will prioritise concessional financing for high-impact projects. While this commitment signals fiscal caution, it also underscores the continued reliance on external finance to fund development priorities. Debt sustainability therefore remains closely tied to whether borrowed resources generate productivity gains sufficient to improve repayment capacity over time.

The fiscal picture is further complicated by Lesotho's dependence on volatile revenue streams. Southern African Customs Union receipts remain a major revenue pillar, while water royalties and mining proceeds are highly cyclical. The finance ministry explicitly warned that the country can no longer rely on "*episodic growth, preferential access, or external financing to sustain jobs and public services.*" This acknowledgement is significant as it reflects growing recognition within government that debt sustainability is inseparable from structural transformation. Without diversification, external financing risks becoming a mechanism for stabilising crisis rather than supporting development.

World Bank Financing and New Borrowing Pressures

Even as China cancels debt, Lesotho continues to access new development financing from multilateral institutions. On the 19th of June 2026, the World Bank approved US$55 million to support Lesotho's economic development and resilience efforts. The financing is intended to strengthen economic transformation, improve public sector effectiveness, and support growth-enhancing investments. Such financing is often presented as essential for development, particularly where domestic fiscal space is constrained. However, from a sovereign debt justice perspective, new lending must always be evaluated alongside repayment capacity and social consequences. The coexistence of debt relief and new borrowing illustrates a recurring pattern across many African economies. Bilateral relief may reduce liabilities on one side while multilateral lending increases obligations on another. This can create the appearance of fiscal improvement without materially reducing long-term debt dependence. The core issue therefore is not simply gross debt reduction, but the terms, uses, and macroeconomic consequences of new financing. For

countries like Lesotho, debt sustainability frameworks should not be reduced to debt-to-GDP ratios alone. They must also consider development needs, social vulnerability, climate exposure, and employment pressures. Sustainable debt management should enhance developmental capacity rather than merely preserve repayment discipline.

Spending Efficiency and the Question of Fiscal Space

An important issue in evaluating the value of debt relief is state capacity to effectively utilise fiscal space. A June report from Auditor-General Mathabo Makenete on Lesotho's consolidated financial statements for the year ended March 2024. Specifically, the Competitiveness and Financial Inclusion Project (CAFI) project revealed that only 41% of the allocated budget had been spent. This raised concerns about execution bottlenecks, institutional inefficiencies, and absorptive capacity constraints. This is particularly relevant in debt discussions as access to financing alone does not guarantee development outcomes. Weak project execution can reduce the growth impact of borrowed resources and undermine the economic returns necessary to sustain future debt servicing

The CAFI spending issue highlights a broader challenge facing many governments under debt pressure: the problem is often not just insufficient resources but also constrained implementation capacity. Delays in project execution, procurement inefficiencies, and institutional bottlenecks can prevent financing from translating into measurable socioeconomic gains. If debt relief creates fiscal space but governance constraints prevent efficient allocation, the developmental impact remains limited. This makes public financial management reforms central to debt justice conversations. While creditors frequently focus on repayment, equal attention should be given to strengthening state capacity to deploy public resources effectively and equitably.

From an AfSDJN perspective, debt sustainability should therefore be understood as both a financing issue and a governance issue. Relief measures like China's waiver matter, but their impact depends heavily on institutional capability and political choices. Fiscal space enables by support such as that from the World Bank can also either support transformative investment or disappear into

recurrent inefficiencies. Transparency, accountability, and parliamentary oversight become essential in ensuring debt relief translates into tangible developmental gains.

Conclusion

China’s waiver of M214 million in debt owed by Lesotho represents an important moment of fiscal relief and diplomatic significance. The decision eases immediate repayment pressures and offers the government some breathing room in a difficult macroeconomic environment. While modest in relation to total public debt, the relief nonetheless represents a concrete reduction in repayment obligations at a time when fiscal space remains tightly constrained and development pressures are intensifying. It also underscores the continued relevance of bilateral debt diplomacy in shaping short-term liquidity conditions for small, open economies such as Lesotho, where even relatively limited sums can translate into meaningful budgetary flexibility for priority expenditures.

At the same time, the waiver must be situated within the wider and more complex reality of Lesotho’s debt landscape, where external obligations remain dominant and new financing continues to enter the system through multilateral channels such as the World Bank’s US$55 million concessional support. In addition, persistent challenges in expenditure absorption, as reflected in under-executed development programmes, highlight that the central constraint is not only financing availability but also institutional capacity and policy execution. This dual reality reinforces the need to understand debt relief not as an endpoint, but as one component within a broader cycle of financing, reform, and structural adjustment.

Ultimately, Lesotho’s experience illustrates that debt relief measures, whether bilateral or multilateral, must be evaluated not only by their nominal value but by their ability to expand genuine fiscal sovereignty and development space. The challenge going forward is to ensure that such relief is translated into durable economic transformation rather than temporary fiscal reprieve, in a context where debt dynamics continue to reflect deeper questions of global financial governance, development justice, and economic resilience.

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