

**ABSTRACT**

When the developing countries have relaxed their FDI regimes, the latent potential of FDI to spawn economic development remains in the type of governance that a particular country has adopted. It is not about the regime type (democracy or autocracy) but whether the type of governance has capabilities of improving human abilities. The type of governance with requisite strategies to accelerate development beyond the rhetoric of the so called good governance is essential for building a strong developmental state.

This study investigates the relationship between FDI and governance and its impact on economic development in Lesotho. Central to the debate, the study brings the importance of a role of the state in accelerating development. It compares both the market enhancing governance (good governance) and growth enhancing governance in order to distinguish a difference in the contribution that FDI makes towards economic development of Lesotho. It finally compares Lesotho with its peers in the sub-Saharan Africa which are at the same as Lesotho in relation to income size as classified by the World Bank.