THE AGOA RESPONSE STRATEGY FOR LESOTHO

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List of Abbreviations

ADF – AGOA Development Fund
Afreximbank – Africa Export – Import Bank
AGCI – African Global Competitiveness Initiative
AGOA – African Growth and Opportunity Act
ALAFA – Apparel Lesotho Alliance to Fight Aids
ASC – AGOA Steering Committee
ASEC – AGOA Secretariat
ATC – Agreement on Textiles & Clothing
CAO – Chief Accounting Officer
BEDCO – Basotho Enterprise Development Corporation
BFVC – Basotho Fruit & Vegetable Cannery
CBL – Central Bank of Lesotho
CMT – Cut, make & trim
DFQF – Duty Free Quota Free
DCCS – Duty Credit Certificate Scheme
EU – European Union
FDI – Foreign Direct Investment
GDS – Global Development Solutions
GoL – Government of Lesotho
GSP – Generalised System of Preferences
HTS – Harmonised Tariffs Schedule
ILO – International Labour Organisation
IMTT – Inter-Ministerial Task Team
IPA – Investment Promotion Agency
LDC – Least Developed Country
LHWP – Lesotho Highlands Water Project
LNDC – Lesotho National Development Corporation
LIEA – Lesotho Industrial Exporters Association
LRA – Lesotho Revenue Authority
LTEA – Lesotho Textiles Exporters Association
LWMA – Lesotho Wool & Mohair Association
MASCON – Maseru Container Terminal
MDGs – Millennium Development Goals
MDPJS – Ministry of Defence, Police & Judicial Security
MF – Ministry of Finance
MGSR – Ministry of Gender, Sports & Recreation
MET – Ministry of Education & Training
MFN – Most Favoured Nation
MHA – Ministry of Home Affairs
MLGCA – Ministry of Local Government & Chieftainship Affairs
MoET – Ministry of Education & Training
MPWT – Ministry of Public Works & Transport
MSME – Medium Small and Micro Enterprise
MSTQ – Metrology, Standards, Testing & Quality Assurance
MTI – Ministry of Trade and Industry
MVA – Manufacturing Value Added
NORAD – Norwegian Development Agency
NSDP – National Strategic Development Plan
NTR – Normal Trade Relations
OBFC – One-Stop Business Facilitation Centre
OBM – Original Brand-Name Manufacturing
OE – Open-ended
OEM – Original Equipment Manufacturing

ODM – Original Design Manufacturing
OECD – Organisation for Economic Cooperation & Development
OPIC – Overseas
PMF – Performance Management Framework
PSCED – Private Sector Competitiveness & Economic Diversification
RCA – Revealed Comparative Advantage
RMA – Results Management Approach
RTB – Revealed Trade Barriers
RS – Ring-spun
RSA – Republic of South Africa
SAIBL – South African International Business Linkages
SACU – Southern Africa Customs Union
SADC – Southern Africa Development Community
SARS - South African Revenue Services
SME – Small Medium Enterprises
SPS – Sanitary and Phytosanitary
SSA – Sub-Saharan Africa
SWOT – Strengths, Weaknesses, Opportunities & Threats
TPP – Trans-Pacific Partnership
TSB – Technical Sub-Committee
USTDA – United States Trade & Development Agency
USAID – United States Agency for International Development
USTR - United States Trade Representative
VAT – Value Added Tax
VSI – Vertical Specialisation Index

1. Executive Summary

The Government of Lesotho (GoL) has decided to prepare a National AGOA Response Strategy with the overarching objective of improving and up-scaling the implementation of AGOA and establishing a diversified manufacturing sector in response to the anticipated extension of the existing AGOA agreement. After 13 years of implementation of AGOA, Lesotho has managed to establish one of the largest textile and garment manufacturing industry in Sub-Saharan Africa (SSA), which has also turned out to be the biggest employer in the country. Until recently, it has consistently been the number one exporter of apparel to the US under AGOA among the SSA countries. This achievement has been no small feat and the GoL is doing everything within its means to protect and sustain the industry, more so because of its labour intensive nature and largely employing women.

Despite the commendable performance, Lesotho has only managed to utilise a minuscule portion of the potential benefits of AGOA. It is for this reason that the GoL has deemed it appropriate to prepare a strategic response to AGOA on how it plans to utilise this preference till 2025. A number of reasons have been identified that have contributed to Lesotho not realising its full potential benefit and these include, supply-side constraints; lack of managerial and technical skills; poor infrastructure; weak firm-level competitiveness; inability to compete internationally; thin and shallow value chains resulting in importation of most inputs and hence, the low local value added.

The main objective of the national strategy on AGOA is to address the competitiveness constraints faced by Lesotho in order to unlock the full potential the country can acquire by 2025. Besides maximising the benefits of AGOA and access to the US market, the strategy is also about enabling Lesotho to compete regionally and internationally so as to diversity its export market. The strategy focuses on the internal, rather than external, initiatives and interventions that Lesotho can proactively undertake to unlock its supply-side constraints and metamorphose from a consumption economy into a dynamic export-led economy.

This strategic report is divided into eleven main sections. Section 1 is the executive summary and provides a summary of the report and its findings. Section 2 is the introduction which covers a brief history and background of AGOA. Section 3 or Element 1 presents a brief but broad overview of the economy before and after AGOA in order to identify the impacts of AGOA. It also critically evaluates the impact of AGOA in terms of its achievement against goals and objectives. The economic performance of Lesotho before AGOA has been dominated by two sectors, namely, agriculture and manufacturing. However, agricultural performance has been characterised by large fluctuations and a declining value- added. The manufacturing sector on the other has since the mid-1990s being growing quite strongly owing to the relocation of many Asian industrialists in the apparel sub-sector from South Africa to Lesotho. The momentum in the growth of the sub-sector was bolstered by the introduction of AGOA by the US government which Lesotho signed in 2001. The impact of AGOA was immediate. From a growth rate of 17.7% in 2000, by 2001 the manufacturing sector grew by 26.6% and peaked at 29.7% in 2002.

The objectives of AGOA are critically analysed against actual performance from 2001 to date. There were five main objectives behind AGOA and these were export growth and diversification; stimulation of light manufacturing industry; attraction of US foreign direct investment and joint ventures with local SMEs; development of a sustainable apparel sector; and employment creation.

In as far as export growth is concerned, Lesotho has been a winner. From US$129.5 million in 2001 exports to the US increased to a peak of US$447.6 million in 2004 before tapering off to an average of US$330.0 million to date. Export diversification has been and continues to be one of the main challenges faced by Lesotho. The main reason is the predominance of cut, make, and trim (CMT) types of investments in Lesotho's apparel industry. Most of these firms work on sub-contract basis and simply take orders from their headquarters in the Far East or main suppliers whose policy is to supply entry level garments to the US mass market. This kind of production relationship thwarts innovative product upgrading.

The objective of stimulating light manufacturing industry in Lesotho has been successfully achieved in the form of the textile and garment industry. This industry alone now accounts for around 50% of total exports from a peak of 83% in 2002. It has also surpassed government as the largest employer in the country and its sectoral value added is among the largest. Lesotho has not been successful in attracting US investment and SME joint ventures in the apparel sector or other sectors. One of the reasons could be that not much effort was put behind this objective because of focusing more on infrastructure development to support the apparel industry. In terms of establishing a sustainable apparel industry beyond the expiry of AGOA, Lesotho has been faced with a number of challenges as the industry still remains extremely vulnerable to the vagaries of AGOA. With regard to employment, especially among women, AGOA has been a great success in Lesotho. From 35,917 in 1999, employment by LNDC-assisted companies had grown to 47, 971 in 2013 having peaked at 51,187 in 2003. Assuming a monthly wage of US100 per month, the yearly income generated by the industry translated to US57.6 million in 2013. In 2013, assuming each worker cares for about 5 other members of the extended family, that amount of income benefited about 240,000 individuals which is about 13% of the total population.

After evaluating the performance and impact of AGOA on the economy, an analysis for identification of potential core sectors was conducted as presented in Section 4. Section 4 or Element 2 actually provides evidence-based analysis for identifying sectors that have the potential to produce products that are competitive as exports under AGOA. The analysis also includes products that are competitive as intermediate exports to other AGOA eligible countries for further processing for export to the US. The first point of departure was to conduct a sectoral analysis of exports whereby it was observed that apparel exports in Lesotho account on average, for about 90% of total exports to the US. The second step was to breakdown the apparel exports with the objective of identifying specific apparel products that Lesotho has a competitive advantage to produce and can therefore expand her export capacity. Previous studies using conventional approaches such as the revealed comparative approach (RCA) were reviewed to shed some light on apparel products with highest potential to export. Apparel products that Lesotho is undersupplying and apparel products with competitive advantage but not produced have been identified using some of these empirically tested methods.

Besides the apparel sub-sector, other sub-sectors with high potential to export but not currently exporting were identified. Their identification was based on their historical and current performance as well as on their recognition in the National Strategic Development Plan (NSDP). These were footwear and leather goods, horticulture and agro-processing, wool & mohair, mining and quarrying, and handicrafts. Most of these sub-sectors including the apparel sub-sector have a significant presence of SMEs. AGOA supports SMEs that have export potential but unfortunately this potential has not been exploited in Lesotho.

Subsequent to the identification of the priority sectors and their sub-sectors, a value chain analysis (VCA) based on previous studies, was conducted for all the sub-sectors to identify their critical competitiveness binding constraints.

Section 5 or Element 3 presents the strategies for supporting the identified priority sectors and sub-sectors. Based on the VCA identified binding constraints, the Results Management Approach (RMA) was used to logically determine strategic objectives for support and then decide on specific actions and resources needed to achieve them. It is expected that the RMA approach would subsequently make it relatively easy to monitor and evaluate performance.

Section 5 commences with the identification of strategic areas for supporting the apparel sub-sector both in the short and medium to long-term and subsequently presents a logical framework highlighting strategic objectives, purpose of the intervention, expected output, activities, and inputs required for the activities. Based on the VCA and interviews with relevant stakeholders, the following have been identified as critical areas for which strategies have to be devised to support the competitiveness of the apparel sub-sector in the short-term.

- Advocacy and articulation of the negative implications of the Trans-Pacific Partnership (TPP) agreement on Lesotho and SSA
- Improvement of labour productivity
- Production process upgrading
- Reduction of import/export costs
- Trade facilitation
- Infrastructure development
- Reduction of expatriate staff, and
- Efficient issuance of visas and permits.

In the medium to long-term, strategic support to the sector should be aimed at:

- Product diversification
- Technical upgrading
- Transformation of the apparel sector
- Development of local and regional value chains
- Skills and Training development
- Localisation of sourcing and distribution, and research and development
- Development of incentives programme
- Infrastructure development
- Development of funding mechanisms, and
- Upgrading of technical support institutions.

The RMA framework was then applied on each of the above critical areas for support, in order to align objectives with expected results.

One of AGOA's objective was to increase foreign direct investment flows between Lesotho and US. Section 6 or Element 4 of this report reviews the performance of US FDI flows in Lesotho and then presents strategies to promote it. According to this section, US investment in Lesotho has not lived up to expectations, the main reason being there was never a well structured promotion plan by Lesotho to attract such investment. Further, US investment flows in SSA have mainly been biased towards the mining and petroleum sectors.

The proposed strategic objective is to establish alliances with US trade and investment promotion institutions with the intention of knowing the US investment market better so that appropriate moves can be made to target relevant US companies. The expected outputs from this strategy are joint ventures between US and Lesotho SMEs in the proposed potential export sectors, diversified exports, skills transfer, technical upgrading, export market intelligence and increased local employment.

Section 7 or Element 5 presents the proposed institutional framework to support the successful implementation of AGOA in Lesotho. In 2004 an Inter-Ministerial Task Team (IMTT) was established by GoL to support the development of the apparel sector in Lesotho. The IMTT was composed of ministers from ministries that are directly or indirectly related to the apparel sector. Also represented were relevant parastatals, the private sector, and labour unions. The IMTT was chaired by the Minister of Trade and Industry Below the IMTT was the Technical Committee composed of officials from all institutions represented in the IMTT and chaired by the Principal Secretary of MTI. Below the Technical Committee were sub-committees assigned to the following activities:

- Infrastructure
- Foreign Exchange
- Import/Export Clearance
- Work and Residence Permits including Security.

The IMTT and its structures have generally performed well and in accordance with their mandate. However, it has since become inevitable that its governance needs to be strengthened. The main weaknesses have been observed as discontinuity and inconsistence in management, lack of focus and weak coordination mechanism, and absence of monitoring and evaluation.

Based on the foregoing, it has been proposed that the IMTT and its structures be restructured in order to address the observed weaknesses. The main change has to do with the formation of the AGOA Secretariat whose primary objective is to plan, coordinate, implement, and monitor and evaluate the performance of AGOA. While the mandate of the IMTT remains unchanged, it is proposed that the Technical Committee be renamed AGOA Steering Committee and its responsibility be to oversee the performance of the AGOA Secretariat on a regular basis on behalf of the IMTT. Another major proposed change is to form Technical Sub-Committees in the following five critical areas:

- Investment and Export Diversification
- Enterprise Development
- Policy Advocacy
- Skills & Training
- Monitoring & Evaluation.

Section 8 or Element 6 presents the monitoring and evaluation framework for the proposed Lesotho Strategic Response to AGOA. It is proposed that the M&E framework should have the following components:

1. A report on the specific outcomes of implementing the Strategy
2. A performance measurement framework which acts as a worksheet for monitoring and evaluation
3. A risk register that assesses the risks of implementing the Strategy
4. A report on key challenges/risks faced in the course of implementing the Strategy.

Section 9 presents the challenges/risks that have the potential to derail the successful implementation of the Strategy. In Section 10 the report ends with a conclusion that re-emphasises the reason why it is important for Lesotho to adopt and resolutely implement a strategy that can best position it to reap maximum benefits till 2025. Section 11 is the annexure.

2. Introduction

The African Growth and Opportunity Act (AGOA) was signed into law by the government of the United States of America (US) on 18 May 2000. In its statement of policy, the US government's objective on AGOA was to increase trade and investment with Sub-Saharan African countries (SSA); reduce tariffs and non-tariffs between the two regions; expand US assistance to SSA's efforts on regional integration; strengthen and expand the private sector in SSA; and facilitate the development of civil societies and political freedom.

Lesotho gained AGOA eligibility on 23 April 2001. It is one of the few Sub-Saharan African countries that have benefited substantially from AGOA through the development of its textile and garment industry. However, it is also important to mention that the benefits of AGOA to Lesotho could have been higher had there been enough capacity to supply more of the 6400 products it had preferential access to the US market. As a time-bound unilateral preferential trade agreement, AGOA was renewed in 2015. It had been expected that at that time Lesotho would have developed a well established manufacturing sector able to supply the US market on a sustainable basis. Not only was the objective of AGOA to catalyse the development of a diversified manufacturing industry and foster economic growth, but it was also aimed at linking Lesotho with the global multilateral trade system, create employment and improve the socio-economic conditions of its people.

It is important to note that eligibility to AGOA preferences is not automatic. It has terms and conditions. To qualify at all times the US has to ascertain that Lesotho meets the following terms and conditions:

- There is a continual progress towards establishing a market-based economy;
- There is rule of law;
- There is elimination of barriers to US trade and investment;
- There are poverty reduction initiatives;
- There is protection of internationally recognised workers rights; and
- Prevention of corruption.

According to a body of investigative research undertaken so far on the impact of AGOA on beneficiary countries, the general conclusion has been that broadly speaking AGOA has not been able to meet its primary developmental objective because of the structural supply-side constraints faced by most Sub-Saharan countries. beyond 2015 it is imperical that beneficiary countries and the US take some drastic measures to render AGOA more effective.

The objective of this report is to develop a response strategy for AGOA utilisation beyond 2015. The purpose and significance of the strategy is to ensure that, Lesotho is well positioned to maximise the benefits from the market access preferences at its disposal. The major factor that could have contributed to the under-achievement of AGOA is the rather simplistic assumption by both the US and Lesotho that the mere presence of AGOA would automatically attract US investors and other investors to Lesotho and develop its manufacturing industry. While that has been partially achieved it has proved not to be. There is a need therefore, for planned and targeted interventions by both Lesotho and the US to effectuate the objectives of AGOA.

To this end, the main objective towards the development of a national strategy for AGOA in Lesotho is to maximise the effectiveness of AGOA by creating a lasting competitiveness advantage in a globalised and knowledge-driven world while at the same time pursuing pro-poor outcomes. The AGOA response strategy focuses on the internal rather than external initiatives and interventions that Lesotho can proactively undertake to unlock its supply-side constraints and metamorphose a consumption economy into a dynamic export-led economy.

The intention of this report is the production of a structured framework for implementing the requirements and achieving the key objectives of AGOA, which more specifically entail the following:

- Identifying priority sectors for support and specific support programs;
- A strategy to increase US investment;
- Strengthening the AGOA institutional infrastructure for Lesotho; and
- Aligning all programme activities to a monitoring and evaluation framework.

2.1 AGOA Background

Signed in 2000 AGOA is a non-reciprocal trade policy instrument whose long term objective is to help foster economic growth and development in SSA by linking the latter with the multilateral trade system but more specifically the US market. AGOA is similar to the US Generalised System of Preferences (GSP) by providing the same tariff benefits and eligibility. The only difference lies in the fact that it covers more products than those in GSP and its eligibility criteria go beyond those of GSP.

The main attraction of AGOA is the duty-free and quota free access to the US market that least-developed countries like Lesotho currently enjoy. In terms of WTO rules and also US intentions, AGOA is not expected to be a permanent arrangement but a transitory launching pad to leverage competitiveness and manufacturing capacities of least-developed countries (LDCs) in SSA. AGOA offers 6400 products duty free and quota free access to the US market. The US Harmonised Tariff Schedule (HTS) includes about 10,500 tariff lines for import products to the US out of which 3, 800 have no most-favoured-nation (MFN) status or are exported to the US duty free. Under the Generalised System of Preferences (GSP), a programme designed to promote economic development in LDCs through preferential access to the developed markets, 4800 products enter the US duty free (B. R. Williams 2013). It is important to explain briefly the nature of AGOA trade benefits so that its expected and actual outputs to Lesotho can be understood in a proper perspective.

2.1.1 Rules of origin

AGOA has rules of origin requirements whereby beneficiary countries can only export duty free if:

- the product is directly exported from the beneficiary country;
- At least 35% of the value of the product is considered to be originating from the beneficiary country (local cumulation);
- Up to 15% of the required 35% may be of US origin or/and the remainder from other AGOA beneficiary countries (regional cumulation).

Under AGOA, LDCs like Lesotho qualify for the **third-country provision** which is a special rule that allows them to export textiles and garments duty free even if they source inputs from non-AGOA beneficiary countries. For purposes of AGOA, an LDC is defined as a country whose per capita income is less than $1,500. However, Botswana, Namibia and Mauritius though middle income countries, have been granted LDC status under AGOA. South Africa is also pushing to qualify under 3rd country provision as well. However, judging by the size of its economy and a relatively well developed apparel sector, such access could have a very harmful effect on Lesotho's fledgling industry.

Lesotho has been designated a beneficiary to AGOA since 2001 subject to meeting the eligibility requirements of the AGOA legislation. The country's eligibility to AGOA is assessed on an annual basis by the US government and has since then been satisfying all the requirements.

2.1.2 Technical Assistance

AGOA also provides beneficiary countries with technical assistance in the following areas:

- Liberalising trade policy;
- Harmonising laws and regulations with WTO membership commitments;
- Engaging in fiscal and financial restructuring;
- Promoting greater agribusiness linkages;
- Developing private sector business associations and networks with US enterprises
- Increasing trade in services; and
- Addressing critical agricultural policy issues.

Through AGOA, the following US development institutions have been put at the disposal of beneficiary countries to offer varied assistance based on their areas of speciality. These are:

- Overseas Private Investment Corporation (OPIC) – OPIC is a US development finance institutions that financially assists US private sector to invest in developing countries.
- US Trade and Development Agency (USTDA) – The USTDA funds and carries out a trade capacity building mandate as part of its mission to support priority trade policies of the US government. All AGOA countries qualify for USTDA assistance.

- Export-Import Bank (Ex–Im Bank) - The Ex-Im Bank is the export credit agency of the US and is obligated to assist AGOA beneficiary countries through its trade finance services offerings.

- United States Trade Representative (USTR) – The Assistant USTR for Africa serves as the official primary contact point between the US and AGOA countries.

- US Foreign Commercial Service (CS) – CS officers are based in SSA to service the needs of US businesses attempting to do business in SSA. In 2012, 5 such officers were posted in SSA, 3 in South Africa, one in Kenya and one in Nigeria.

- US Agency for International Development (USAID) – The USAID funds trade capacity building efforts in AGOA countries through the 3 African Trade Hubs based in Ghana, Kenya and Botswana. The trade hubs are specifically mandated to help potential exporters to become globally competitive and make full use of AGOA benefits. The USAID also supports AGOA countries through the African Competitiveness and Trade Expansion (ACTE) initiative for funding trade and investment efforts.

2.1.3 AGOA Amendments

Since its promulgation in 2000, AGOA has been amended several times either to extend its timelines or improve its articles. The first revision in 2002 referred to as AGOA II, clarified and extended the eligibility of products under the textiles and garments provisions. It also increased the cap for SSA exports of garment products made from regionally sourced fabric.

The third revision in 2004 (AGOA III) made three changes:

- It extended preferential trade treatment to AGOA countries to 2015;
- It extended the third-country provision to 2007, and
- It expanded the definition of LDCs to include Botswana and Namibia.

Again in 2006 AGOA (AGOA IV) was changed or amended as follows:

- Extension of the third-country provision to 2012
- Introduction of the ‘abundant supply’ provision that designated certain denim products as being in abundant supply if produced from 3 million square meter equivalent (SME).

The latest amendments happened in 2008, 2012 and 2015 respectively. In 2008 Mauritius was included in the LDC category and qualified for third-country provision benefit. The third-country provision which was set to expire in 2012 was extended to 2015. AGOA was reauthorized for ten years (2015 - 2025) and was signed into law by the U.S. President on 29 June 2015.

The above is a synopsis of what AGOA stands for and offers. It also forms a basis upon which judgement can be made as to the extent Lesotho has been able to utilise AGOA potential benefits which will be the subject of the subsequent chapters.

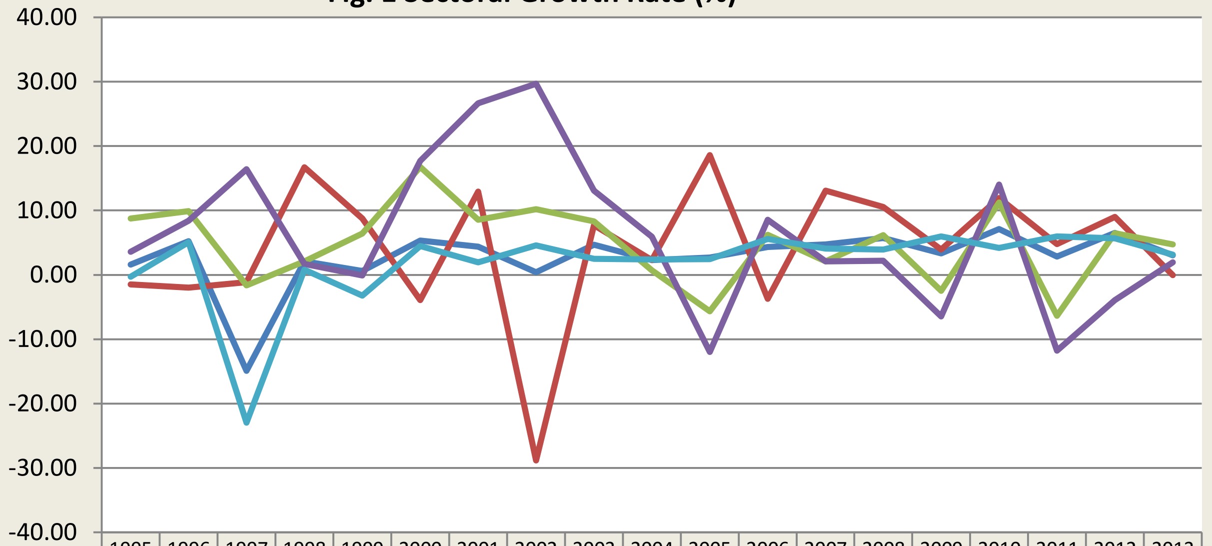
3. Element 1: Review of economic performance before and after AGOA

As shown in Fig.1 below, the economy of Lesotho grew by 2.8% on average per annum in the past nineteen years. This is far below the 7% annual growth rate required to achieve the UN Millennium Development Goals (MDGs). The major sectors of the economy show a roller-coaster pattern of growth with the exception of the tertiary or services sector. The twists and turns in sectoral growth are more pronounced in the primary sector and are mainly attributed to the unpredictable and unstable performance of the agricultural sub-sector. During the review period the agricultural sub-sector grew on average by a paltry 1% per annum which is even below the population growth rate of 1.7%. Given that more than 70% of Lesotho’s population lives in rural areas and subsists on agriculture, it goes without saying that the level of rural poverty has been deepening and could be getting worse. The performance of the primary sector could have been worse had it not been of the resurgence of the mining sub-sector which grew on average by 49% percent per annum from 2000 to 2013. The secondary sector comprising manufacturing; building and construction; and water and electricity, grew by 4.9% on average per annum mainly on the back of the strong manufacturing industry between 2000 and 2004 and building and construction between 2008 and 2013. As can be seen from

Fig.1 between the period 2000 and 2002, manufacturing was the highest growing sub-sector in the country the main reason being that this was the period Lesotho had just joined AGOA and its nascent textiles and garments industry recorded phenomenal growth both in terms of foreign direct investment (FDI) flows and output. However, that growth was short-lived as it nose-dived and shrunk by 12% in 2005. The sharp drop in growth was caused by the expiry of the Agreement on Textiles and Clothing (ATC) end of 2004, which through the dismantling of quotas, saw the entry of very competitive textiles and garments producing Asian countries into the US market.

Fortuitously, albeit coming from a low base, the mining sub-sector grew by 196% and more than offset the decline in the manufacturing industry, and the economy as a whole still managed to grow by 2.7%. Since 2005 the manufacturing sub-sector has been declining because of the lacklustre growth of the textiles and garments industry. Apart from the expiry of the ATC, other factors that adversely affected the performance of the textiles and garments industry were the strong value of maloti and the 2008 global financial crisis. The latter led to a significant decline in demand in the US which then affected Lesotho exports to that country. As mentioned earlier, the only sector that has been stable and consistently recording positive growth with the exception of three years only, has been the services sector. The services sector in Lesotho is mainly dominated by retail trade, tourism, financial services and public social services. However, in the past twelve years since 2001, it has been driven mainly by the post and telecommunications sub-sector, and more specifically the growing ICT and financial services.

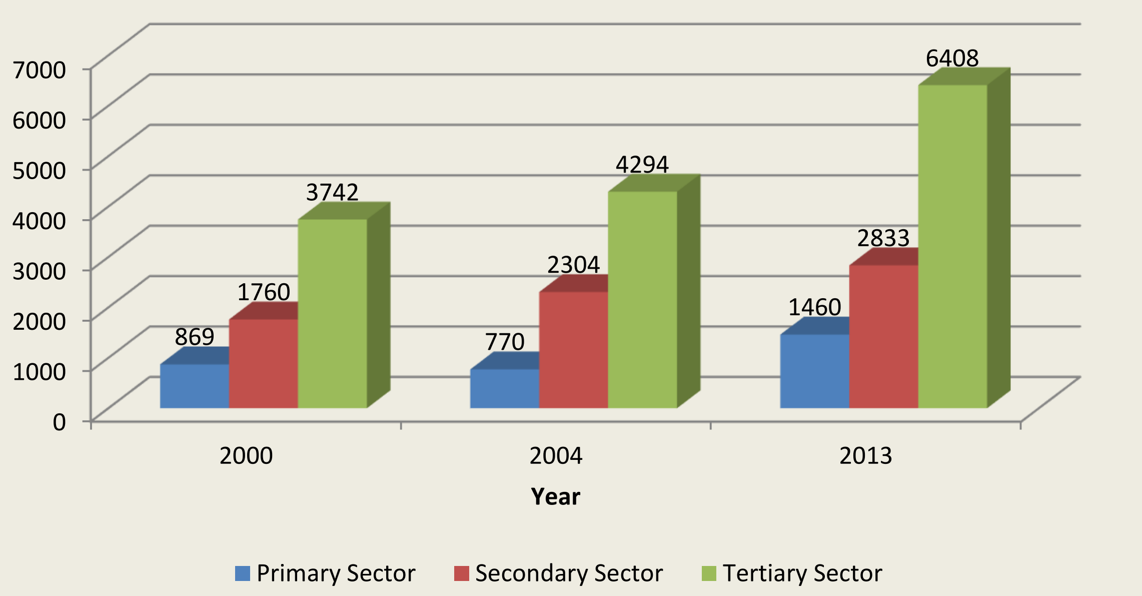
Fig. 1 Sectoral Growth Rate (%)



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GDP Growth rate	1.60	5.22	-14.9	2.10	0.62	5.32	4.38	0.41	4.68	2.29	2.70	4.31	4.73	5.73	3.36	7.09	2.84	6.51	3.03
Primary Sector	-1.51	-2.01	-1.15	16.70	8.73	-3.92	12.94	-28.8	7.73	2.28	18.62	-3.71	13.07	10.53	3.93	11.94	4.78	9.02	-0.03
Secondary Sector	8.76	9.90	-1.62	2.09	6.40	16.74	8.56	10.20	8.28	0.69	-5.68	6.20	2.11	6.18	-2.48	11.25	-6.35	6.45	4.70
Manufaturing	3.56	8.43	16.41	1.67	-0.11	17.71	26.64	29.69	13.08	5.94	-11.9	8.54	2.08	2.20	-6.48	14.02	-11.7	-3.91	1.93
Tertiary Sector	-0.29	5.09	-22.9	0.79	-3.25	4.50	1.94	4.60	2.49	2.39	2.46	5.57	4.09	3.95	5.95	4.20	5.99	5.66	3.14

Fig. 2 below compares the output performance in terms of value added of the three sectors in 2000, 2004 and 2013 respectively. In 2000 prior to Lesotho joining AGOA the value added of the primary, secondary and tertiary sectors stood at M869 million, M1760 million and M3742 million respectively. Obviously the largest sector for all the three periods has been the services sector. In 2004 a year prior to the expiry of the ATC, the secondary sector value added had increased to M2304 million or grown by 31% compared with 15% for services sector and a decline of 11% in the primary sector. During the same period the value added growth of the manufacturing sub-sector was 98%, mainly accounted for by a sharp increase in the production of textiles and garments for export to the US market. Reflecting the effects of the expiry of the ATC and the maloti over-valuation, in 2013 the value added growth for the secondary sector had dropped to 23% on the back of manufacturing that only grew by an annual average of 2% since 2005. Conversely, the primary sector value added grew by almost 90% from 2004 to 2013 reflecting the rebound in the diamond mining sub-sector. The second best sectoral performer was the tertiary sector which grew by 49% between 2004 and 2013 with the main drivers being ICT and financial services as already mentioned.

Fig. 2 Sectoral Performance (Million Maloti)



3.1 Industrial Performance

The industrial sector is commonly defined as composed of manufacturing, mining and construction sub-sectors. As shown in Table 1 below, industrial activity in Lesotho is small (below 30% of GDP) and dominated by manufacturing and construction sub-sectors. What is encouraging however, is to observe that Lesotho's industrial sector has been steadily growing over time. Prior to AGOA to 2000 industrial sector contribution to GDP was 23%. After AGOA it grew to 29% before tapering off to 25.5% in 2013. The decline in industrial sector performance is mainly due to the falling manufacturing output since 2005. It is important to note that mining and construction sectors have been consistently growing since 2005 even though the latter could not reach its 1995 to 2000 climax ascribed mainly to the Lesotho Highlands Water Project (LHWP).

Table 1: Industrial Structure of Lesotho

(Sectoral Value-added as % of GDP)

	1980	1985	1990	1995	2000	2005	2008	2010	2013
Mining	1%	0	0	0	0	2%	3.8%	4.4%	5.4%
Construction	5%	4%	7%	11%	10%	5%	5.1%	5.5%	7.6%
Manufacturing	5%	6%	9%	10%	13%	22%	20%	16.3%	12.5%
Total	11%	10%	16%	21%	23%	29%	28%	26.2%	25.5%

Source: Bureau of Statistics & CBL

3.2 The Manufacturing Sub-Sector

After remaining stagnant for almost two decades, Lesotho's manufacturing sub-sector started gaining momentum in the late 1990s when a number of investors of Asian origin who were operating garment factories in South African Bantustans relocated in Lesotho. This movement was a result of withdrawal of investment incentives by the ANC government after assuming power in 1994. The incentives were introduced by the apartheid regime and were targeted specifically for the Bantustans in order to create employment opportunities for black people and reduce their movement to white designated areas. Coincidentally, the promulgation of the African Growth and Opportunity Act (AGOA) by the US government 2001 accelerated the flow of new investment from South Africa as well and attracted many other investors from Taiwan and China who were after the duty-free and quota free US market preferences that Lesotho enjoyed. By 2005 the contribution of manufacturing value added (MVA) to GDP had grown substantially, from 5% in 2000 to 22% as shown in Table 1 above.

Table 2 Components of MVA as % of total MVA

	1980	1985	1990	1995	2000	2005	2008
Manufacture of food products & beverages	76%	57%	44%	37%	30%	16%	17%
Manuf. of clothing & textiles	4%	8%	31%	36%	45%	70%	64%
Manuf. of footwear & leather	4%	9%	7%	12%	12%	3%	4%
Manuf. of paper, printing & publishing	4%	8%	6%	5%	4%	3%	2%
Manuf. of chemicals, rubber, & plastics	3%	5%	3%	1%	1%	0%	0%
Manuf. of other non-metallic mineral products	3%	4%	3%	2%	2%	1%	1%
Manuf. of fabricated metal products, except machinery & equipment	3%	4%	2%	2%	2%	3%	4%
Manuf. of electric & electronic equipment	0%	0%	1%	1%	3%	2%	7%
Manuf. of wood products & furniture & manufacturing n.e.c	5%	5%	4%	3%	2%	1%	1%
Total	100	100	100	100	100	100	100

Source: Bureau of Statistics

Table 2 above represents the structure of the manufacturing sub-sector in Lesotho. With the exception of clothing and textiles; and electric and electronic equipment categories of manufacturing, all other categories have either declined or stagnated since 1980.The manufacture of food products and beverages was the dominant manufacturing activity accounting for 76% of total MVA in 1980. By 2008 it had dropped to 17%. Conversely, the clothing and textiles activity picked up from only 4% of total MVA in 1980 to 64% in 2008. As mentioned earlier, the growth of clothing and textiles industry in Lesotho has been directly influenced by the enactment of the AGOA. It is encouraging to note that the share of electric and electronic equipment has been also growing, albeit from a low base.

3.2.1 The Textiles and Garments Industry

As the largest and most important industrial sector in the country it is appropriate to provide a broad overview of the textiles and garments sub-sector. As alluded to above, a phenomenal expansion of the sub-sector was observed immediately after Lesotho signed AGOA. In 2005 when the ATC expired there was a slight contraction caused by the closure of some firms. Since 2005 the industry has soldiered on despite some challenges like the uncertainties behind the expiry of the 3rd country provision, strength of the Loti and the global financial crisis. From employment levels above 50, 000 and value added of around 15% of GDP, the industry now employs on average 38,000 workers and its value added has dropped to 12% of GDP. Exports of apparel have since declined from the peak of US$447 million in 2004 and have now, on average, stabilised around US$300 in 2013.
Despite its overall decline, the apparel sector still remains the single most important sector in Lesotho in terms of its contribution to employment, exports and economic growth.

The industry is mainly dependent on FDI which accounts for about 95%. The composition by origin of investors by end June 2014 was 65% from Taiwan/China, 5% from South Africa, 13% from Hong Kong, 3% from Singapore, 3% from Israel and 11% from Lesotho. Within the LNDC portfolio of investments (LNDC-March 2014), the number of firms operating in the apparel sector was 42, and is the same as in the mid-2000s. The majority of firms (88%) are in knitted and denim garments manufacturing, 3% (one firm) in denim fabric production and 9% in footwear manufacturing (LNDC – March 2014). Lesotho boasts one vertically integrated denim manufacturing mill – Formosa Denim Fabric Mill – which produces around 18 million yards of denim fabric and 1,200 tons of yarn per annum. The industry produces about 80 million sme of goods for export and its market size is just above US$300 million.

The local operations are limited to manufacturing only while input sourcing, product development & design, merchandising & marketing, logistics, and relationship with buyers are the preserve of their foreign headquarters and suppliers (K. Fernandez-Stark et al). As a consequence of this pattern of production, the supply chain within the country is extremely shallow. According to Fernandez, the foreign firms in Lesotho, especially Asian ones, do not have any regional strategy, do not build local capacity and are poor in terms of local linkages which generally reflects their quota hopping and footloose strategy. The South African firms on the other hand are mainly in Lesotho for competitive labour costs and they supply mainly the South African market.

3.3 Private Sector and Business Environment

As alluded to above, the private sector in Lesotho is small as it constitutes only 14.7% of GDP (E. Nseera and A. Bahtia 2014). It is dominated by the primary and tertiary sectors and trades mainly raw commodities and retail services. The manufacturing sector, generally considered as the critical component of industry that presents greater opportunities for growth, employment and poverty reduction is very small and shallow (P. Molapo and M. Senaoana

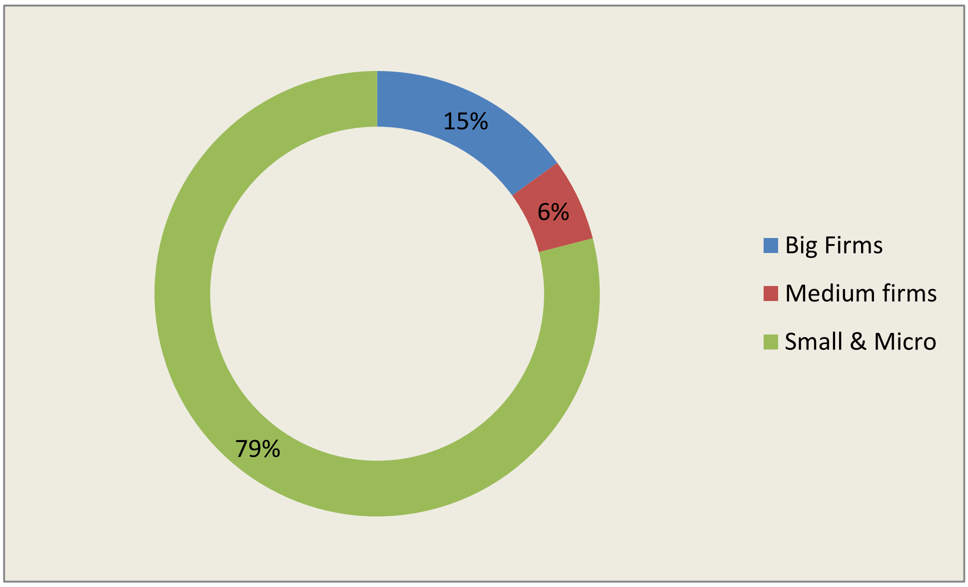
2012). Factors attenuating growth potential of Lesotho's private sector can be classified into two categories viz. structural and investment climate issues. The structural factors include (UNIDO 2008):

- Widespread and rising informal sector
- The 'missing middle' between large and small enterprises
- Limited upward mobility
- Weak value-chains and inter-linkages
- Low productivity and competitiveness
- Lack of innovation.

According to the report entitled 'The State of Small Enterprises in Lesotho' (SBP – 2008), medium, small and micro-enterprises (MSMEs), formal and informal, comprise 85% of the country's private sector and employ about 200,000 people; meaning that big firms account for only 15% of the private sector. In terms of total expenditure, at 40% of GDP, the private sector spends less than the public sector, thus perversely meaning that the public sector is the main driver of the economy in Lesotho.

Within the MSME category, the small and micro-enterprises account for 93% of the total, leaving only 7% for medium enterprises, hence the problem of the 'missing middle'. In terms of the overall economy, it can be concluded that if big firms account for 15% then the share of middle enterprise should be 6%, leaving 79% to small and microenterprise. Schematically the private sector in Lesotho looks as shown below:

Fig. 3 Composition of the Private Sector



The problem of the 'missing middle' is the root cause behind the limited upward mobility and high mortality of small and micro-enterprises because the middle-sized enterprises are under normal circumstances the main link and catalyst for development of critical value chains between big firms and small enterprises.

By definition, if the private sector is predominantly small and micro, it goes without saying that productivity and competitiveness will be low because of technical and technological constraints and by the same token innovation capacity.

Apart from structural factors hampering growth of the private sector as explained above, it is also contended that an unfriendly business regulatory environment can be a disabling factor, hence the need for its reform. According to the World Bank report, Doing Business, Lesotho's position has improved six places from 139 in 2013 to 133 in 2014 out of 189 countries. However, compared with neighbours in SACU Lesotho still lags way behind. Even though there has been an improvement in its overall ranking, out of ten assessment areas there were only three areas that improved, namely registering property, resolving insolvency and trading across borders. Despite the establishment of the one-stop-shop which has so far started very well, there is still a lot of ground to be covered to review archaic laws, improve and streamline systems and processes to cut bureaucratic red tape, and reduce transaction costs of doing business in Lesotho. The target should be to see the overall ranking reduced below 100.

3.4 Review of Expected and Actual Performance of AGOA

This section evaluates the impact of AGOA in Lesotho in terms of its original intentions or expected as against actual outputs since Lesotho signed the agreement in 2001. The purpose is to identify gaps between what was intended and achieved.

3.4.1 Expected Outputs of AGOA

Although no quantitative targets were set to achieve AGOA goals, it was generally expected to meet the following objectives:

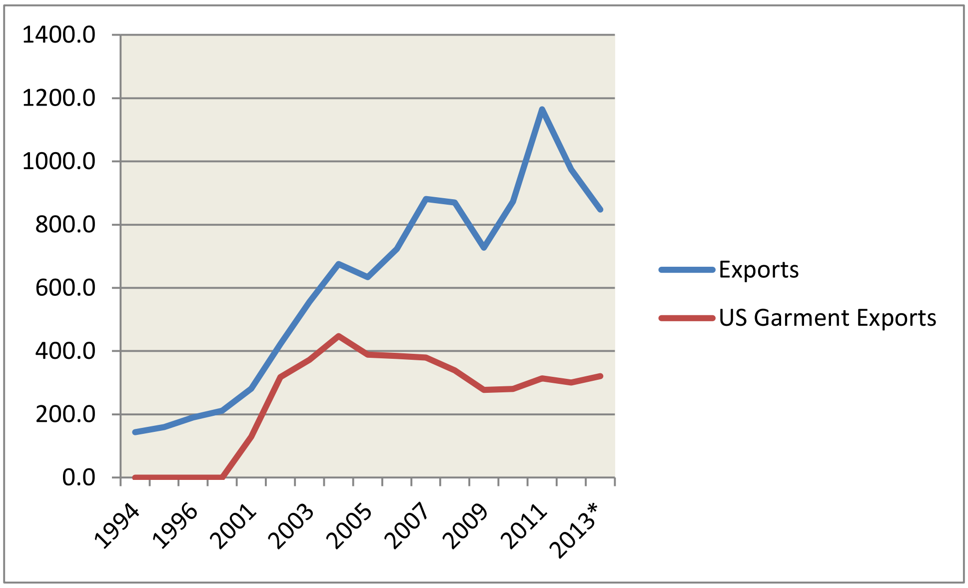
a) Increase and diversify exports to the US;
b) Stimulate growth of light manufacturing industry;
c) Generate employment;
d) Attract and increase US investment in Lesotho
e) Foster the development of a sustainable capacity for Lesotho's manufacturing industry.

3.4.2 Export Performance

Fig. 3 below depicts the performance of Lesotho's total exports against the US garment exports in (US$). After growing rather sluggishly in the mid-1990s, Lesotho's exports started to pick up in the late 1990s because of the relocation of a large number Asian garment manufacturers from South Africa to Lesotho. In 2002 just one year after joining AGOA, Lesotho's total exports grew by 50% while garment exports destined to the US alone registered a 145% growth. These were highest ever annual increases of exports in Lesotho before and after AGOA. In the two subsequent years, 2003 and 2004 although still high the growth rate tapered off to 32% and 22% respectively for total exports and 17% and 20% respectively for US garment exports. With the expiry of the ATC in 2005 Lesotho's garment exports took a big knock and with them total exports. During that year Lesotho lost over ten factories that closed down because they could not bear the pressure of external competition and about 10,000 jobs were lost. Ever since 2005 things were never the same for the textile and garment exports in Lesotho as growth continued to decline. The lowest drop of 18% was reached in 2009 before a slight improvement in 2010 and 2011 which was followed by another drop in 2012. In 2013 there was yet another positive growth of 4% mainly due to a depreciating currency.

As for total exports, despite some ups and downs between 2005 and 2013 the trend has been positively upwards. The major factor behind the strong growth in total exports from 2005 - despite the falling garment exports - was the resurgence of diamond exports. However, since 2012 there has been a sharp drop in total exports.

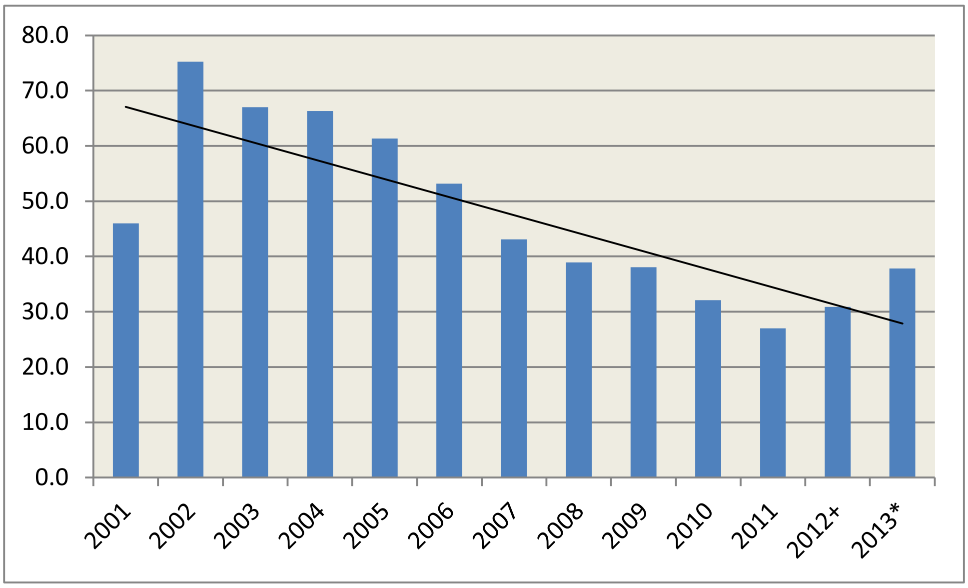
Fig. 4 **Total Exports VS US Garment Exports (US$ '000)**



Source: Central Bank of Lesotho

Figure 5 below presents garment exports to the US as a percentage of total exports. According to this presentation, the impact of AGOA on Lesotho's exports to the US is fairly obvious especially in the early years. What is also obvious is that the early sudden growth could not be sustained. A number of factors could be attributed to the downward trend that was later observed. The first one was the ATC expiry in 2005 as earlier mentioned. The second one was the strong local currency, and the third was the drop in US demand due global financial crisis. It is important to also note that the intermittent changes in the AGOA legislation also had an impact on export performance in Lesotho. Although foreign investors responded well beyond expectations to AGOA in Lesotho, its short-term nature and particularly that of the third-country provision that was extended three times as shown under AGOA background above, caused a lot of uncertainty which from time to time disrupted expansion plans of investors and led to production cuts and consequently a drop in US garment exports.

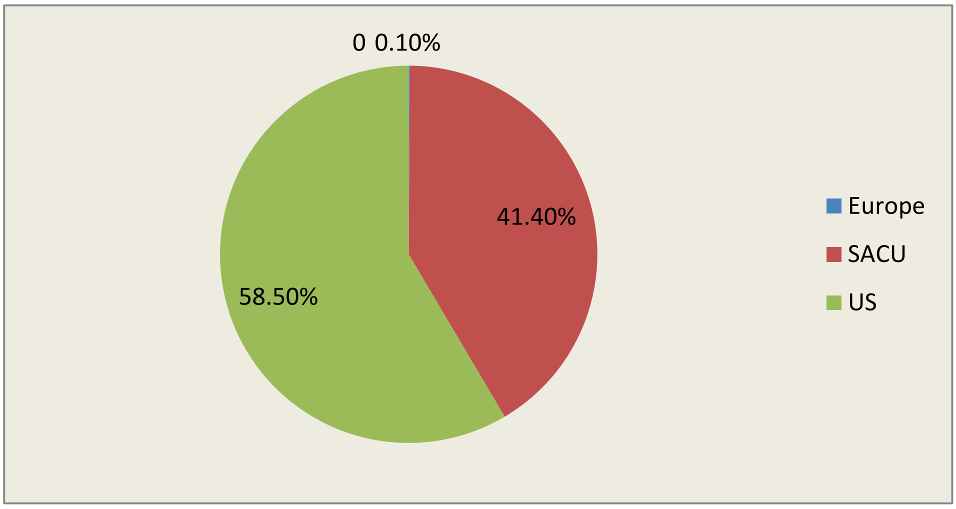
Fig. 5 **US Exports/Total Exports (%)**



Source: Central Bank of Lesotho

Lesotho's direction of trade (including imports) is dominated by South Africa. In 2013 total trade with South Africa constituted 127.1% of the country's GDP compared with 124% in 2000. This indicates the high and increasing level of dependence of Lesotho on South Africa. Interestingly however, as far back as 2000 Lesotho's exports to the US were more than those destined to South Africa as shown in Fig.6. This is explained by the fact that as far back as the early 1990s as mentioned above, Lesotho already had a burgeoning garment industry which had started exporting to the US under the GSP programme.

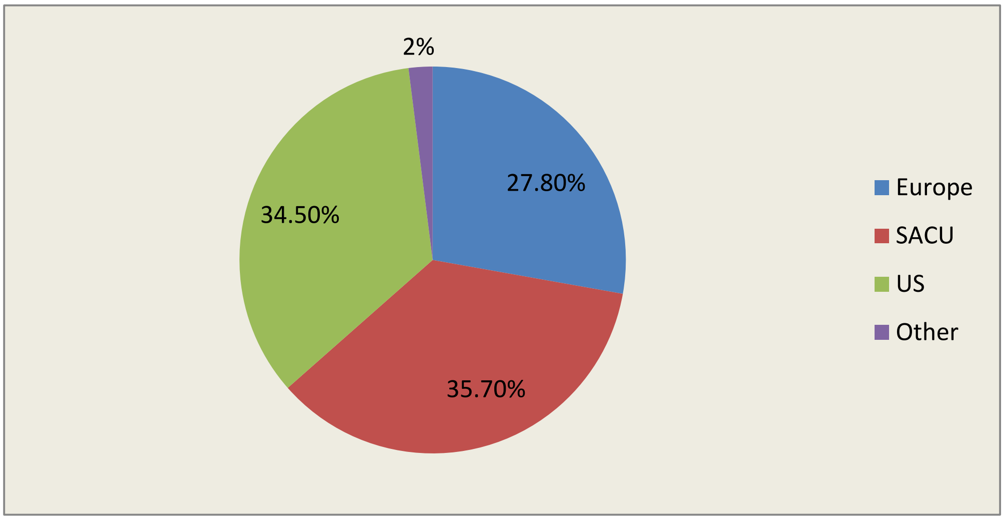
Fig. 6 **Direction of Exports (2000)**



Source: Central Bank of Lesotho

With the advent of AGOA and a relatively competitive investment environment in Lesotho, a number of South African garment manufacturing firms opened new operations in Lesotho and exported most of their products to South Africa. Furthermore, the temporary nature of AGOA and its intermittent revisions as earlier mentioned, unsettled most of the Asian investors who then decided to divert some of their production for the South African market. Hence the increase in SACU exports that by 2013 had overtaken those destined to the US as shown in Fig.7 below. It is equally telling to note that the share of exports to the EU which in 2000 was a mere 1% had substantially increased to 27.8% by 2013. This development is largely explained by Lesotho's diamonds which are all exported to Europe.

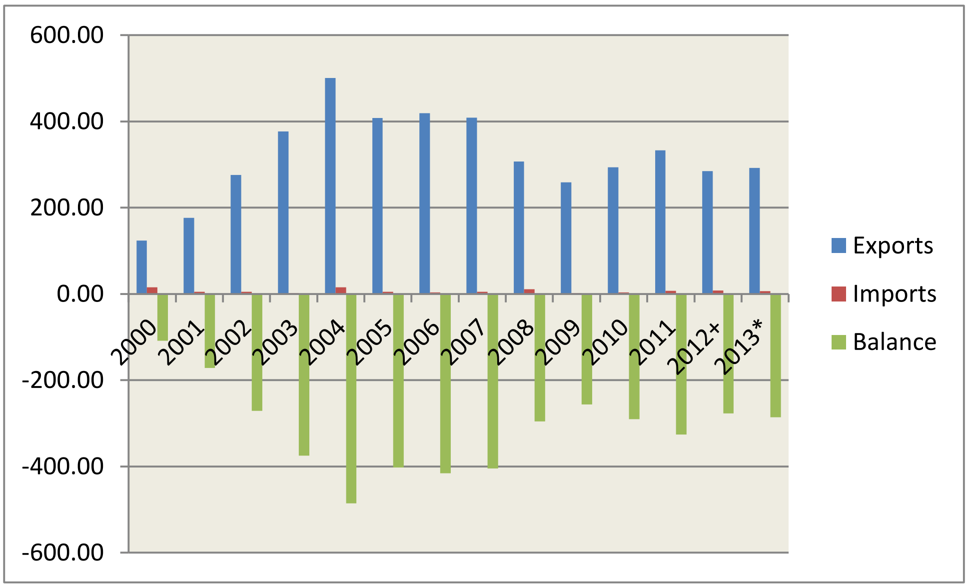
Fig. 7 **Direction of Exports (2013)**



Source: Central Bank of Lesotho

The US-Lesotho trade balance is very much in favour of Lesotho as shown in Fig. 8 below. This is so because Lesotho mainly trades with South Africa, in terms of imports, due to its proximity and historical trade and political connections.

Fig. 8 **Lesotho-US Trade Balance**



Source: Central Bank of Lesotho

3.4.3 Diversification of Exports

Table 3 below depicts the growth of manufactured exports just before AGOA and after AGOA. According to the table, Lesotho's exports are classified into eight main categories. The miscellaneous and manufactured goods category, which includes textiles and garments exports, is by far the largest. As explained above, garment manufacturing and exports started gaining momentum in the late1990's and were destined mainly to South Africa. When Lesotho entered AGOA in 2001 many of the already existing firms owned by the Asian investors immediately switched their production towards the US market, the main reason being that it is a huge market in terms of volumes. The additional new wave of investors mainly from Asia also located in Lesotho because of the allure of the big US market and the AGOA trade preferences.

Table 3. Categories of Exports (as % of total exports)

	1999	2000	2001	2002	2003	2004	2010	2011	2012+	2013*
Food and Livestock	4.7	3.7	3.4	2.8	2.8	2.1	2.9	2.6	3.1	3.3
Beverages and Tobacco	8.9	4.4	3.0	2.2	2.3	4.9	7.3	8.8	7.9	8.1
Crude Materials, Inedible	1.8	2.7	2.5	1.6	2.2	4.7	20.9	31.3	31.6	28.4
Minerals and Related Products	0	0	0	0	0	0.0	0.1	0.0	0.1	0.0
Chemicals and Related Products	0.5	0.4	0.8	1.0	1.2	0.4	0.1	0.2	0.1	0.4
Manufactured Goods (classified by material)	1.6	1.6	1.5	1.4	1.3	0.9	7.0	5.9	2.7	3.0
Machinery and Transport Equipment	10.6	11.8	10.5	8.4	8.9	3.9	14.5	11.8	10.2	10.9
Miscellaneous and Manufactured Goods	71.2	75.2	78.1	82.3	81.0	83.0	47.3	39.4	44.3	45.9
Commodities	0.7	0.2	0.2	0.3	0.3	0.0	0.0	0.0	0.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source – Central Bank of Lesotho

Crude materials and inedible, which started gaining momentum since 2004, is the second largest export item followed by machinery and manufactured equipment. The crude materials and inedibles comprise mainly of diamond exports which have in the last decade recorded a robust growth. Since 2004 the beverages and tobacco exports have also registered a strong growth which has since then stabilised at 8%. Manufactured goods (classified by material) also rebounded around 2010 and 2011 before tapering off to previous levels. This is the category that includes manufacturing of electrical and electronic products in the form of circuit breakers and televisions. Almost all these products are exported to South Africa.

According to Table 3, textiles and garments have been and continue to be the main export of Lesotho by far even though declining. This indicates a high level of export concentration, mainly due to AGOA. The shares of all other exports are relatively small and have not been growing with the exception of crude materials.

3.4.4 Stimulation of Light Manufacturing Industry

If the textile and garment manufacturing industry of the type existing in Lesotho can be classified under light manufacturing, it can be concluded that Lesotho has benefited significantly from AGOA. The categorisation of the industry as light is due to the fact that it is technologically not sophisticated. It is also a labour-intensive industry that offers entry-level jobs to mostly unskilled workers.

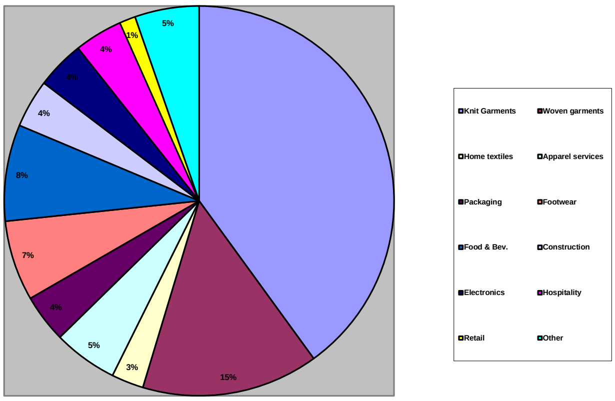
At the high level of sophistication the textile and garment industry can have high value adding segments such as design, research and development, and marketing. Lesotho has not reached this level yet but with the ever increasing demands from buyers about quality, fashion and speed-to-market, there is an urgent need upgrade the industry.

Fig. 9 below depicts the LNDC portfolio in terms of various economic sub-sectors that it supports. The largest share or 46% is accounted for by apparel sub-sector followed by woven garments at 15%. Since the advent of AGOA, the LNDC through its promotional campaigns has been able to attract a number of light manufacturing companies, either as part of creating and/or expanding the local supply chain (complementary activities) or to diversify the economy. For expanding the local supply chain, manufacturing companies that have since been established or located in Lesotho fall in the following product lines and services:

- Packaging
- Screen-printing
- Dyeing
- Plastics
- Hangers

For diversification, as already mentioned above, companies that were attracted were mainly manufacturers of electrical and electronic products.

Fig. 9



Source: LNDC

3.4.5 Stimulation of Local Backward and Forward Linkages

Lesotho has an enclave apparel industry with limited backward and forward linkages with the local economy. The textiles and garments sub-sector is largely owned by investors of Asian origin while leather and footwear is predominantly owned by investors from South Africa. While Asian investors were mainly attracted by AGOA, the South African ones were attracted by competitive labour costs. None of these investors ever had any strategies to integrate locally,

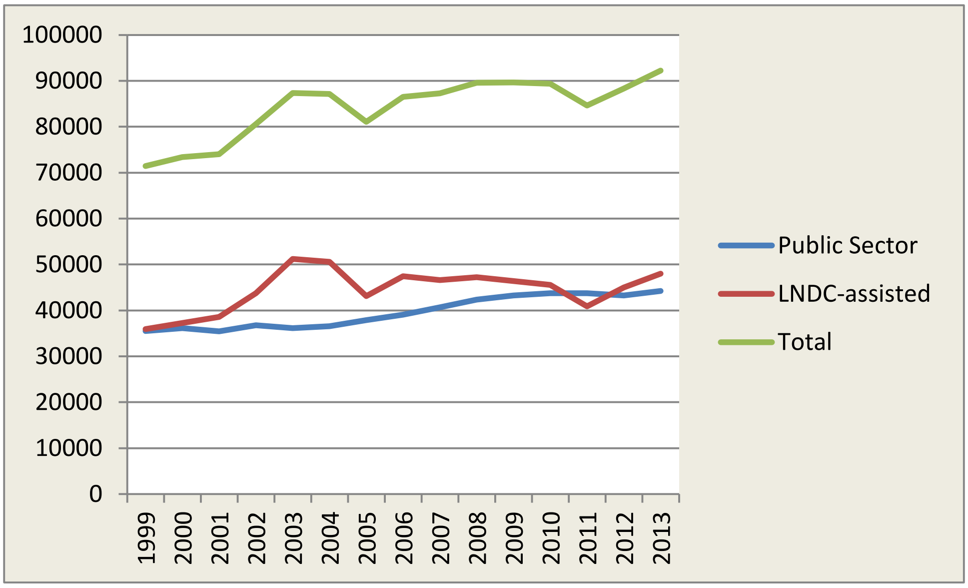
mainly because of their being well connected to regional and international value chains. Another important factor for the disconnectedness is that at their level, both industries are new to Lesotho as there have never been any Basotho investors who operated such big firms except as ordinary small-scale tailors or shoemakers. As a result, many locals neither have the skills nor experience relevant to the apparel industry. The language factor has in some cases also been cited as one of the reasons why many investors, especially of Asian origin, prefer to deal directly with international suppliers and service providers.
With the exception of yarn and denim fabric, there are no other downstream products. It is important to mention, however, that Lesotho boasts one of the biggest denim fabric mill in the region that also spins and dyes cotton yarn used by local firms and exported to other AGOA eligible countries in the region like Kenya, Madagascar and Mauritius. In turn, this mill also imports cotton from other AGOA eligible countries like Benin, Malawi, Mozambique, Tanzania and Zambia. In this connection, it can be concluded that AGOA has been instrumental in creating regional value chains, in accordance with its original mandate.

With respect to upstream activities the role of AGOA has been somewhat limited as the only activities that exist are in the areas of screen printing, embroidery, and packaging. No product upgrading or diversification has taken place yet. There are also no policies or incentives for the industry to develop local value chains. The few locally-owned operations that ever attempted to emerge are embroidery and screen-printing but due to foreign competition and resource constraints could not be sustained.

3.4.6 Employment Creation

The creation of employment through AGOA-induced investment has been substantial in Lesotho. As shown in Fig.10 below total employment has been steadily increasing since 1999. In 1999 public sector employment was almost equal to that of LNDC-assisted firms. LNDC-assisted are firms that have been attracted into the country through LNDC and since 2001 most of such firm were attracted to Lesotho by AGOA market access preferences.

Fig. 10 Total Employment VS AGOA-Induced Employment



Source: CBL

Although public sector employment has been increasing over time, it is clear from Fig. 10 that total employment is significantly correlated with employment from LNDC-assisted firms which predominantly export to the US. In the same manner as exports, employment from LNDC-assisted firms rose immediately after the introduction of AGOA in Lesotho, from 37 258 in 2000 to 43 773 in 2002. Between 2001 and 2003 it grew by 33% and then levelled off before declining by 15% between 2004 and 2005 due to the closure of some firms as a result of the ATC expiry. Since 2005 employment stabilised around 45 000 before declining to 40 861 in 2011 as result of uncertainties related to the expiry of the AGOA third-country provision. However, there has been some recovery in the past two years mainly from the weakening of the local currency which has spurred growth in exports. It is estimated that the textile and garment industry wage bill amounts to over M500 million or US$50 million but constitutes only about 14% of the civil service wage bill.

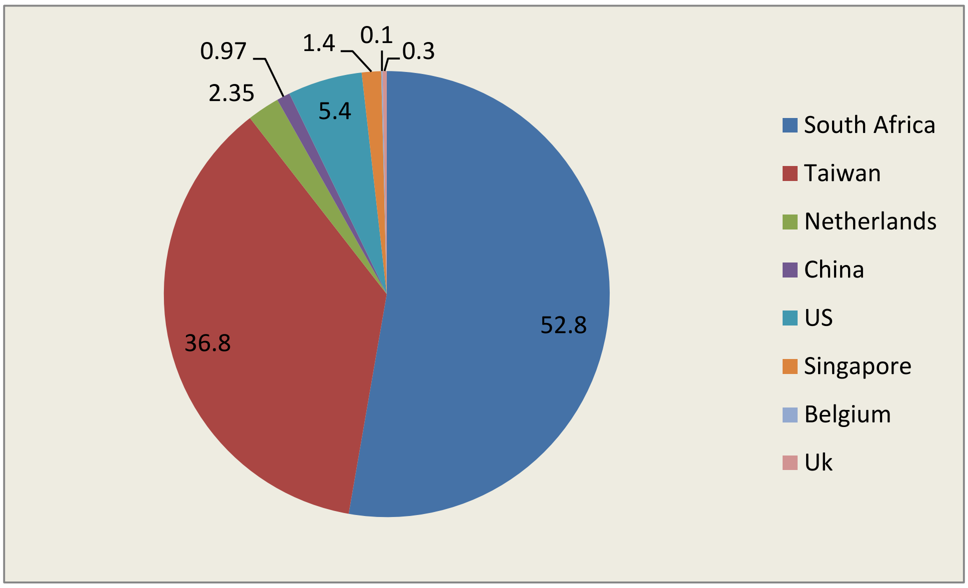
3.4.7 Attraction of US investment

Ideally when AGOA was introduced in 2000 by the US government, the expectation was that US investors in the well established US textile and garment industry would migrate to SSA to take advantage of competitive labour costs. On the contrary, SSA bound investors in the textile and garment industry have predominantly been of Asian origin, especially Chinese Taiwan in the case of Lesotho.

According to a survey on capital flows carried out by the Central bank of Lesotho in 2006, it has been observed that enterprises within the manufacturing sub-sector had the highest value of liabilities to non-residents and 42% of their total liabilities were in the form foreign direct investment. In terms of source South Africa, Chinese Taiwan, US, and the Netherlands ranked as the leading sources of foreign liabilities respectively. Other relatively smaller sources were Belgium, China, and the UK. In terms of sectoral distribution it was found that 58% of the liabilities were in the manufacturing industry, and more specifically in the textile and garment industry which is AGOA driven. Transport and communication was second at 24% followed by mining and quarrying at 11%.

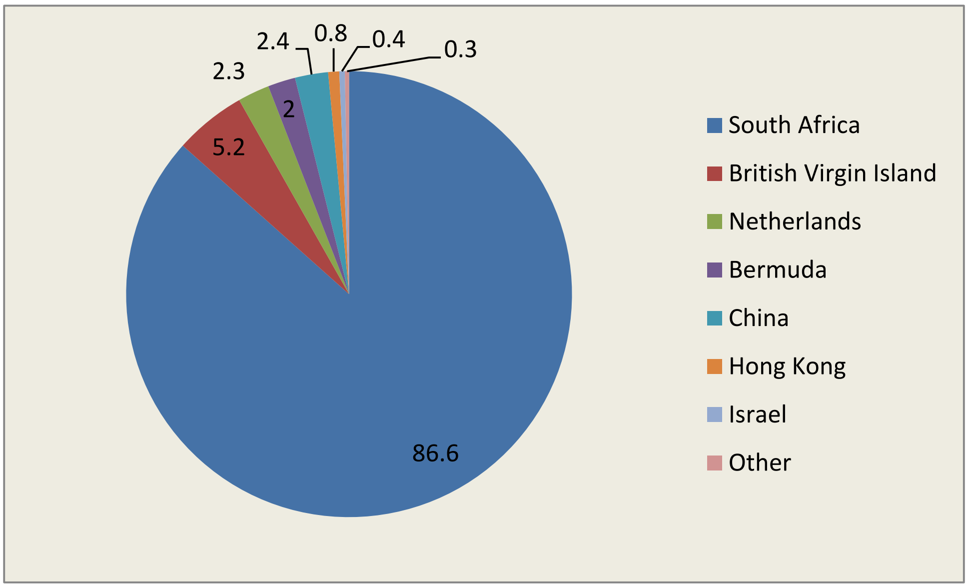
Total US FDI amounted to a paltry 5.4% (Fig. 11) compared with 53% from South Africa and 37% from Chinese Taiwan.

Fig. 11 Breakdown of FDI in % by Source Country (2005)



According to the more recent 2011 capital flows survey, there seems to have been a structural shift in the distribution of FDI by country of origin as shown in Fig. 12 below.

Fig. 12 Breakdown of FDI in % by Source Country (2011)



Since 2006, South Africa's share of total FDI has increased to 86.6% in 2011. The sub-sector that benefited the most was mining and quarrying ($284 million), followed by finance and insurance ($283.3 million). The manufacturing sub-sector came third at $275.5 million. Whereas in 2006 there was no direct foreign investment from tax havens, in 2011 7.2% of total FDI came from British Virgin Island and Bermuda. These investments are mostly owned by investors from East Asia who invest in those tax havens for taxation purposes. China's share has also increased from 0.9% in 2006 to 2.4% in 2011. Compared with FDI flow of 5.4% in 2006, in 2011 there was no FDI flow from the US at all, thus indicating that FDI links between Lesotho and the US are very weak.

3.4.8 Comparative Performance

Compared to other SSA countries, Lesotho has relatively performed well under AGOA. According to Table 4 below, Lesotho is the number one producer and exporter of apparel to the US. The only two countries that come close to it are Kenya and Mauritius respectively. In terms of growth Togo tops the list at 100% but its base is very low. It is followed by Malawi, and Tanzania. What is worrying and of concern is that the growth of Lesotho's exports at 6.7% is much lower than its closest competitors, Kenya and Mauritius, at 20.7% and 17.7% respectively.

Table 4.

Textiles & Apparel **AGOA + GSP, Jan-Dec**			
Country	**2012** ***$000's***	**2013** ***$000's***	**% Change**
Lesotho	**300,609**	**320,807**	**6.72%**
Kenya	252,734	305,217	20.77%
Mauritius	158,999	187,216	17.75%
Swaziland	**59,016**	**49,073**	**-16.85%**
Ethiopia	11,037	12,060	9.27%
Tanzania	7,521	10,361	37.76%
Malawi	5,725	8,410	46.9%
South Africa	5,551	6,355	14.48%
Botswana	**10,427**	**5,855**	**-43.85%**
Ghana	**2,809**	**2,723**	**-3%**
Uganda	**62**	**41**	**-33.87%**
Togo	0	3	100%
Nigeria	**799**	**2**	**-99.75%**
Zambia	**2**	**1**	**-50%**
Burkina Faso	**1**	**0**	**-100%**
Rwanda	**1**	**0**	**-100%**
Guinea	**2**	**0**	**-100%**
Namibia	**8**	**0**	**-100%**
Cameroon	**7**	**0**	**-100%**
Totals	**815,308**	**908,125**	**11.38%**
Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce			

Table 5 below shows that for the period 2000 to 2010 Lesotho belonged to the top 20 countries in the whole world with highest share of apparels in total merchandise exports. The only other AGOA countries featuring in the top list were Madagascar and Mauritius.

Table 5: Top 20 countries with highest apparel's share of total merchandise exports (%)

	1990	**2000**	**2007**	**2008**	**2009**	**2010**
World Average	**3.2**	**3.1**	**2.5**	**2.3**	**2.6**	**2.4**
Haiti	-	76.9	88	86	86	87.8
Bangladesh	38.5	79.3	80.8	71.1	71.1	81.6
Lesotho	**-**	**73.1**	**69.2**	**69.2**	**64.5**	**72**
Cambodia	-	69.8	70.6	84.8	70.8	60.5
Honduras	-	68.0	48.1	48.6	45.7	50.8
Sri Lanka	32.2	51.8	42.4	40.9	40.7	41.1
Macao	65.6	72.8	58.6	52.7	28	38.4
El Salvador	-	56.9	46	43	35.7	37.7
Madagascar	-	37.4	41.7	42.6	37.8	33.3
Mauritius	51.9	60.9	39.8	36	36.9	29.4
FYR Macedonia	-	24	18.9	20.7	21.7	21.7
Tunisia	31.9	38.1	23.8	19.5	21.6	18.5
Pakistan	18.1	23.8	21.3	19.2	19	18.4
Albania	-	37.6	30.6	26	26.8	18.1
Morocco	16.9	32.3	24.5	16.6	22.2	15.6
Vietnam	-	12.6	14.9	14.3	15.1	15
Moldova	-	16	17.8	16.7	17.6	14.7
Guatemala	-	1.8	20.1	15.9	14.5	14
Jordan	-					
Turkey	25.7					

Source: Trade & Industrial Policies Strategies (TIPS-2013 draft)

Based on the above analysis, it can be generally concluded that AGOA has had a very significant impact on Lesotho politically, socially and economically. On the political front AGOA has catalysed and institutionalised a very strong bilateral relationship between the governments of Lesotho and the US through constant consultations and negotiations between the department of the United States Trade Representative (USTR), the Ministry of Trade and Industryand the Embassy of the Kingdom of Lesotho in Washington. A very close institutional oversight, though not formal, on the performance of AGOA has been maintained since Lesotho accessed AGOA in 2001. Politically, AGOA has also been an instrument for peace and stability as one of its requirements is the rule of law and political stability.

The socio-economic impact of AGOA as manifested in economic growth and employment creation has to a large extent contributed to improvement in the livelihoods of many Basotho households. It is estimated every worker in the apparel industry supports, on average, 10 family members including the extended family. With current apparel employment at 38 000, it would translate to 380 000 people directly benefitting from AGOA. Indirectly, AGOA has also spawned myriad spinoffs like transport and vendor services that rely heavily on the apparel industry.
Through AGOA Lesotho has not only been able to establish a solid apparel manufacturing industry that has put the country on the radar screen of major multinational retailers and buyers as the sourcing destination of choice but it has also put it on a pedestal as an investment destination of choice. With the infrastructure that has been provided to support the industry, Lesotho is in a better position to establish other downstream and upstream value chain activities complementary to the apparel industry, including product diversification.

3.4.9 AGOA SWOT Analysis

As part of concluding the situation analysis above, a SWOT analysis is presented below to provide a snapshot of the pros and cons of AGOA in Lesotho. Given the strengths that have been acquired thus far, the purpose of the response strategy is to propose strategic responses to the identified weaknesses and threats while taking advantage of the opportunities offered by AGOA.

Strengths	**Weaknesses**
• Non-reciprocal nature of AGOA • The third-country-provision a very important factor for attracting and retaining investors • Connection to global supply chains, especially big US buyers • Lesotho on international buyers radar screen as a sourcing destination of choice • Development of textiles and garments industry • Strong positive impact on export growth • Attraction of foreign direct investment • Creation of jobs • Development of industrial infrastructure • Launch pad for a diversified industrial sector	• Only textiles and garments industry attracted by AGOA • Enclave industry disconnected with local enterprise • Predisposition to attract foot-loose industry • Poor technological and skills transfer • Industry that does not depend on firm-based competitiveness but trade preferences • Industry not vertically integrated • Weak internal and external economies of scale • Most of the rent from AGOA preferences goes to Asian investors and American buyers • Inability to attract US investors to establish joint-ventures with local enterprise • High concentration of ownership by investors of Asian origin • Industry wholly owned by foreign investors and with no local participation
Opportunities	**Threats**
• Preferential access to the world's largest market – US • Upgrade to higher segments of the value chain • Development of industrial capacity and the unlocking of supply-side constraints • Linkage and integration into the global trading system • Stimulation of exports • Diversification of exports • Access to new technologies • Acquisition of new skills • Capacity to supply and access other markets	• Uncertainty caused by time-bound trade preferences • Predominance of assembly firms (CMTs) increases the risk of Lesotho being marginalised by buyers • Shocks caused by inter-temporal changes in AGOA conditionalities (third country provision) • Falling trade barriers and eroding trade preferences • Third-country-provision extended to middle-income countries • The extension of duty free quota free (DFQF) access to US market to result in preference erosion if Lesotho cannot increase agricultural exports and/or other exports

• Development and expansion of local SMEs • Attraction of US FDI and other	• Over-dependence of trade preferences • Inability or delay to unlock supply-side constraints • Economic marginalisation of Lesotho • External economic and financial shocks • Political and/or macroeconomic instability

4. Element 2 - Identification of Potential Core Sectors for Support

Element 2 entails the identification of core sectors that have the best chance of responding to AGOA as well as sectors that have the potential to produce products that can be competitive as exports under AGOA. The identified sectors also include products that are competitive as intermediate/input exports to other AGOA eligible countries for further processing for export to the US.

In identifying core as well as potential priority sectors, the approach followed unpacks the historic exports to identify the most prolific product categories that enter the US under either AGOA and/or GSP. To get a good sense of the product exported, the products have in some cases been categorised according to the HTS system at HS4 or HS8 digit levels.

At the end, the identified priority export products are classified by sector.

4.1 Exports by Sector to the US

Tables 6 below depicts Lesotho – US bilateral trade by sector in recent years (2011 – 2013). Exports of textiles and garment are by far the largest at around 90% of total exports. In 2012 they reached a peak of 97%. The exports from the rest of other sectors are negligible with mineral products coming second largest at an average share of 10.3%. The small share of exports from other sectors (excluding textiles and garments) could be due to a number of factors like supply-side constraints, non-preferential access, and non-tariff barriers like sanitary and phytosanitary standards (SPS). It is also clear from the table that Lesotho export very negligible agricultural products and none at all in the energy and machinery categories.

Lesotho Exports to the US by Sector – 2013 (Million $)
Table 6

	2011		2012		2013	
Agricultural Products	30	0%	40	0.01%	0	0%
Forest Products	232	0.06%	5	0%	3	0%
Energy Products						
Chemical Products	243	0.06%	73	0.02%	185	0.05%
Textiles & Garments	315 365	82.05%	300 933	96.90%	321 276	89.52%
Mineral Products	68 405	17.80%	9 349	3.01%	36 603	10.20%
Machinery						0%
Transportation Equipment			36	0.01%	5	0%
Electronic Products	9	0%	65	0.02%	559	0.16%
Miscellaneous			8	0%	3	0%
Special Provision	66	0.02%	62	0.02%	233	0.07%
Total	384 351	100%	310 571	100%	358 867	100%

Source: AGOA.info

Table 7 below makes a distinction between exports that are GSP or AGOA related. According to the table, textiles and garments exports still account for the largest share of US bound exports. All textiles and garments exports from Lesotho enter the US market through AGOA trade preferences and not through the GSP programme. The implication behind the latter is that should AGOA is the corner stone of the textile and garments industry in Lesotho. Out of the ten sectoral products only chemical products have been exported to the US via the GSP programme. With the exception of chemical products and miscellaneous products the rest of other products enter the US market neither through the GSP nor AGOA preferences, albeit in very small amounts. Products that seem to be exported to the US without any preferential access are agricultural products, forest products, chemical products, electronic products, and even part of textiles and garments products. They enter the US market against much higher tariffs under normal trade relations (NTR). As a proportion of total exports they were 18.2%, 3.2% and 10.6% in 2011, 2012 and 2013 respectively. AGOA exports were 81.8% of the total in 2011, 96.8% in 2012 and 89.4% in 2013. GSP exports were very insignificant for the whole period, thus demonstrating the high dependence Lesotho has on AGOA.

Table 7 Sectoral Exports to the US by Type of Preferential Access

		2011	2012	2013
Agricultural Products	GSP	0	0	0
	AGOA	0	0	0
	Other	31	40	0
Forest Products	GSP	0	0	0
	AGOA	0	0	0
	Other	232	5	3
Chemical Products	GSP	24	9	69
	AGOA			
	Other	219	64	116
Energy Related Products	GSP	0	0	0
	AGOA	0	0	0
	Other			
Textiles & Garments Products	GSP			
	AGOA	314 311	300 609	320 807
	Other	1054	324	469
Footwear Products	GSP	0	0	0
	AGOA	0	0	0
	Other			
Mineral Products	GSP	0	0	0
	AGOA	0	0	0
	Other	68 405	9 349	36 603
Machinery	GSP	0	0	0
	AGOA	0	0	0
	Other			
Transportation Equipment	GSP	0	0	0
	AGOA	0	0	0
	Other		36	5
Electronic products	GSP	0	0	0
	AGOA	0	0	0
	Other	9	65	559
Miscellaneous	GSP	0	0	3
	AGOA	0	0	0
	Other		8	
Special Provision	GSP	0	0	0
	AGOA	0	0	0
	Other	66	62	233
All Sectors	GSP	24	9	72
AGOA		314 311	300 609	320 807

AGOA + GSP		314 335	300 618	320 879
Other		70 016	9 953	37 988
Total Exports		384 351	310 571	358 867

Source: AGOA.info

Table 8 below shows Lesotho textiles and garments exports to the US in terms of the fabric used to produce them. In terms of the AGOA rules of origin, a beneficiary country should source US-made fabric if it does not produce the fabric. Otherwise such fabric should be sourced from other beneficiary countries. According to the table below, Lesotho started using locally sourced fabric in very small amounts since 2006. The bulk of the fabric is sourced from other foreign countries, especially China (9819.11.12). Table 8 provides very useful information from which a rough vertical specialisation index (VSI) can be derived. VSI measures the share of foreign value-added embodied in exports. According to Table 8 VSI[1] for Lesotho is on average 90%, which by international standards is very high. More importantly, the index depicts that the local value-added from the apparel sector is very low. As earlier mentioned, in 2006 AGOA introduced the condition of 'abundant supply' whereby certain products were designated to be in abundant supply if they were produced at 3 million square meter equivalent (sme) or above. It was only in 2007 and 2008 that Lesotho imported fabric deemed to be in abundant supply from other AGOA countries.

Table 8 Origin of Fabric for Lesotho Apparel Products

	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Total exports	392.7	445.7	390.7	387.0	383.5	339.7	278.3	280.7	315.3	300.9
Total exports under AGOA	372.6	446.5	388.3	384.4	379.5	338.7	276.9	280.3	314.3	300.6
9819.11.09 (apparel from regional fabric from US fabric or African yarn)				1.0	11.0	7.2	3.6	4.8	16.9	1.6
9819.11.12 (apparel from foreign fabric made in a lesser developed country)	372.6	446.5	388.3	383.4	356.0	305.3	273.3	275.5	297.4	299.0
9819.15.10 (apparel from fabric deemed to be in abundant supply)					12.4	26.2				
9819.11.24 (apparel from fabric or yarn n/a in										

[1] Imported fabric as a percentage of total exports

commercial qty (CITA)										

Source: AGOA.info

According to the above analysis, Lesotho's exports to the US are on average 90% in the apparel sector. All apparel exports enter the US through the AGOA trade preferences only. The mineral products sector as shown is Table 6 is the only next important sector but whose exports do not enter the US either through AGOA or GSP arrangements.

4.2 Potential Export Products for Lesotho to the US

A number of methods can be used to determine and identify products with high export potential. For purposes of this study, the following methods and previous studies using them were reviewed to get a broad assessment of textile and garment products in which Lesotho could be most competitive.

- Under-utilisation of Tariff Rate Quotas
- Revealed comparative advantage (RCA)
- Domestic resource cost (DRC)
- Revealed trade barriers (RTB)
- Product space
- Products produced by SSA countries that US imports from other countries in large quantities, and
- Preference margins
- Under-utilisation of Tariff Rate Quotas.

(a) Under-utilisation of AGOA

Due to supply-side constraints, Lesotho underutilises its preferential access to the US market under AGOA for a number of garment products as shown in Table 9 below (GDS - 2004). This underutilisation presents an opportunity and potential for Lesotho to diversify and increase its garment exports to the US.

Table 9 Garment Products Under-Supplied to the US

Category Number	Product	Category Number	Product
222	Knit fabric	352	Underwear
237	Play suits, sun suits	360	Pillow cases
313	Cotton Sheeting	600	Textile filament yarn
333	Suit type coats	606	Non-textile yarn
334	Other coats	643	Multi-fibre suits
335	Women/girls coats	644	Multi-fibre women/girls suits
336	Cotton dresses	645	Multi-fibre women/girls sweaters
351	Night wear	651	Nightwear pyjamas

Source: Value Chain Analysis – Global Development Solutions (GDS)

(b) Revealed Comparative Advantage Approach

According to USITC report (USITC 2013 p. 125) 'an RCA index identifies the extent to which a country has captured world market share for a particular good it exports compared to the extent to which it has captured world market share for all traded goods'. If the share of apparel products in Lesotho's total exports is larger than their share in world trade, then Lesotho has a comparative advantage in apparel products. An RCA index helps a country to determine if its export products are competitively produced as well as identify the competitive potential to export other products. The only study conducted on Lesotho so far using the RCA method to determine export potential was the 2005 USITC report[2]. In that study the RCA and in particular SRCA[3] indexes for Lesotho were calculated as shown in Table 10 below for selected products at HS4 digit level.

Table 10 SRCA Indexes for Lesotho Export Products

HS	Product	SRCA index	Rank by SRCA	Rank by share of exports
6103	Men's or boys' suits, ensembles	0.97	1	8
6104	Women's or girls' suits, ensembles	0.97	2	4
6105	Men's or boys' shirts, knitted or..	0.96	6	9
6106	Women's or girls' blouses, etc	0.96	5	7
6109	T-shirts, singlets and other vests	0.88	8	6
6110	Jerseys, pullovers, cardigans, and ..	0.97	3	1
6203	Men's or boys' suits, ensembles	0.96	4	2
6204	Women's or girls' suits, ensembles	0.94	7	3
7102	Diamonds worked/not worked but not...	0.16		5

Source – USITC: Export Opportunities and Barriers in African Opportunity Act-Eligible countries, 2005 p.553

Table 10 attempts to disentangle the aggregated apparel exports into detailed components so that it can be ascertained which segments of apparel exports are more competitive. According to the table, categories HS6103 and HS6104 score highest in terms of SRCA ranking indicating that these two products have the highest comparative advantage of all Lesotho apparel exports. They are followed by HS6110 and HS6203. A very important point to note is that all Lesotho apparel products have high SRCAs signifying that Lesotho is very competitive when it comes to apparel exports. Even though not most competitive, categories HS6110 and HS6203 have the largest share of apparel exports followed by HS6203 and HS6104. It interesting from the diversification point of view to note that diamond exports rank 5th as a share of total exports. Also important to bear in mind is that even though apparel products are still number one exports of Lesotho to the US, with the passage of time there could have been

[2] USIT: Export Opportunities and Barriers in African Opportunity Act-Eligible Countries, 2005

[3] SRCA is the symmetric revealed comparative advantage index. It is bounded between -1 and +1 and hence symmetric around zero. It is easier to interpret than an RCA which ranges between 0 and infinity.

a shift in the SRCAs of the categories analysed above. Furthermore, the recent resurgence of diamond exports could have also significantly improved their SRCA index.

(c) Domestic Resource Cost Approach

The DRC approach compares a country's costs for producing a good domestically with world prices for the same good. The importance of this approach is that it indicates to a country which product(s) can be competitively produced to increase export production. Also, it can be used to identify inefficiencies along different stages of the product value chain. The DRC mainly reflects firm-based competitiveness and effects of domestic policy support. In 2005 a field study was undertaken by Global Development Solutions for value chain analysis in Lesotho on selected strategic sectors. The objective of the study was to identify key sectoral constraints. The selected sectors were textiles and garments, horticulture and agro-processing, sandstone, and wool and mohair. The identified constraints have been used to determine support strategies in Section 5.

(d) Revealed Trade Barriers Approach

The RTB index seeks to clarify whether a country's exports to another country are more/(less) significant compared with similar exports to other country(ies). If the index is greater than one it is concluded that a country is exporting more to a particular country than to other countries and vice versa. For example, if it can be discovered that Lesotho's RTB index for apparel products to the US is greater than one, it would be concluded that Lesotho exports more apparel to the US than to other countries. Lesotho is generally a mono-export product country, particular to the US and therefore an RTB index may not provide any additional information to confirm/refute the fact that apparel exports to the US are not significant and therefore not potentially important.

(e) Product Space Approach

The product space approach determines the extent to which a country can be able to produce other related goods given its strength in the production of a particular good. For example, if Lesotho is strong in the production of apparel exports, a question would be asked if there is a possibility of producing other related goods competitively within the already developed infrastructure of the apparel goods industry. If using the product space method the answer is in the affirmative, then such goods have a potential to be produced. No study so far has been undertaken in Lesotho following the product space approach. However, there has been a strong case that for the apparel industry to be sustained in Lesotho it must be vertically integrated, either locally or regionally thus expanding space for production of other complementary products. This will be discussed in more detail when evaluating the competitiveness of the recommended priority sectors in section 4.5.3 below.

(f) Large Bilateral Trade Gap

According to USITC (USITC 2013 p. 129), a situation where an AGOA beneficiary country has a significant export potential in a particular product or range of products, and the US imports in the same product or range of products are equally large and yet there is little bilateral trade between the two, such a situation presents a big opportunity for such an AGOA beneficiary country to identify the relevant export products and take the advantage.

In 2012 AGOA countries exported apparel (categories HS 6109 and HS 6110) to the US at the value of US$376 million constituting only 0.8% of US global imports of apparel which exceed US$19 billion annually. Against the AGOA quota of 892 million sme, AGOA countries had only utilised 15% between October and April 2014. This presents a clear case that US's capacity to import apparel products globally is by far larger than the capacity of AGOA countries to supply the US. The 85% gap that AGOA countries cannot fill is closed by imports from non-AGOA countries. It therefore goes without saying that what Lesotho currently supplies of the apparel products is just a tip of an iceberg compared to the size of US demand. The challenge for Lesotho is to identify the binding constraints behind its inability to increase its apparel exports to the US.

(g) Preference Margins

Preference margins can be defined as a percentage by which some imports from one country are subject to lower tariffs than the rate applying to its competitors - e.g. the most favoured nation (MFN) treatment - in a preferential trade arrangement. Lesotho enjoys preferential margins under AGOA and to maximise its AGOA benefits, it can identify and produce more of those export products with the highest preference margins. Table 11 below lists the different products that Lesotho qualifies to export duty-free under AGOA. The preference margin is calculated as the difference between the MFN tariff rate and the AGOA tariff rate and for all products listed Lesotho enjoys a zero tariff rate. The highest tariff benefits are in the HS codes 6401 10, 6404 11, 6402 91 and 6404 19. Table 11 also presents many other products at Lesotho's disposal to export to the US subject to its ability and capacity to supply, more specifically footwear and synthetic apparel. A reason cited by industrialists for not exporting footwear (especially from synthetic material), to the US was that Lesotho is not competitive compared with Asian countries despite the high preference margins.

Table 11 AGOA Preference Margins

HS Code	Product Description	Tariffs		Preference Margin
		AGOA	MFN	
H6400	Waterproof footwear, outer soles &uppers of rubber/plastic, metal toe-cap	0%	38%	38%
H6404	Sports footwear, incl. tennis shoes, basketball shoes, gym shoes, training shoes and the like, with outer soles of rubber or plastics and uppers of textile materials	0%	34%	34%
H6101 6201	T-shirts, men's, women's, boys', girls' clothing, jerseys and cardigans etc	0%	29%	29%
H6402	Footwear, outer soles/uppers of rubber or plastics, covering the ankle, n.e.s.	0%	29%	29%
H6404	Footwear with outer soles of rubber or plastics and uppers of textile materials (excl. sports footwear, incl. tennis shoes, basketball shoes, gym shoes, training shoes and the like, and toy footwear)	0%	29%	29%
H6401	Waterproof footwear, outer soles/uppers of rubber or plastics, n.e.s	0%	28%	28%
H6402	Footwear, outer soles/uppers of rubber or plastics, n.e.s	0%	27%	27%
H0712	Onions dried but not further prepared	0%	26%	26%
H2009	Orange juice, unfermented &not spirited ,whether/not sugared /sweet, frozen	0%	22%	22%
H2009	Orange juice, unfermented, whether or not containing added sugar or other sweetening matter (excl. containing spirit, frozen, and of a Brix value <= 20 at 20°C)	0%	22%	22%
H6404	Footwear with outer soles of leather or composition leather and uppers of textile materials (excl. toy footwear)	0%	21%	21%
H0709	Mushrooms, fresh or chilled	0%	21%	21%

HS Code	Product Description	Tariffs		Preference Margin
		AGOA	MFN	
H0703	Leeks and other alliaceous vegetables, fresh or chilled (excl. onions, shallots and garlic)	0%	20%	20%
H0709	Spinach, N-Z spinach & orache spinach (garden spinach),fresh or chilled	0%	20%	20%
H4202	Trunks, suit-cases, vanity-cases, executive-cases, brief-cases, school satchels and similar containers (excl. with outer surface of leather, composition leather, patent leather, plastics or textile materials)	0%	20%	20%
H2009	Grapefruit juice, unfermented, Brix value > 20 at 20°C, whether or not containing added sugar or other sweetening matter (excl. containing spirit)	0%	20%	20%
H1507	Soya-bean oil crude, whether or not degummed	0%	19%	19%
H2008	Pears, prepared or preserved, whether or not containing added sugar or other sweetening matter or spirit, n.e.s.	0%	15%	15%
H2401	Tobacco refuse	35%	50%	15%
H9603	Brooms/brushes of twigs/oth veg mat bound together, with/w/o handles	1%	18%	17%
H8108	Unwrought titanium; titanium powders	0%	15%	15%

Source: Trade & Industrial Policy Strategies, (2013 draft) p.37

4.3 Results from USITC Reports on Potential Exports from AGOA countries

In the two reports produced by the US International Trade Commission (USITC) in 2007 and 2008 to identify factors that affect the competitiveness of certain products in global markets, a number of products were identified as more appropriate for SSA countries in three sectors, agriculture, mining, and manufacturing. They are as listed in Table 12 below.

Table 12 Export Products with High Potential under AGOA by Sector

Agriculture	Manufacturing	Mining
Cashew nuts	Acyclic alcohol	Processed diamonds
Cocoa butter & paste	Flat-rolled steel	
Cut flowers	Liquid natural gas	
Fish	Textiles and garments	
Coffee	Unwrought aluminium	
Shea butter	Wood veneer	
Spices	Footwear	
Tropical fruit	Natural rubber	
	Wood & furniture	

Source:

The latest USITC report, AGOA: Trade and Investment Performance Overview (USITC 2013, has selected 16 products at HS4 digit that are imported by the US in large quantities from non-AGOA countries and for which AGOA countries' share of US imports is less than 1%. These products are as shown in Table 13 below and to a large extent they still include products shown in Table 12 above.

Table 13 Selected products exported by AGOA countries and which the US imports from non-AGOA countries

HS 4	Product	AGOA exports to world	US imports from world	US imports from AGOA	AGOA share of US imports
0302	Fresh & chilled fish, exc. fillets	124.6	1214.1	0.5	0.05
0303	Frozen fish, exc. fillets	447.9	531.6	2.4	0.45
0304	Fish fillets	529.4	4644.2	9.2	0.20

0306	Crustaceans, live, fresh & chilled	159.4	5104.6	3.2	0.06
0307	Molluscs, live, fresh & chilled	513.3	769.9	0.8	0.10
0603	Cut Flowers	893.9	968.2	2.6	0.27
0708	Leguminous vegetables, fresh or chilled	217.2	152.4	0.0	0.02
0713	Leguminous vegetables, dried	316.9	482.1	2.1	0.44
0803	Bananas	412.7	2084.0	0.0	0.0
0804	Tropical fruit	185.7	1798.4	0.0	0.00
1701	Cane or beet sugar	826.9	2282.8	15.7	0.69
4403	Wood in the rough	1210.9	160.0	0.9	0.53
6109	T-shirts, singlets, tank tops, knitted or crocheted	198.8	5255.2	41.9	0.80
6110	Sweaters, pullovers, sweatshirts, knitted or crocheted	176.8	13 817.3	106.0	0.77
7108	Gold, unwrought, semi-manufactured or in powder	1155.7	16 259.6	26.3	0.16
8411	Turbojets, turbo-propellers, gas turbines & parts	174.9	18 921.8	2.2	0.01

Source: USITC – AGOA Trade and Performance Overview 2013, p.130

4.4 Exports and Imports of Raw Materials

Lesotho has the potential to competitively produce cotton yarn and denim fabric for use in upstream apparel manufacturing for export to the US, EU and similar markets. Lesotho has a vertically integrated textile mill, Nien Hsing Textile Co, that has a spinning plant, a denim mill, and jean manufacturing factories. It has the capacity of producing 24 million linear meters of fabric per year[4]. The mill consumes about 16 000 tons of cotton annually imported from the region as earlier mentioned. Besides Lesotho, the only other denim mills in the region are based in South Africa and Mauritius.

The final products of about 10 800 tons of open-ended (OE) and ring spun cotton yarn (RS) and denim fabric of 18 million yards are sold to local manufacturers and regional importers, namely, Kenya, Madagascar and Mauritius as earlier mentioned. Table 13 and 14 below show exports and imports of textile and garment inputs and by destination respectively.

As shown in table 14 below, Lesotho started exporting woven fabric and yarn since 2003 and the value of exports has been growing over time. It is also interesting to note that from 2006 carded/combined fibres were also exported. Although Lesotho has a textile mill for woven fabric (denim), the main input used by its CMT manufacturing industry is the knit fabric. On

[4] Lm refers to linear meter-long piece of fabric where the width can be 1 to 1.5 meters for apparel or 1.5 meters for denim fabric.

average imports of knit fabric account for 60% of total imported inputs compared with 22% of imported woven fabric. This goes to illustrate how important it is for Lesotho establish a knit fabric mill in order to have a fully vertically integrated apparel industry. The table further provides additional information on the types of other inputs that Lesotho could examine possibilities of producing locally like trimmings, thread and manmade fibres.

Table 14 Potential Input Products

Exports by Product Group (US$1000)	2003	2004	2005	2006	2007
Carded/combined fibres	0	0	0	1 280	1 240
Manmade fibres	0	0	0	0	0
Other fabric	0	0	0	0	0
Thread	2	0	0	0	0
Trim	14	1	8	18	0
Woven fabric	63	2 579	12 343	14 404	17 288
Yarn	33	0	225	77	695
Total	**635**	**2 580**	**12 635**	**15 943**	**19 224**
Imports by Product Group					
Carded/combined fibres	0	0	0	0	0
Knit fabric	59 714	131 886	102 485	107 535	90 401
Manmade fibres	0	2	292	1 137	39
Other fabric	3 749	2 660	1 504	1 013	1 575
Thread	1 042	1 820	1 882	3 726	4 293
Trim	3 504	7 812	8 323	8 916	7 777
Woven fabric	31 441	36 007	31 520	25 707	33 324
Yarn	30	2 327	1 896	1 137	2 290
Total	**99 479**	**182 514**	**147 903**	**149 171**	**139 698**

Source: USITC ‘SSA Potential for Competitive Apparel Production’ 2009 p. 87

Table 15 Lesotho Exports of textiles and apparel inputs by destination (US$ ‘000)

Destination	2003	2004	2005	2006	2007
SSA Countries	68	2 421	12 024	14 488	17 766
EU-27	1	0	2	0	3
US	0	0	0	0	0
Rest of world	566	160	609	1 455	1 455
Total	**635**	**2 580**	**12 635**	**15 943**	**19 224**

Source: Central Bank of Lesotho

In line with the 3rd country provision, the bulk of Lesotho’s textile exports and apparel inputs are destined for AGOA eligible countries as shown in table 15. Exports of textile and apparel inputs to AGOA eligible countries (SSA) accounted for 93% of the total during the period under review. A very important conclusion from this observation is that through AGOA, Lesotho’s apparel sector is on the right path with regard to regional integration.

4.5 Recommended Priority Export Products and Raw Material Products by Sector

4.5.1 Sector: Manufacturing

4.5.1.1 Sub-Sector 1: Garments

The above analysis has attempted to examine in some detail exports of Lesotho to the US. Most if not all of Lesotho’s exports to the US are in apparel form. In terms of various classes of apparel, the most important exports at HS4 digit are 6109 and 6110. Apparel are considered a priority export product for Lesotho based on the following criteria:

- high SRCAs
- high preference margins, and
- the low share of Lesotho apparel exports relative to global US apparel imports.

The following table summarises the identified priority apparel export products for Lesotho to the US.

Table 16 Lesotho's Priority Export Products to the US by Sector

Sector - Manufacturing	
Sub-Sector: Apparel	
HS Code	**Product description**
6101	Men or boys overcoats...knitted or crocheted ..
6102	Women or girls' overcoats ...knitted or crocheted..
6103	Men's or boys' suits, ensembles
6104	Women's or girls' suits, ensembles
6105	Men's or boys' shirts, knitted or..
6106	Women's or girls' blouses, etc
6109	T-shirts, singlets and other vests
6110	Jerseys, pullovers, cardigans, and ..
6203	Men's or boys' suits, ensembles
6204	Women's or girls' suits, ensembles

Table 17 Garments qualifying under AGOA but under-supplied to the US (Potential Garments)

Category Number	Product	Category Number	Product
222 (6001)	Knit fabric	352	Underwear
237	Play suits, sun suits	360	Pillow cases
313	Cotton Sheeting	600	Textile filament yarn
333	Suit type coats	606	Non-textile yarn
334	Other coats	643	Multi-fibre suits
335	Women/girls coats	644	Multi-fibre women/girls suits
336	Cotton dresses	645	Multi-fibre women/girls sweaters
351	Night wear	651	Nightwear pyjamas

4.5.1.2 Sub-Sector 2: Textile and Apparel Inputs

It is obvious from the above analysis that within the textile and apparel inputs sub-sector, woven fabric and yarn are priority products. These are products that Lesotho has already developed the capacity to produce and export. They are also products that Lesotho has a vast potential to expand production to the rest of the SSA countries in case of the expiry of the 3rd country provision. Therefore, in terms of industry vertical integration and development of local and regional value chains, this is a very strategic sub-sector and hence deserves special support.

In the medium to long-term, Lesotho needs to establish a knit fabric mill and other critically important apparel inputs like trimmings, thread and synthetic fibres to mention a few, in order to enhance the competitiveness of its apparel industry. All these should form part of the support strategy discussed in Section 5.

4.5.2 Other Recommended High Potential Exports not fully exploited by Lesotho – By Sector

From tables 10, 11, and 13 above, it is possible to identify high potential export products for Lesotho based on SRCAs, high preference margins, and the size of US demand. Table 18 below lists products that are currently not exported to the US but have a high potential as export products for Lesotho.

Table 18 Lesotho's High Potential Exports by Sub-sector

Sub-Sector 3: Footwear	
6400	Waterproof footwear, outer soles &uppers of rubber/plastic, metal toe-cap
6401	Waterproof footwear, outer soles/uppers of rubber or plastics, n.e.s
6402	Footwear, outer soles/uppers of rubber or plastics, covering the ankle, n.e.s.
6404	Sports footwear, incl. tennis shoes, basketball shoes, gym shoes, training shoes and the like, with outer soles of rubber or plastics and uppers of textile materials
6404	Footwear with outer soles of rubber or plastics and uppers of textile materials (excl. sports footwear, incl. tennis shoes, basketball shoes, gym shoes, training shoes and the like, and toy footwear)
6404	Footwear with outer soles of leather or composition leather and uppers of textile materials (excl. toy footwear)
Sub-Sector 4: Mining & Quarrying	
6802	Worked monumental or building stone ...
6911	Ceramics: tablewear, kitchenwear, other house..
7102	Diamonds worked/not worked but...
Sub-sector 5: Horticulture & Agro-processing	
0709	Asparagus
2008	Canned Peaches
0813	Dried peaches
0409	Natural honey
Sub-Sector 6: Wool & Mohair	
5101 & 5102	Wool & Mohair
5111	Woven fabric & Tapestry

Footwear exports to the US enjoy high preference margins yet Lesotho is not exporting any footwear to the US. Specifically important for Lesotho, in terms of their high preference margins, is the production and export of plastic shoes or shoes made of synthetic material for the US market. The relatively small footwear manufacturing sector in Lesotho produces on CMT basis, mostly basic sports footwear for export to the South African market. Between 2009 and 2012 exports of footwear were on average 3.4% of total exports. Their growth has been around 4.2% annually until a 10.1% decline in 2012. There is also a huge potential for Lesotho footwear manufacturers to move up the value chain and produce more quality products for the regional and international market, including the US. However some strategic issues will have to be addressed.

First, product innovation capacity is almost non-existent as the few manufacturers produce for only two international brands for the lower end market. Product design and marketing are mainly the responsibility of the buyers. Second, inputs are exclusively imported from abroad, mainly China and India, as there is no local or regionally based sports shoe components manufacturing industry. These and other strategic issues to up-scale the sub-sector are discussed in Section 5.

There is a large non-mechanised SME sub-sector that produces leather shoes and other leather products for the local market. Because of the limited size of the market and stiff competition, companies in this sub-sector always find it difficult to grow and subsequently stay small. Based on their small size and lack of capacity to produce for mass markets, it is obvious that strategies adopted to unleash their export potential should be different from those of the mass market producers or bigger companies mentioned above.

Mining and Quarrying: The mining & quarrying sector is one of the priority sectors identified by NSDP. Besides employment creation, the sector is expected to play an enabling role of establishing business linkages between mining and other economic sectors, especially SMEs. Most importantly, it is the second largest exporting sector in the country after apparel. Mining in Lesotho in the context of export potential, mainly entails diamond extraction, sandstone processing and clay for ceramics.

Horticulture & Agro-Processing: Lesotho was once an exporter of food crops but has now turned a net-importer. According to the value chain analysis of this sub-sector presented in section 4.5.3 below, Lesotho has a strong potential to produce horticultural and agro-processed products for export, especially within the Southern Africa region given their perishable nature. Horticulture and agro-processing is also one of the priority sectors that have been identified in the NSDP, Industrial Policy and Growth Strategy for the development and support of SMEs in the country. Key crops, among others, that Lesotho has a strong comparative advantage to produce for export are asparagus, fresh peaches, dried peaches, canned peaches, fresh vegetables and natural honey.

Wool & Mohair: Lesotho is also known for its high quality wool & mohair which is exported mostly to South Africa for re-export internationally. There is a small cottage industry which manufactures mohair handicrafts like tapestry and clothing mainly for tourists. Produced in bigger quantities and better quality, there is a huge export potential for these products regionally and internationally.

Having identified potential priority export sectors and sub-sectors, it is important to conduct a review of factors that constrain their competitiveness so that strategic actions can also be identified to improve productivity and the country's export performance.

4.5.3 Competitiveness of the Recommended Priority Sectors

According to the OECD definition, competitiveness "refers to the capacity of firms to compete, to increase their profits and to grow. It is based on costs and prices, but more vitally on the capacity of firms to use technology and the quality and performance of products. At the macroeconomic level, competitiveness is the ability of a country to make products that meet the test of international competition while expanding domestic real income" (G. Wignaraja et al. 2004).

From the regional perspective Lesotho does not compare well with other countries (UNIDO - 2009) on production utility costs as shown in table 19 below even though the data is somewhat old. The table compares telecommunication costs, internet costs, electricity and water costs among selected countries in the SADC region, including Lesotho. It also compares the selected SADC countries with some comparator countries in Africa and Europe. Compared to other SADC countries Lesotho is expensive on local calls. It is also not competitive on international calls to the US and internet costs. On electricity costs, particularly demand charge for industrial use, the country is also costly compared with South Africa and Mauritius. The only category the country compares favourably is water cost. Compared with Kenya, one of its major competitors in apparel exports to the US, all utility costs are higher in Lesotho except internet costs.

Table 19 Production Utility Costs, 2005

	Telecom Costs (USD/ minute)			Internet costs	Electricity costs		Water costs
	Local calls	International call to adjacent country	International call to the USA	High bandwidth Internet (USD/mo. mo.)	Usage charge for industrial use (USD/kWh)	Demand charge for indust-rial use (USD/kVA)	Water for industrial use (USD/m³)
Lesotho	**0.33**	**0.3**	**1.0**	**81**	**0.0**	**7.0**	**0.4**
Madagascar	0.08	0.7	0.9	84	0.0	12.02	0.2
Mauritius	0.03	0.1	0.1	18	0.0	3.2	0.3
Mozambique	0.06	0.4	0.7	59	0.0	5.2	0.8
South Africa	0.06	0.2	0.5	4	0.0	0.8	1.3
Tanzania	0.07	0.4	1.1	190	0.0	6.0	0.6
Comparator country							
Tunisia	0.01	0.4	0.5	1	0.0	1.4	0.6
France	0.02	0.1	0.1	3	0.0	n/	1.9
Ireland	0.05	0.1	0.1	4	0.1	8.7	1.6
Ghana	0.02	0.2	0.3	25	0.0	12.29	0.7
Kenya	0.04	0.1	0.8	169	0.0	3.6	0.4
Mali	0.03	0.5	0.8	108	0.1	2.9	0.5
Senegal	0.23	1.0	1.0	5	0.1	13.10	1.5
Nigeria	0.16	0.4	1.4	23	0.2	n/	0.9
Uganda	0.07	0.3	0.7	354	0.1	2.3	0.7

***Source**: UNIDO – Programme on Industrial Upgrading and Modernisation in SADC Countries, 2009*

Table 20 below compares international sea freight rates among selected SADC countries and comparator countries as above. For standard freight destined to New York it costs Lesotho companies US$3 500 per 40 foot container and this is the lowest cost compared with the selected SADC countries. Also compared with comparator AGOA eligible countries like Ghana and Kenya, Lesotho performs quite well, especially to Kenya.

Table 20
International Sea Freight Rates (USD Per 40 foot container)

Container Type	To Rotterdam		To New York		To Long Beach		To Yokohama		To Singapore	
	Standard	Refrigerated	Standard	Refrigerated	Standard	Refrigerated	Standard	Refrigerated	Standard	Refrigerated
Lesotho	**1450**	**2900**	**3500**	**7000**	**3700**	**7000**	**1250**	**2500**	**1100**	**2000**
Madagascar	1948	5948	5445	None	5755	None	2484	5084	1684	5284
Mauritius	1161	1161	5050	5050	5815	5815	n/a	n/a	n/a	n/a
Mozambique	3123	4842	4621	5146	5071	6546	2131	5456	1731	5256
South Africa	2606	3750	3540	4405	3850	5500	1700	3600	1500	3000
Tanzania	1118	2118	4286	6786	4350	6900	n/a	n/a	n/a	n/a
Comparator country										
Tunisia	2000	5475	4900	5675	5400	7075	2200	6275	1400	6075
France	3111	2940	4552	7975	5600	4775	2852	5800	1700	4800

Ireland	3500	6500	6800	8400	7000	8800	3500	4500	3500	4500
Ghana	1953	4948	3500	4500	2900	4200	3500	4500	3500	2600
Kenya	3800	9500	3800	10691	4100	10691	3200	10691	3000	10491
Mali	4392	5218	6926	7754	8525	9377	4703	7168	4393	7061
Senegal	2193	4239	4500	5902	6477	9362	2431	6706	2106	6206
Nigeria	2161	3824	4756	7256	5456	7956	n/a	n/a	n/a	n/a
Uganda	1097	1097	2891	2891	n/a	n/a	n/a	n/a	n/a	n/a

***Source**: UNIDO – Programme on Industrial Upgrading and Modernisation in SADC Countries, 2009*

As mentioned above, in 2005 the World Bank in 2004 undertook a value chain analysis of selected strategic sectors in Lesotho. The selected strategic sectors were garments manufacturing, agro-processing, sandstone processing, and wool & mohair production. The main purpose of the study was to reveal the competitiveness as well as policy and market-based inefficiencies that could be holding back the growth of strategic sectors in Lesotho. The value chain analysis identified a number of cross-sectoral barriers to competitiveness and growth of these sectors as discussed below.

4.5.3.1 Sub-Sector – Textiles and Garments

The textiles and garments industry in Lesotho is mainly dominated by cut, make and trim (CMT) companies (88%) where material is purchased by a parent company or a buyer which then sub-contracts to a local CMT firm to cut, assembly, package, and deliver the final product to the US. The profitability of CMT operation is mainly dependent of efficient cost management and bulk production as profit margins are usually small. Eight value-adding activities whose competitiveness is critical for a CMT are:

1. Import transaction costs
2. Cutting/layering
3. Sewing/assembly
4. Finishing/washing
5. Packaging/loading
6. In-factory inspections
7. Administrative overhead costs, and
8. Export transaction costs

Instead of analysing each of the above activities, the approach followed in this report is that of critically evaluating the competitiveness of the sub-sector in accordance with the following broader categories:

- Operational Costs
- Locational Factors
- Trade Facilitation
- Access to Raw Materials

(i) Operational Costs

- **Labour Costs**

According to the referred study, the cost of producing one unit of apparel (t-shirt) in Lesotho is around US$0.77. In contrast a similar product in Kenya would cost around US$1.43 which generally suggests that apparel manufacturing in Lesotho is relatively competitive. The main determining factor for Lesotho's competitiveness is its relatively low labour cost. In Lesotho the average wage for a factory worker per month can range from M900 – M1000 which translates to around US$5 a day. In comparison a similar factory worker in Kenya would get US$9 a day which means on average the wage rate in Lesotho is lower than that of Kenya by 55%. According to the value chain analysis, the value of labour is more prominent in the sewing/assembly and finishing/washing activities where it accounts for 72% and 67% of value respectively.

With respect to sewing/assembly, the value of labour input per t-shirt was found to be more competitive in Lesotho than in Kenya as it cost 12 US cents compared with 18 US cents in Kenya. This is mainly attributed to lower labour cost in Lesotho. Note has to be taken however, that in a non-AGOA country like Bangladesh the same operation would cost only 6 US cents which is half the cost of Lesotho. A different observation was made in finishing/washing, which is more labour intensive, where the value of labour input per t-shirt was found to be 3 times higher in Lesotho than in Kenya, the reason being that Kenya has higher labour productivity which more than offsets Lesotho's lower labour cost advantage.

- **Labour Productivity**

Although Lesotho could be cheaper in terms of labour cost when compared to the main regional competitors, this is not the case when it comes to labour productivity. The latter actually cancels out the competitive advantage from the lower labour cost. The value chain study revealed that the average productivity measured in completed t-shirts per worker per day was 16 – 20 in Lesotho while in Kenya it was 20 - 25. Low labour productivity levels have a knock-on effect, resulting in regular need for overtime work (at a 50% - 100% wage premium).
In terms of supervisors per production line, Lesotho was found to need one supervisor per 4 lines while in Kenya one supervisor was responsible for 6 lines. Also, in-line defect rate in Lesotho was found to be 2-3% compared to less than 1% in Kenya.

Another main factor that was found to be behind Lesotho's low labour productivity was the high HIV and Aids incidence which causes a high rate of absenteeism. Lesotho has recently overtaken Botswana as the second highest HIV prevalence country in the world. According to available statistics just under one in four people are living with HIV and over half of those infected are women. Since the majority of workers in the apparel sector are women, the HIV infection rate poses a serious labour productivity constraint in Lesotho and unless seriously attended to could cost the country dearly in terms of its ability to attract and retain FDI. The inconveniences caused by HIV/Aids affected people in the workplace relates to absenteeism, frequent replacement of workers stricken with the disease, the attendant training costs and the high cost of medication.

A number of measures and interventions have been undertaken by the public and the private sector against the pandemic. In 2006 Lesotho's labour code was amended to include policies and standards for the management of HIV and Aids at the workplace. National guidelines were also developed for the implementation of workplace HIV and Aids education programmes. In 2006, through a public, private sector partnership, Apparel Lesotho Alliance to Fight Aids (ALAFA) was established. Through ALAFA, the workers in the apparel sector have access to factory-based healthcare services that entail prevention, testing, and treatment of HIV, TB, and sexually transmitted infections. It also provides family planning services and a parent to child transmission programme. Unfortunately in 2014 ALAFA has had to close down due to expiry of donor support and lack of GoL commitment to take over the facility.

With both the closure of the National AIDS Commission and now ALAFA, there is a palpable risk that HIV and Aids prevalence will keep on increasing in Lesotho and would certainly have a negative effect on productivity and competitiveness of the apparel sector.

- **High Overhead Costs**

Administrative costs in the apparel industry constitutes approximately 16.5% of the total value added. According to the value chain study, it was observed that 63.6% of the overhead costs were accounted for by office and administrative expenses of which the major culprit was subcontracting. Two types of subcontracting were identified, viz. specialised stitching and embroidery to local firms most of which are foreign-owned; and outsourcing to other firms to cater for timely delivery of orders in cases where imported input material is delayed. While the first type of subcontracting is acceptable in terms of expanding the local value chain, the second type is problematic in that it emanates from a more structural problem of cargo transportation from South African ports to the factory site.

- **Lack of Middle Management and Supervisory Skills**

Until the establishment of the two skills training centres in the Maseru and Leribe, lack of middle management and supervisory skills has been and continues to be one of the main concerns for increasing overhead costs and poor productivity in the apparel sector. As a consequence of existing skills gap, there is a high concentration of expatriate staff doing supervisory and sometimes simple clerical duties which under normal circumstances could be reserved for local workers. Expatriate staff is paid high salaries, part of which is paid in foreign currency and this is one of the main factors that contribute to the high operating costs, discontent, and loss of morale among the local staff.

The issue of providing reliable training and support services to the apparel industry has been a long standing one and to-date two training centres have been established as mentioned above. However, it does not appear like the type and quality of training offered has been as effective as initially anticipated. The up-scaling and further improvement of the type and quality of training offered should form part of the AGOA response strategy. Table 21 below depicts a full range of job profiles in a typical apparel CMT factory and the level of training/skills required. From the level of cutting machine operators up to production flow supervisors, industrialists complain about lack of local workers with relevant training, skills and experience.

Table 21 Job Profiles in the Apparel Value Chain

Position	Job Description	Education Requirement	Training/Experience	Skill Level
Hand sewers	Sew, join, reinforce, (with needle & threat). Includes weavers & stitchers.	No formal education required	Experience required	Low/Medium
Sewing Machine Operators	Operate sewing machine to join, reinforce, decorate, or perform related sewing operations in the manufacture of garment products	No formal education required, literacy & numeracy skills	Experience: need of speed & accuracy skills	Low/Medium
Garment Pressers	Clothing pressers use steam irons and vacuum presses to shape garments and remove creases	No formal education required	Experience: Need speed & accuracy skills	Low/Medium
Cutting Machine Operators	In automated facilities cutters electronically send the layout to a computer-	Technical education	Technical Training	Medium

	controlled cutting machine			
Line Leaders	Supervisory roles; ensures works flows quickly along the line	High School/Technical education	Management Skills	Medium/High
Production Flow Supervisors	Supervisory roles; oversee the pace of work and ensure stoppages are minimised, monitor production levels, train new workers, and manages regular problems solving.	Technical education/Bachelor's degree	Management Skills	High

Source – M. Martin 'Creating Sustainable Apparel Value Chains, 2013

- **High Cost of Packaging**

Since the introduction of VAT on services and products on local suppliers to the apparel industry, the cost of such services and products have increased. A good example has been cited as that of the materials packaging sub-sector whose growth had created a critical sourcing opportunity in the garment supply chain before the introduction of VAT. In the wake of VAT introduction, orders from the apparel sector dropped dramatically due to its effect on the industry's operating costs. Instead of sourcing locally, manufacturers have been incentivised to avoid paying VAT by sourcing externally, notably, in South Africa. Whereas the objective for levying VAT on service and products suppliers to the apparel industry was to increase the tax base, it has had a negative double whammy effect. One, it has led to the contraction of a promising industry in terms of output and employment. Two, it has discouraged expansion and new investment in that industry.

Based on the foregoing, it is apparent that there is need to review fiscal incentives for the manufacturing sector, especially the apparel industry and its complementary value chains, by focusing more on their expansion and sustainability. Tax revenue should be seen more as an outcome of a growing industry rather than an end on its own.

(ii) Locational Factors

Locational aspects play a key role in the textile and garment sector (Tralac - 2009) in Lesotho. Among others, these mainly entail issues around sourcing of inputs, distance to market, availability and quality of industrial sites and access to utilities.

- Distance to market:

Distance to market plays an important role in determining transport costs and AGOA beneficiary countries like Lesotho being very far from the US market, face huge costs of transport which substantially reduce their competitiveness. It goes without saying that despite the disadvantage of distance from the target market, the major attraction of foreign investors to Lesotho was the preferential access to the US through AGOA which in their calculus outweighed the negative locational factor. While distance to market can be considered as an exogenous factor, Lesotho also faces many endogenous challenges which if effectively addressed can mitigate the distance to market factor. One of the most critical factors is to reduce the import/export transaction costs.

- Import/Export Transaction Costs

The value chain analysis indicated that import transaction costs in Lesotho are 8.3% while export transaction costs stand at 11.7% of the total value added for the production of a t-shirt.

Together these costs add up to 20% which is fairly significant. As a land locked country, Lesotho is heavily reliant on imported goods. As a result, import/export transaction costs and loss of time to market are critical performance factors that define the competitiveness of its industrial development. According to Doing Business report 2014, 'a 10% reduction in the time it takes to move cargo from the production line to the ship increases exports by 4%, all else being equal and reducing inland travel by 1 day increases exports by 7%'.

In Lesotho road and rail transport are the main modes of transport given that air transport can be prohibitively expensive. However, in some exceptional cases air freight is used. This happens when there has been delays is securing inputs on time or through other factors beyond the control of the manufacturer. In such rear cases, high transactional costs are incurred for the sake of retaining the US buyer which the manufacturer can ill afford to lose. Also, delays in late delivery of inputs from South African ports force companies to subcontract part of their production to local firms in order to complete orders on time, as mentioned above. It is estimated that 2% of the cost of producing a t-shirt can be ascribed to subcontracting costs.

The main problem in addressing import/export transaction costs for apparel manufacturers in Lesotho rests on road and rail transport inefficiencies, particularly in relation to the time factor. Road transport is faster but is more costly. Rail transport takes a long time but it could be cheaper. According to estimates road transport costs 75% more than rail transport but where by road it takes one day, it can take between 9-30 days for the same journey on rail transport. A number of problems have been attributed to the Maseru Container Terminal (Mascon)[5] as:

- Poor maintenance of the rail yard
- Lack of space for commercial use as preference is given to strategic items such as maize, fuel, and cement
- Lack of investment in securing the rail yard as a proper bonded area
- Understaffed and untrained customs officials for inspecting incoming cargo
- Lack of information and absence of import clearance computerisation
- Underinvestment and poor condition of rolling stock
- Poor operating conditions at the rail yard that limit the volume of freight cargo
- Inadequate warehousing facilities which compels importers to use containers as storage and as a result incur unnecessary storage costs.

Manufacturers put a very high premium on time to market and as a result prefer to use the much more costly road transport. The opportunity cost of cheaper rail transport is mainly the loss of a US buyer, not necessarily the more costly road transport.

While improving productivity at the factory level is entirely the responsibility of the firm, it is also clear that improvement in transport services is the responsibility of government. It is also clear based on the foregoing that rail transport presents a good potential and opportunity for enhanced competitiveness of Lesotho's manufacturing sector if its efficiencies can be improved. Government has since 2013 taken over the operation of Mascon after ten years of dismal performance by private operators from South Africa. It is hoped that within a short time more space would be provided for commercial use and equipment upgrading undertaken. Most importantly, plans are afoot to turn Mascon into a dry port which would be a most welcome development.

(iii) Trade Facilitation

Trade facilitation refers to measures that simplify import and export procedures, and include issues around customs procedures and other border issues. These might include excessive documentation requirements, a lack of transparency, lengthy clearance times and

[5] Formerly a subsidiary of Spoornet, a South African parastatal for rail transport but now owned by GoL.

unpredictable delays, and outdated customs practices. These issues undermine the ability of producers and exporters to be internationally competitive by increasing lead times, logistics and management costs (Tralac – 2009).

In Lesotho trade facilitation is one of the main challenges hampering smooth movement of goods between borders. According to the value chain analysis study, document clearance can take between 7 to 14 days because of unnecessary bureaucracy at the Ministry of Trade and Industry. Although the rail yard at the Maseru railway station has been declared a 'bonded area' it has not been provided with adequate security and as result it does lend itself to accommodating a centralised customs clearance activity. As a result, inspections for containers are conducted at importer's premises and depending on the availability of LRA staff, it can take 1 to 5 days for inspection to be done. This practice imposes an unnecessary burden on the importer who most of the time is pressed for time to process orders. There is a compelling need to rationalise container inspection such that it takes minimum time.

Doing Business Report 2014 ranks Lesotho 144 out of 189 countries when it comes to trading across borders. This is quite high compared with regional countries like South Africa and Swaziland at 106 and 127 respectively. The main weakness on the Lesotho side is the number of days it takes to import and export at 33 and 31 respectively. In contrast in South Africa it takes 21 days to import and only 17 days to export. Swaziland is even closer to South Africa at 23 and 17 days respectively. It is obvious therefore that there is something wrong in Lesotho that needs to be corrected as part of the AGOA response strategy.

According to interviews conducted with the industrialists, cross-border issues between Lesotho and South Africa need urgent and serious attention. Should the status quo be maintained, the future of the industry will be put at stake. Two things need attention viz. customs clearance and immigration. Although containers are examined by LRA on the Lesotho side, SARS also conducts its independent examination. This practice constitutes duplication of effort and unnecessary waste of resources and time. The average time wasted on the South African side is 6 hours and the additional cost of unloading and reloading the cargo is borne by the industrialists. Obviously LRA and SARS need to sit down and rationalise this important operation. By virtue of Lesotho being totally surrounded by South Africa, there is a compelling need by LRA and SARS to be in continuous consultation to harmonise and coordinate their border operations and systems in a manner that optimises the smooth movement of goods and people between the two countries.

Whereas in the past foreign industrialists in Lesotho used to be given open-ended visas on the South African side, recently and unilaterally that has changed, as they are now given a 3 months single entry visa. This has complicated life for industrialists who have to make frequent business visits to South Africa and for those who have chosen to reside in South African border towns. Free movement of goods and people across borders are intricately linked and any frustration of one or both can have far reaching adverse impact on the economy. Ostensibly, Lesotho's economy is currently being hit very hard by the protracted cross-border rigidities and instability.

At the World Trade Organisation ministerial conference held in Bali, Indonesia in December 2013, a Trade Facilitation Agreement was signed by Ministers of trade with the objective of, among others things, enhancing assistance and support for capacity building to least developing countries like Lesotho in trade facilitation (WTO – 2013). Trade facilitation measures agreed upon include the following:

- Low documentary and data requirements
- Low rate of physical inspection
- Rapid release time
- Deferred payment of duties

- Use of comprehensive guarantees
- Single customs declaration for all imports or exports, and
- Clearance of goods at the premises of the authorised operator.

Lesotho critically and urgently needs the implementation of this agreement to improve and sustain competitiveness of its manufacturing sector.
Border controls and procedures have been explicitly addressed in the agreement wherein it is mentioned that ' a member shall ensure that its authorities and agencies responsible for border controls and procedures dealing with the importation, exportation and transit of goods, cooperate with one another and coordinate their activities in order to facilitate trade'.[6] The implementation of this agreement is very important for Lesotho as a land locked country where it is imperative that a sustainable and mutually collaborative relationship be maintained with South Africa.

(iv) Access to Raw Material

The garment sub-sector in Lesotho depends entirely on imported inputs, particularly knit fabric. About 88% of garment companies in Lesotho are CMT and foreign owned. Fabric sourcing, like many other important operational decisions, are made by parent headquarters and/or buyers abroad. Because of the international inter-connectedness of local investors, fabric sourcing has never posed a big problem except the high cost of transport. As earlier mentioned, sourcing of fabric from non-AGOA countries is made possible by the AGOA 3rd country provision. There is a critical need therefore to vertically integrate the sector by expanding the industry supply chain both locally and regionally.
The issue of access to knit fabric and other complementary inputs is critically strategic and is addressed in Section 5 below.

4.5.3.2 Sub-Sector: Footwear & Leather Goods

The footwear sector can be classified into two categories, namely, footwear and leather goods.

(a) Footwear

As earlier mentioned, the footwear industry is relatively small compared with the textile and garment sector in Lesotho. There are currently only two factories remaining after the closure of one factory recently. The industry solely exports to South Africa rather than the US and this could, among other factors, be explained by the fact that all its investors originate from South Africa where they are familiar with the market. As opposed to leather goods sub-sector, the footwear sub-sector is characterised by mechanised, coveyorised assembly lines and is mass production oriented. The main factors constraining the competitiveness of the sector can be outlined as follows:

- Lack of skills and trained manpower: Although two apparel training centres have been opened, they do not offer any training for the footwear sub-sector. It is imperative that training dedicated for the sub-sector be introduced soon for shop-floor workers, supervisors, and managers. Availability of trained manpower could also be the main attraction of new investment needed to grow the sub-sector.
- Low labour productivity because of lack of skills and trained manpower.
- Lack of local and regional sourcing of components which results in importing inputs from China and India. There is a need for development of local and regional supply chains.

[6] WTO 'Agreement on Trade Facilitation' December, 2013 p.12

- As CMTs, firms in the sub-sector have no product innovation capacity as product design and style are determined by the brands they supply.
- Firms in the sub-sector are confined to the regional market only and this could pose as a constraint to their long-term growth and development.
- Poor institutional support to ensure efficient border control and customs procedures.
- Inefficient transport and other logistics which result in high transaction costs and long lead times. As earlier mentioned, time-to-market is one of the most critical factors for exporters to stay competitive in Lesotho.

(b) Leather Goods

The leather goods sub-sector is dominated by medium, small and micro-enterprises (MSMEs) who mainly use manual labour and limited machinery for production. These enterprises produce for local consumption due to lack of information and knowledge of regional and international markets. The quality of their products is usually not at a level to compete regionally and internationally. As a result of their being confined to a small market, competition is usually high and this impedes their potential to grow and also leads to a high mortality rate. Given their operating environment, it is imperative that leather goods manufacturing MSMEs be exposed to regional and international markets through exports, otherwise their potential to grow will never be realised. To unlock that potential the following weaknesses need to be addressed:

- Poor product quality;
- Low productivity;
- Lack of skills and training;
- Lack of and poorly equipped industrial sites;
- Lack of internationally recognised quality and standards;
- Lack of reliable and mutually supportive relationships up and down the value chain;
- Limited marketing due to problems with pricing and inadequate promotion strategies;
- Lack of networking partnerships with similar producers regionally and internationally;
- Poor access to finance.

4.5.3.3 Sub-Sector: Horticulture & Agro-processing

Lesotho has a huge potential to produce horticultural products for regional and international export. Two examples stand out. The first one is the asparagus production by the Thaba-Bosiu Project in the 1970s. An expanse of land was identified and earmarked for production of asparagus by local farmers who were provided with technical and financial support by the project. A fruit and vegetable processing plant was established under the auspices of LNDC, namely, the Basotho Fruit & Vegetable Cannery (BFVC). Against the rather limited supply chain that was developed, it was proved that subject to efficient management and support, good soil and growing conditions, skilled manpower, and efficient post-harvest handling, export of asparagus can be sustainably produced and processed in Lesotho. The second example is that of many South African farmers along the border with Lesotho successfully growing a range of horticultural crops under similar soil and climate conditions. These farmers primarily produce asparagus, cherry, and peaches for both local and international markets.

Using the value chain analysis for peas as a proxy for other horticultural crops in Lesotho[7], it has been revealed that the highest value adding components are harvesting (38.6%), planting (22.2%) and fertilizer (19.8%). This compares with the South African situation where fertilizer (26.1%), ploughing, discing, and planting (22%) and spraying (20.5%) are the major value adding factors.

With respect to cost, it was observed that farmers in Lesotho used about 40 kg/ha of seeds or 25% less than their South African counterparts but paid 32% more to purchase seeds. As a result per hectare cost of seeds was proximately 5% higher than in South Africa. This disparity was attributed to discounts enjoyed by South African farmers due to bulk buying. On fertilizer, it was observed that in Lesotho farmers applied 38% more fertilizer than in South Africa and paid 13% more per kilogram of fertilizer. Lack of understanding regarding proper application of fertilizer was cited as the main reason for excessive application of fertilizer while lower price per kilogram paid for fertilizer in South Africa was attributed to bulk buying. On the cost of spray and purchase of agrochemicals, it has been found that in Lesotho farmers pay 5% more per hectare than their South African counterparts. In order to address the high cost of inputs and land preparation, the government of Lesotho now subsidises farmers with the objective of improving local food security. Despite GoL's good intentions, this is obviously not a sustainable strategy. Better strategies focusing on public/private sector partnership have to be contrived.

Comparatively, South African farming is more capital intensive than that of Lesotho which is more labour intensive. With intensive irrigation and regular spraying, a South African farmer enjoys a 20% higher yield than his Lesotho counterpart. However, when comparing cost of production per kilogram, it was discovered that Lesotho was lower on cost by 27%. Taking into account that labour costs are less in Lesotho, equivalent labour input costs between South African and Lesotho farmers suggest that labour productivity in Lesotho is low compared with South Africa. In this regard, even if farmers in Lesotho can gain access to low cost subsidised inputs, without improved labour productivity, revenue gains from increased yield would simply be offset by increased labour input cost.

Based on the foregoing, the improvement of farming skills should be the main priority for unlocking the country's agricultural potential. It can be concluded that given the lower labour cost of production, with the adoption of more efficient and better production methods like irrigation and spraying, and improved labour productivity, Lesotho stands a better chance to enjoy higher yields per hectare than South Africa in the production of horticultural products and agro-processing.

4.5.3.4 Sub-Sector: Wool & Mohair

(a) Production:

The wool & mohair sector in Lesotho has traditionally been a very important segment of the economy. The comparative advantage of Lesotho in wool & mohair production lies in the fact that 90% of the country is suitable for livestock farming, albeit subject to good range management practice being adopted. As a result, livestock farming is the main source of livelihood, especially in the mountain areas. Wool & mohair is produced and sold in its raw form as there are no scouring and cleaning facilities in Lesotho. The main reason for lack of upstream value chain facilities is that the current production volumes do not economically

[7] Value Chain Analysis of Selected Strategic Sectors in Lesotho – 2005 p. 46

justify the high cost of such upstream investments. Consequently, the value chain analysis report on the sector has concluded that the country's wool sector potential for growth lies in the area of volume and quality of raw wool produced and traded. All of Lesotho wool & mohair is exported to South Africa where there are two scouring and cleaning facilities. Although South Africa has these facilities, it still has to import wool from Australia to augment local production in order to cover operating costs.

The main challenges facing the wool & mohair industry are:

- Fluctuating international prices which sometimes draw farmers to subsistence type of farming whereby they focus only on body weight and fat content of the animals for sale as life animals.
- Long lead time between selling and receiving payment which can sometimes reach 6 months has resulted in flock decrease of around 20% in the past decade. There has been a slight improvement recently with the advent of local private buyers who grade, pack and transport wool to auction in South Africa.
- Low yield per animal due to inbreeding, poor husbandry practices, poor nutrition, lack of veterinary care and poor range management. The average yield rate of wool in Lesotho is 2.67kg compared with 10kg per animal in South Africa.
- Poor quality of wool due to pasture erosion, weak range management practices and out of control encroachment of weeds and shrubs. These factors make raw wool unclean and increase the cost of processing thus eventually lowering the price.
- Farmers do not have market information about quality, grade and auction prices. This lack of information makes Lesotho farmers price takers only without leverage to negotiate.

According to the value chain analysis study, the farm-to-market value chain for wool produced in Lesotho takes eight activities:

- Feeding
- Veterinary services
- Shearing
- Grading
- Baling
- Transport
- Brokering & auctioning, and association & registration.

The highest value added activities are feeding (37.1%), brokering, auction and handling (32.1%), and veterinary services (17.2%). This compares to a country like Kyrgyzstan where a sheep yields 3.6kg of wool and the distribution of highest value are feeding (34.1%, pasture lease (32.1%) and veterinary (services 21.7%). Unlike Lesotho, in Kyrgyzstan farmers pay a pasture lease which has helped reduce rangeland degradation.

The reason why the feeding component is high in Lesotho is because of the labour cost from the herding system.

Brokering, auctioning and handling is also done at high cost in Lesotho. It is estimated that brokerage commission alone accounts for 92.2% of total brokerage, auctioning and handling costs and is around 14% of total sales value. As more independent auctions are emerging in South Africa it is possible that brokerage commissions could be reduced.

Historically, the Government has subsidised veterinary services to livestock farmers through extension services of the Ministry of Agriculture. However, with the privatisation of some operations in the Ministry, some services, particularly the extension services, have deteriorated significantly due to under-funding and lack of trained manpower. Generally services are provided on a reactive basis when a disease has already struck rather than proactively for prevention. As a result mortality rate among the sheep is high.

Use of proper breeding stock and management is another major challenge. Inbreeding is common resulting in poor quality of offspring.

On the basis of the above, strategies can be put in place to improve the competitiveness of the wool & mohair industry by shortening the payment cycle for farmers, improving range management practices, providing good and timely veterinary services, maintaining high animal nutrition standards and broadly disseminating market information to farmers.

As earlier mentioned, poor range management is one of the main factors contributing to poor output and quality of wool & mohair in Lesotho. It is argued that the problem is not necessarily due to excessive livestock but lack of effective control of animals and weeds and shrubs that stick to the animals.

(b) Processing:

As earlier mentioned there are no commercial processing facilities in Lesotho. The only existing processing is at the basic artisan level producing tapestries for local and tourist market using low technology. According to producers in the industry, two factors drive tapestry sales in Lesotho i.e. tourism and 'sympathy purchases'. The value chain for tapestry production can be broken down into 5 activities:

- Input material
- Washing
- Dyeing
- Spinning, and
- Weaving.

The three largest value adding activities are input material (39%), weaving (33%), and dyeing and spinning (10%). The wool is hand washed, dyed using imported materials, followed by spinning using home-made spinning wheel and then finally weaving the wool yarn into tapestry.

The main challenge facing the industry is labour productivity. Labour alone accounts for 40% of value added in the washing, dyeing and spinning activities. Average production is said to be 1.5 m^2/month per artisan. Lack of motivation and incentives are other factors contributing to low production.

There is a possibility though that if production and quality can be up-scaled, more artefacts mainly in the form of tapestries and apparel can be exported to the EU and US where already a small volume is being exported. The AGOA response strategy should among other things, address possibilities of up-scaling production of wool and mohair handicrafts for export.

4.5.3.5 Sub-Sector: Diamond & Quarrying

Since 2004 to-date, diamond mining and production in Lesotho has been on an upward trajectory because of improvement in world prices. The period before had been characterised by low diamond prices which consequently rendered diamond mining not economically viable in Lesotho. The competitiveness of the industry therefore hinges entirely on the level of world diamond prices which is exogenously determined.

Other factors that determine the competitiveness of the industry are the regulatory framework, infrastructure, cost of utilities, skills, supply chains, and financing, most of which can be locally determined.

Although inchoate, the diamond mining industry in Lesotho is on an upward sloping curve. Compared with Botswana's 40% share of world total supply of diamonds, Lesotho only accounts for only 1% in volume and value terms. Not only is there a great potential, the industry has already turned out to be one of the main economic drivers and enablers for broader economic development in the country.

According to a limited value chain analysis, based on Lets'eng Diamond Mine being the biggest mining company in the country, the main industry value adding and cost drivers are drilling and blasting; loading and hauling which together account for 50% of total cost; processing at 10%, and finally power at 8%. The mining industry has a strong potential to develop local enterprise as mentioned above through the multiple rounds of economic activities it is capable of creating and hence generate more employment, improve income levels and alleviate poverty. The main value adding activities at Lets'eng Diamond Mine i.e. drilling and blasting, and loading and hauling, are currently provided by a local company which in itself is not a small achievement given that many other high value activities are beyond the reach of local enterprises due to lack of skills, capacity and financial resources.

In terms of competitiveness the mining industry in Lesotho faces two main challenges and these are infrastructure and skills. As a rugged and mountainous country, most if not all diamond mines are situated in the highlands which makes accessibility difficult and provision of infrastructure very costly. As a result of lack of good infrastructure in the form of roads, electricity and water, the industry has so far developed below its potential.

Lesotho is well endowed in sandstone used mainly for building and decorative purposes. The sandstone industry presents a very good opportunity for local enterprise in both local consumption and export to South Africa in particular. However, the industry though small but growing is, in terms of capitalisation, mostly owned by foreigners of Chinese origin. Most Basotho owned businesses are small and ill-equipped. According to the chain analysis, stone extraction and distribution are the two most value adding activities in the production process. As for constraints on competitiveness of the sub-sector, the following were identified as the main factors:

- Low labour productivity
- High overhead costs such as salaries making up 12% of total production costs
- Freight costs constituting around 19% of total value added
- Inadequate market information to enable stone processors to align production with consumer trends

- Lack of capital – as a result over 90% of sandstone processors are self-financed and this has constrained their growth.

It is a strongly held view that for the sandstone industry to be viable it should have the ability to export to neighbouring countries, especially South Africa, as the small local market may not be able to sustain it. However, low labour productivity and high transport costs are the two most critical factors for the industry to improve and make meaningful forays into the regional market. China and India are Lesotho's major competitors in the regional market and their prices have been 45% and 65% lower than Lesotho's respectively[8].

Access to market information is another area that needs attention in Lesotho as consumer preferences change all the time. There is a clear market segmentation developing between thin tile products used for private homes and commercial external and interior decoration while at the same time demand for other large pieces for building material is also increasing.

The banking system does not collaterise capital equipment for processing sandstone in Lesotho and as a result even if productivity and access to information were to be improved access to finance would still pose a serious constraint given the lumpiness of capital outlay involved in the sector. In this context, there is a need to liberalise bank lending policy to recognise mobile assets as collateral and to introduce leasing as one of the lending instruments by banks and/or other financial institutions. Most importantly, the industry lacks a strategy which addresses its socio-economic and environmental impact.

In conclusion, the textiles and garments sector is the single largest and most important sector in Lesotho in terms of exports, employment, foreign direct investment and regional as well as global value chains. Most crucially, it is a sector that relies entirely on the AGOA preferential access to the US market. Despite the impressive performance of the sector the main challenge still remains the competitiveness of the sector to optimise the benefits offered under AGOAIn this connection, the Lesotho AGOA Response Strategy in the next sections will focus primarily on how in the short to medium term the sector's competitiveness can be improved and on the measures that have to be taken to ensure its sustainability in the long-term.

The footwear sub-sector is recommended as the second potentially important industry to maximise the benefits of AGOA. Although relatively small and exclusively exporting to South Africa, the industry has a strong potential to expand its capacity and develop the requisite skills to take advantage of AGOA. As such it is recommended that strategies be put in place to expand the capacity of the sub-sector to export to the US under AGOA as well as other international markets.

The horticultural sub-sector has a lot of potential to produce for both local consumption and export. However, it is still undeveloped and in need of institutional support, technical know-how, and development of local and regional value chains. Distance to market is another major hurdle that Lesotho stands to face should it decide to export horticultural products to the US or other international markets. It is therefore recommended that the sub-sector be developed to produce for local consumption in the short-term and to export regionally and internationally (EU) in the medium to long-term.

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[8] Global Development Solutions – 2004 p.65

Although Lesotho has a comparative advantage in the production of wool & mohair, there seems to be a lot of ground that still needs to be covered relating to the improvement of quality of the animals, quality of wool & mohair, range management, and efficient and effective extension services.

The diamond mining sector is doing well in Lesotho with expansions in existing operations and new investment projects. There are however many challenges mainly relating to supporting infrastructure in the form of roads, electricity and water. Lack of high and middle level local expertise and skills in mining is a major constraint for local entrepreneurship to emerge and take advantage of the many direct and complementary business opportunities offered by the industry.

5. Element 3 – Strategic Support Programmes for Priority Sectors

The strategic framework used below follows the Results-based Management Approach (RMA) adopted from a Results Management practical guide developed by the Norwegian Development Corporation (NORAD). The strategic issues are presented first and then followed by a results planning model which identifies the strategic objective, purpose, expected outputs/results, activities, inputs and those who take the responsibility. The two important aspects of using a logical planning model such as RMA is to improve the design of the interventions and to enable the setting up of a monitoring and evaluation framework.

Some definitions of the terms used in the model will help. ***Objective/s*** relate to either a short-term or medium to long-term change/s aimed for. A ***purpose*** is the reason for setting up a particular objective/s or what is wished to be achieved. Expected ***outputs or results*** is what is expected to be produced or delivered. ***Activities*** relate to actions that have to be undertaken to achieve certain results. ***Inputs*** are resources expected to be used to carry out intended activities and the ***responsibility*** column is for those assigned to be accountable for the implementation of identified activities.

5.1 Priority Sub-Sector 1 – Textile and Garment Industry

The strategic measures to improve the competitiveness of the textile and garment sector have been split into two parts i.e. short-term and medium-term. The short-term programme is aimed at closing the current plant under-utilisation rate and doing things that can impact positively on the productivity and competitiveness of the apparel sector as quickly as possible subject to the constraints of the available capital stock and other things that cannot be changed immediately. In other words, in the short-term Lesotho must concentrate on improving the most critical success factors in apparel sector which are price, quality, reliability, flexibility, and speed. The medium to long-term programme is expected to change the structural nature of the industry through a shift to higher value added products and diversification as well as equipment upgrading. The medium to long-term programme is also aimed at supporting other sectors with high potential to export to the US, internationally and regionally. It is important to highlight that Lesotho's competitiveness depends mainly on four factors, namely, cost of inputs, trade preferences, efficiency/productivity, and product diversification. However, Lesotho has no direct control on cost of inputs or trade preferences. As a result, the recommended support strategies mainly revolve around the improvement of efficiency, productivity and product diversification, which are within the control of GoL and the local manufacturing sector. It needs to be emphatically stated that the sustainability of the apparel industry in **Lesotho requires decreased reliance on trade preferences but a shift to permanent sources of comparative advantage**. In this connection, the key strategic issues addressed are:

- Labour costs
- Skills
- Upgrading
- Technology
- Infrastructure
- Logistics and organisational efficiency, and
- Diversification.

5.1.1 Short-term Accelerated Export Programme

A cross-section of firms was interviewed based on a questionnaire focusing on the following key performance indicators:

- Export track record to the US or EU
- Export commitment and strategy based budget and annual plans
- Production capacity
- Quality of management, and
- Profitability.

The survey was undertaken to measure the readiness of the firms in Lesotho to expand exports to the US market beyond 2015 . According to the survey, all apparel firms are more than ready to export to the US. Perceived incentives are:

- Continuation of duty free and quota free market access to the US
- Continuation of the 3rd country provision, and
- Potential strong growth of the garment industry in case of AGOA extension.

The first two reasons are the most critical in the sense that they were the primary factors that attracted the apparel investments to Lesotho in the first place. The original expectation was that from 2001 to date the apparel industry in Lesotho would be relatively mature, vertically integrated and with basic complementary supply chains similar to other regional and Asian competitors. Although there has been a massive growth in the value and volume of exports to the US as shown in the sections above, the apparel industry in Lesotho is still not competitive without free market access to the US and the 3rd country provision. The only major development that ever occurred has been the established of the only yarn and denim fabric mill that now supplies 90% of its 1.5 million yards production per month to the local firms and exports the remainder regionally. About 70% of garment manufacturers in Lesotho use knit fabric that they import from Asia as there is no knit fabric mill in Lesotho. It is estimated that with vertical integration, garment manufacturers can reduce their costs by between 20% and 25%. Sourcing of knit fabric either locally or regionally has been identified as one of the critical issues for Lesotho response strategy on AGOA.

There was a broad consensus among industrialists that the extension of AGOA has the likelihood potential to contribute to growth of the apparel industry and exports in Lesotho in four ways:

- Existing firms would increase their production capacity;
- New and latent garment investments would be triggered;
- The expected expansion of the industry would attract the next round of complementary activities and services that are currently not considered viable;
- The expected expansion of the industry would generate adequate demand to justify the entry of a new knit fabric mill or the upgrading of regional ones.

This report benefitted from a recent survey undertaken by LNDC (LNDC – Research Division 2014) on the apparel industry in Lesotho. According to the LNDC survey, there is a production deficit of 21.3% in the garment sub-sector and 30% in the textile sub-sector. When interviewed the industrialists were all in agreement that AGOA extension and other critical factors addressed, the deficit identified by LNDC would be more that reversed and more workers employed. The LNDC study has identified the following gaps in the four main product categories:

Product	Actual Production (pieces)	Potential	Gap
Knit Garments	85.9 million	98.0 million	12.1 million
Denim Jeans	6.4 million	6.5 million	0.10 million
Denim Fabric	1.2 million yards	2.0 million	0.80 million
Yarn	0.55 million yards	0.80 million	0.25 million

The following were identified as strategic issues needing immediate in order to increase export to the US and to create more jobs. Most if not all of the issues emanate from the critical analysis on sector competitiveness.

5.1.2 Short-Term Strategy

The short-term strategy is to fully utilise the existing plant capacity while concurrently improving the productivity and competitiveness of the sub-sector. Garment exports are expected to increase by more than 20% in the first year of AGOA extension, yarn by 30%, denim fabric by 30% and employment by 15% which will be equivalent to its peak reached in 2003. The short-term programme or Phase I is expected to be implemented over a one to two years period.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
1. Increase garments exports by 50% in the first year of AGOA extension and thereafter by 10% annually	Full utilisation of existing plant capacity and employment creation	Garments: 111.162 million smes from 71.406 million smes in 2013; Denim Jeans: 15.6 million pieces; Fabric: 20 million yards;	• Grow the order books • Mobilise material inputs • Employ more workers	Promotional visits to buyers Funding	All firms

2. Increase denim fabric production by 20% per annum 3. Increase yarn production by 25% per annum		Yarn: 9 600 tons			

The achievement of the above objective will be subject to successful implementation of the following strategic activities and enablers:

Strategic Activity 1: AGOA Extension to 2025, Third Country Provision and TPP

1. The first step GoL has to take advantage of AGOA extension. The main compelling reasons for the extension are:
- AGOA has enabled Lesotho to build a firm foundation upon which to develop a sustainable apparel sector.
- It has been proven through the multiple revisions and extensions of AGOA (AGOA1 – AGOA IV) that the development of a fully fledged apparel sector cannot be completed within a period of ten years.
- The GoL has managed to develop industrial zones and attract a critical mass of CMT producers whose competitiveness still relies heavily on AGOA trade preferences.
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- The extension of AGOA would enable and provide the apparel sector space to diversify and upgrade to higher value products and competitiveness.
- The extension of AGOA would give GoL the opportunity to train and up-skill its workforce as part of product and technical upgrading and diversification to more value adding products.
- The extension of AGOA would give Lesotho the opportunity to advance the competitiveness of its apparel sector through local and regional vertical integration.
- The extension of AGOA would give Lesotho the opportunity to maximise the benefits offered by AGOA and to secure US investors.

2. The third step is to make the US government aware of the implications of the Trans-Pacific Partnership (TPP) agreement (currently under negotiation between the US and the Asia-Pacific region countries) on Lesotho. This agreement when consummated will give the same benefits as AGOA to Lesotho's main competitors in South-East Asia like Vietnam, Cambodia and Bangladesh. According to LNDC report (Jan-March 2014), these countries are already out-competing Lesotho without any trade preferences, hence it is obvious that the TPP will turn them into a must-go destination for investors. The main threat on Lesotho is the likelihood of a mass exodus of the local Asian-owned companies which dominate the local apparel sector.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
Successful lobbying for extension of AGOA beyond 2015 and 3rd country provision for SSA LDCs only	To give Lesotho a head-start to establish a vertically integrated apparel industry to	AGOA and 3rd country provision extension	Active engagement between Lesotho and US governments	Lesotho AGOA Response Strategy	MITCM, GoL, LTEA

	survive post-AGOA				

Strategic Activity 2 – Process Upgrading

Process upgrading entails incorporation of more sophisticated equipment and technology into the production process in order to improve productivity. In the immediate term the majority of apparel manufacturers in Lesotho would like to acquire state-of-the-art machinery to improve their production efficiencies.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
Plant upgrading	Efficient production	• Productivity • Increased exports	Purchase of new technologically advanced machinery and equipment	Own Funding	Firms

Strategic Activity 3: Improve Labour Productivity

As a labour-intensive and highly competitive sector, workforce development is both a short-term and long-term activity in the apparel sector. In this regard there are short-term measures that need to be undertaken and/or are already on-going. With Lesotho's labour productivity ranging between 30% - 70% of South-East Asia competitors, there is a compelling need for the country to ensure it has the right skills for the sector. It is therefore recommended that:

- While firms should be encouraged to improve their in-house training, the two existing training centres must be upgraded with immediate effect to provide quality training and skills relevant to all the apparel sector including footwear.
- Private apparel training centres such as that at St Luke Mission at Maputsoe should be given GoL financial support and the emergence of similar centres encouraged.
- There should be a structured and more focused collaboration and consultation between the ILO Better Work Programme, GoL and the international buyers in strengthening the competitiveness of the industry. A model similar to Promotion of Social, Environmental, and Production Standards (PROGRESS) in Bangladesh focusing on social compliance, productivity improvement, and environmental compliance could be adopted in Lesotho.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
Attain productivity levels similar to those in the region and Asia.	To be competitive and to move towards higher value added products.	-Better trained shop-floor Workers, Technicians, Middle Managers and Supervisors. -Higher Productivity. -Resuscitation of ALAFA Improved social and environmental compliance.	• Develop a localised technical and management training curriculum for the textile & garment sector • Upgrade and expand the 2 apparel training centres • Identify and support private apparel training centres • Send technical staff, supervisors and managers on attachment to affiliate companies abroad	• Technical assistance • Funding	LTEA, ILO, Buyers, MTICM, MET

			• Undertake a study tour to Bangladesh to learn about PROGRESS model • Develop a basic Mandarin course for technical & management staff • GoL and firms to negotiate new terms and conditions of resuscitating ALAFA	Funding	GoL, Firms, ILO

Strategic Activity 4: Reduction of High Concentration of Expatriate Staff
The high concentration of expatriate staff in the apparel industry does not only affect the firms' bottom line but denies the country the local transfer of knowledge. If the country is serious about improving labour productivity most technical positions currently occupied by expatriate staff should soon be handed over to locals. For this to happen there has to be a relatively short transition period of aggressive job under-studying and training. Clear succession plans with specific timelines have to be drawn up and implemented. It is important that this process be handled with utmost care and be led by employers to avoid any adverse impact on production.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
To improve sector productivity and profitability	Localise management and technical skills	• Lower administration and management cost • More Basotho at technical and management levels • Higher productivity and profitability	• Firms to take stock of their expatriate staff • Firms to identify jobs to be localised • Firms to train local staff for those positions • Firms to develop and implement succession plans	• Training incentives • Localisation incentives	LTEA, MTICM, MoET

Strategic Activity 5: Reduction of High Import/Export Transport Cost
Import/export transaction costs in the apparel sector account for 20% of the total value added and this by any standard is quite high.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
Improve the transport	To cut costs and improve	Reduced transport costs and improved time to market	• Turnaround Plan for Mascon	Consultant	PS Ministry of Public Works and Transport (MPWT)

service sector	time to market	 A centralised bonded area for customs clearance at Mascon Efficient administration of Mascon Upgraded equipment and infrastructure at Mascon Efficient management and administration at Mascon	• Negotiate with Spoornet on plan to modernise Mascon • Spoornet to provide more rolling stock for Mascon • GoL to invest in Mascon infrastructure and equipment upgrading • Provide more space for commercial use • Restructure the management of Mascon	Turnaround Plan & Funding Turnaround Plan & Funding	Ministries of Transport in Lesotho and RSA MPWT MPWT

Strategic Activity 8: Improvement in Trade Facilitation

The positive impact of efficient trade facilitation on competitiveness cannot be over-emphasised. However, in Lesotho almost all investors rank trade facilitation as dismally poor. While a number of improvements have been made of legal and operational nature, there is still room for improvement. It is proposed further improvements be made in the following areas:

- Legal framework – need for simplicity, brevity and transparency of regulations
- Infrastructure – Adoption of modern trade documentation and processing systems
- Border controls – This is the main cause of trade facilitation problem in Lesotho. While there has been significant improvements made on the Lesotho side, many investors complain that the South African border side is riddled with unnecessary red tape and slow border release times that are costing them a lot of inconvenience and money. There is a need for Lesotho and South Africa's Customs authorities to address this problem with immediate effect. Otherwise this is not only going to cost Lesotho existing investors only but new investment as well.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
To make trade across borders faster, cheaper and predictable along with safety and security	To cut costs, unnecessary delay, and rent-seeking activities at the border	Timely processing of customs documents, short travel time and quick export delivery, less corruption, more tax collection.	• Meeting between SARS and LRA on strategies to improve trade facilitation in accordance with the Bali Trade Facilitation Agreement • Computerisation of customs clearance processes both on Lesotho & RSA sides • Spot rather than 100% inspection • Training of SARS and LRA staff	• Funding • Technical assistance	LRA, SARS, Donors

Strategic Activity 10: Efficient Issuance of Visas and Permits

Issuance of visas, work permit, import and export permits all now fall under the remit of One-Stop-Business Facilitation Centre (OBFC). A lot of progress has been achieved in eliminating red tape. However more ground still need to be covered to automate the systems and streamline/simplify processes and documentation.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
Eliminate rate tape and provide investors with the best support services and logistics in the region	To retain and expand existing investments as well as attract new investment	1.A new automated system to provide visas and permits on-line 2.A new window dedicated to the apparel sector at MHA and/or OBFC	• Development and acquisition of the new automated system • Staff training	• Funding	Ministry of Home Affairs (MHA), LTEA

Strategic Activity 11: Infrastructure Development

After a long period of waiting, the LNDC has since responded to the pent-up demand for factory space at the Tikoe Industrial Estate. However, demand still exceeds supply and in the immediate term it is recommended that the Corporation should fast-track the construction of more factory shells. While developing industrial estates is on-going, development of other amenities like industrial solid waste management, fire and safety management, warehousing and accommodation have been paid lip service and therefore lagging behind. Warehousing and accommodation could be provided by the private sector. It is recommended these necessities be provided in the short-term. It is also recommended that in the short-term a stock-taking exercise be undertaken to identify all industrial infrastructure needs not for apparel sector only but for other potential export sectors as well.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
1.To avail the apparel sector with high quality and cost-efficient turn-key factory shells in a timely manner and with full amenities 2. To make land available for development to investors in a timely manner	To retain existing investors and be the best destination of choice by new investors	1.New factory shells 2.Provision of sites to investors for development 3. Development of industrial solid waste management system 4. Fire risk & safety management facilities 5. Warehousing facilities 6. Industrial accommodation	• Development of new factory shells • Allocation of sites to investors wanting to expand or develop new factory shells and warehouses • Develop industrial solid waste management system	Funding Funding	LNDC, LTEA LNDC, MTICM, MLGCA

5.1.3 Medium to Long-Term Strategic Support of the Textile and Garment Sub-Sector

In the medium to long-term, Lesotho should be aiming at sustaining the competitiveness of its textile and garment industry without AGOA. To this end, the medium to long-term strategy focuses on upgrading the sub-sector, training and up-skilling the labour force, diversification of exports, diversification of the export market, expanding the local and regional value chains, providing relevant financial support mechanisms, and upgrading technical and support institutions. To have a sustainable apparel sector, Lesotho would be best advised to avoid the "race to the bottom" strategy whereby it focuses on bottom-end apparel products for export. Product and technical upgrading and diversification must be the main objectives.

As mentioned above, Lesotho's comparative advantage in the apparel sector depends mainly on external factors, namely, preferential market access and liberal rules of origin. The only local comparative advantage is competitive labour cost. Low labour costs in an environment of low labour productivity such as in Lesotho cannot sustain the competitiveness of the industry. On the contrary, annual inflation adjustments to wages tend to increase the cost of production without commensurate increase in output which gets exacerbated by a decline in external demand as is currently the case in the US. This can discourage new investment and promote relocation of existing investors to areas of higher labour productivity.

In this regard, the medium to long-term strategy for support and development of the textile and garment sub-sector in Lesotho should focus mainly on identifying factors that are considered critical to promote FDI, local enterprise, and the competitiveness of the sub-sector. Based on local and external experience from other countries that have developed national strategies for the US market, it is proposed that Lesotho's strategy should take the following form:

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
To be a leading textile and garment manufacturing country in Sub-Saharan Africa	Expansion of manufacturing industry sector and creation of jobs	• FDI inflow • Joint-ventures • Jobs • Technological & Skills transfer	• Investment promotion • Development of local and regional value chains development • Skills development • Development of local sourcing and distribution capabilities • Upgrading and restructuring • Upgrading technical & support institutions • Participation in trade shows & export promotion events	1.Investment Promotion Strategy 2. Value-chain development strategy 3. Technical training curriculum 4. Sourcing & Distribution Plan 5. Diagnostic study &Upgrading Plan 6.Upgrading Plan for technical & support institutions 6. Information dissemination on trade shows and export promotion events 7. Funding	LNDC, MTICM

Strategic Priority 1: Expansion and/or Diversification of Apparel Exports

Various approaches were used above to identify apparel products that Lesotho have or can have a comparative advantage to be exported in large volumes to the US and other markets. It has also been shown that the country is under-performing for products listed in Table 9. In addition, Table 18 also depicts footwear items that Lesotho qualify for the US market but are currently not being exported due to supply constraints and strong competition from Asian countries.

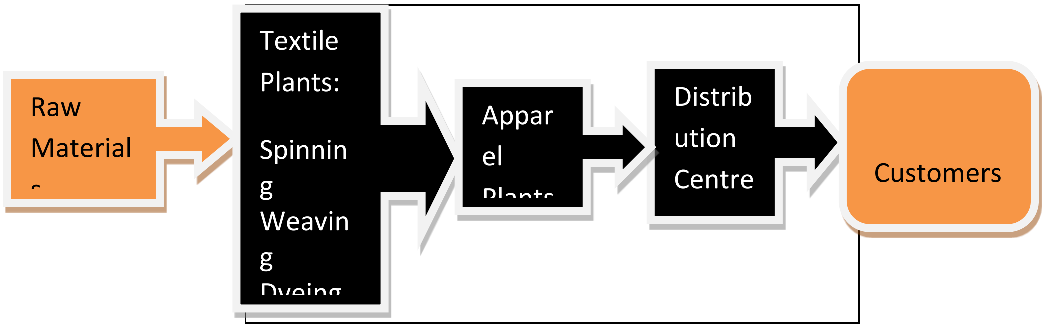
It is proposed that for garments classified as priority export products as shown in Table 16, their production and exports be expanded in the immediate term by eliminating the current industry plant under-utilisation deficit of 21%.

In the medium to long-term, it is proposed that for products that Lesotho is under-utilising AGOA as shown in Tables 17 and 18 for footwear, further work be undertaken to assess market demand, competitiveness, identification of potential buyers and product diversification.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
Diversification of apparel products	Full utilisation of AGOA benefits	• Report on assessment of under-performing apparel products demand, competitiveness and identification of buyers • Technical & financial support mechanisms to enhance competitiveness • Better knowledge of international markets	• Diagnostic analysis of product demand & competitiveness • Provision of technical & financial support to qualifying firms • Provision of marketing skills, market intelligence, standards & quality control	Technical assistance,	MTICM, LTEA, US

Strategic Activity 2: Investment Promotion

The thrust of Lesotho's investment promotion strategy should be to develop an apparel industry (textiles, garments, footwear) that can be sustained beyond AGOA. To this end, the investment promotion strategy should be informed by a plan that articulates all critical value chain gaps faced by the industry. Chief among them should be the establishment of a knit fabric mill and/or identification of regional sources. The overarching long-term objective of the investment promotion strategy should be to turn Lesotho into apparel manufacturing hub of Africa focusing mainly on textile and garment production and distribution as depicted in the darkened are below.



Although Lesotho does not produce cotton, which is a critical input in the value chain, it has managed to establish a manufacturing industry with a critical mass that can easily transform the country as a regional apparel manufacturing centre. All what is needed is to identify and fill up the missing gaps.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
Develop a strategic investment promotion plan focusing on medium to long-term development of the textile and garment sub-sector	To attract relevant investors for all areas identified as critical for a vertically integrated textile and garment industry in Lesotho	Investment Promotion Plan articulating critical areas for development of a vertically integrated textile and garment sub-sector	Preparation of a strategic investment promotion plan	• Consultant • Funding	LNDC, MTICM

Strategic Activity 3: Technical Upgrading

According to UNIDO definition, upgrading entails a continuous process aimed at preparing the manufacturing firms to the demands of free trade and introducing an approach for progress-driven actions of strengthening firms' strong points and eliminating their weaknesses. More specifically, it involves improving firms' competitiveness in dimensions such as production, organisation and management systems, quality and certification, training and skills development, marketing, strategic alliances and partnership (SADC IUMP 2009). It is important that the upgrading and restructuring process in Lesotho should also have a regional dimension entailing harmonising of the process with complementary regional value chains. Apart from strengthening production processes this will also promote regional integration which is one of the AGOA policies.

In the apparel industry, opportunities for upgrading are shaped by the buyer-driven governance structure of the industry. Four types of upgrading have been identified as (1) functional - whereby the producer moves to a higher value function; (2) product – producing higher value products; (3) process – introduction of more sophisticated technology into production; (4) inter-sectoral - leveraging expertise gained in one industrial sector to enter a new sector.

The four stages of upgrading are explained below:

1. Assembly/Cut, Make & Trim (CMT) – This is the most basic stage of the apparel industry whereby garment producers are provided with imported inputs for assembly.

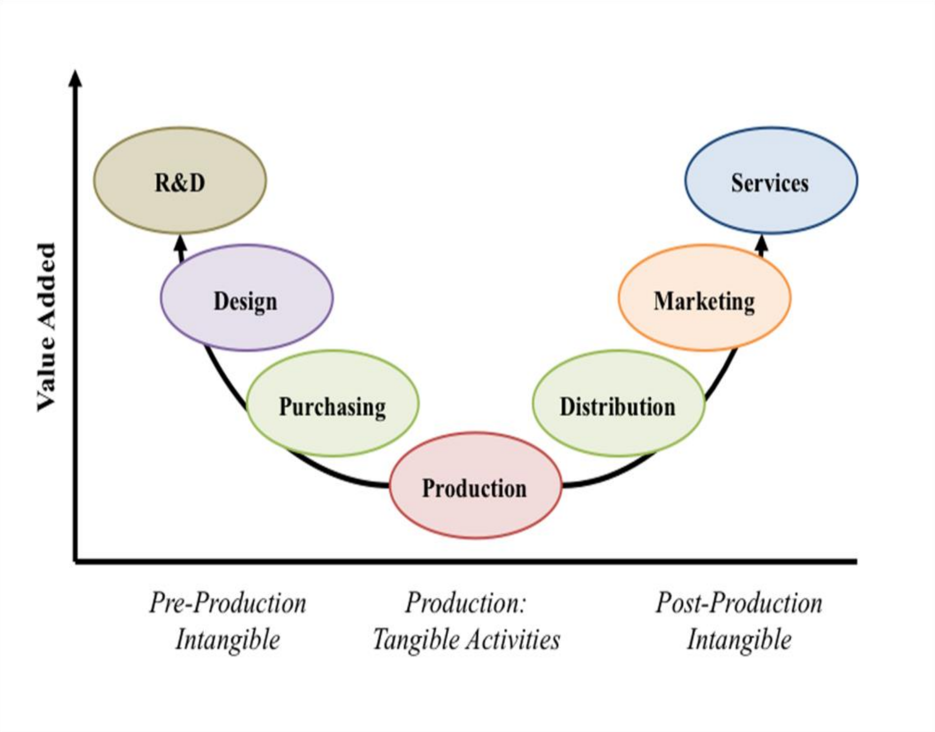
The contracted apparel manufacturer is responsible for cutting, sewing, supplying trim and/or shipping the garments. The buyer purchases the fabric and supplies it to manufacturer along with detailed manufacturing specifications.

2. OEM/Full Package/FoB – At this stage the apparel firm takes the responsibility for all production activities, being CMT and finishing and distribution. The firm must also have upstream capabilities like procurement and financing of raw materials needed for production. However there are still cases where the buyer specifies textile firms from which to purchase material or the firm establishes its own network of suppliers. The OEM firm is also usually responsible for downstream logistics like packaging and shipping to the final destination, hence they are sometimes called FOB.
3. ODM/Full Package with Design – At this stage the firm is not only engaged in manufacturing but it also does its own designing. A garment supplier that does full package with design and carries out all other CMT steps involved in the production of a finished garment. That is, the manufacturer does the following: organises and coordinates the design of the product, approves samples, selects, purchases, produces and finally delivers finished products. This model is common with private-label retail brands.
4. OBM – This is a model that incorporates branding in addition to design and manufacturing. Thus, upgrading in this case involves a move into the sale of own brand products.

Besides the four stages above, upgrading can also be product or process-based. Product upgrading involves movement to higher value products while process upgrading aims at cost reduction and flexibility through improvement of production methods.

Figure 13 below depicts the value-added stages in the apparel chain and thus demonstrate that higher value in the industry is mainly realised in the pre-production and post-production stages.

Figure 13



According to Fig 13, Lesotho is at the production/CMT stage, which is the lowest value added level. Currently the main challenge for the Lesotho apparel sector is to upgrade from the CMT stage. As shown above, upgrading mainly entails the acquisition of pre-production and post-production capacities locally. Due to their strong connections with and dependence on their headquarters and leading full package global suppliers based in Asia, most if not all apparel firms in Lesotho do not feel any compelling need to upgrade. Their major concern is production at minimum cost and logistical convenience. This short-term strategy poses the risk of Lesotho remaining at the bottom of the value chain and being marginalised. It also makes the country vulnerable to foot-loose vendors seeking low cost production destinations.

Based on the above analysis it is proposed that:

- With immediate effect, a study be undertaken to advise GoL on how the apparel industry can be upgraded
- The study should provide measures to be taken to upgrade CMT firms to the OEM/Full package/FoB stage
- The study should advise on how firms already operating at OEM level can be upgraded to the ODM stage

- Attract more South African/Asian/US firms who are willing to produce at higher value-added levels and provide appropriate incentives

It is suggested that the upgrading process be implemented in two phases as follows. In the short-term (Phase I) which is expected to take a maximum of 2 years, 10 or more firms be identified based on their willingness to participate in the upgrading process. An initial pre-diagnostic survey should be undertaken to determine their capacity, experience, export plans and financial performance. This should be followed by a thorough diagnostic study that should aim at revealing the strengths and weaknesses of the companies and to identify actions that have to be taken in the short and medium-term for their upgrading. The ability of apparel firms to form joint-ventures or partnerships with local investors and inter-linkages with the SME sector should form part of the diagnostic process. The diagnostics should propose a financial plan to carry out the identified actions. The aim of the short-term upgrading and transformation programme would be to search and develop 'success stories' through a few experiments.

In the medium-term (Phase II), the upgrading programme, which is expected to take 3 years, will aim at rolling-out the experiences from Phase I to the rest of the industry.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
To restructure and upgrade the apparel sector to make it competitive at national, regional and international levels	To strengthen capacity and deepen the integration of the apparel sector with the local and regional supply chains	• Efficient production methods • More exports • Increased employment • Indigenisation of supervisory & management positions • Creation of local joint-ventures • Linkages with local SMEs	• Pre-diagnostics entailing identification of Phase I firms • Thorough diagnostics including a financial plan • Upgrading plan specifying both the global and specific approaches[9] • Identification of local companies for joint-ventures • Implementation of 'material' upgrading activities in the form of acquisition and installation of production equipment • Provision of 'immaterial' upgrading in the form of development of production methods, sales and management systems	Consultant, Technical assistance, Funding	MTICM, LTEA, IMTT

[9] 'Global approach' relates to a global diagnosis for all targeted companies while 'specific approach' relates to diagnosis of a specific company's problems.

			• Establishment of AGOA Development Fund (ADF) • Development of joint-ventures through the ADF		

Strategic Activity 4: Transformation of Apparel Sub-Sector

Transformation of the sub-sector deals with the process of promoting local ownership and participation of indigenous investors in the apparel sub-sector. It also relates to the development of upstream and downstream linkages between SMEs and the apparel firms. As earlier mentioned, 95% of the apparel industry in Lesotho is foreign-owned and operates as an enclave with minimal linkages with the local economy. Among the reasons for poor linkages are: the sourcing of most, if not all inputs from abroad; local industry that does not possess skills and knowledge about the apparel industry; lack of local entrepreneurial initiative; and language and cultural differences.

Transformation of the sub-sector is associated with the following advantages:

- Sustainability of the industry through inclusion and increased local ownership
- Local acquisition of skills at higher levels of the supply chain
- Local acquisition of market and industry related intelligence
- Improved productivity and competitiveness from better trained supervisory and managerial staff
- Improved inter-racial and industrial relations.

Through transformation of the sector it is expected that more space will be provided for Basotho to form joint ventures with foreign investors and/or provide the outsourcing of some of the apparel operations. More importantly, it is expected that a new class of local entrepreneurs will emerge in the manufacturing of high value niche market apparel products. These are investors who will focus on differentiated and/or unique products not meant for the mass market. It is these kind of entrepreneurs who will be expected to have advanced expertise in fashion design, marketing and branding who can upgrade Lesotho's apparel sector from basic production to the more value added production value chain.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
Promote local ownership and backward and forward linkages in the apparel sector	To localise ownership, management and decision making within the apparel sector	• Higher value added activities localised • Local ownership of apparel firms through partnerships & joint ventures • Management & technical positions localised • Locally-owned niche market apparel firms • Outsourcing segments of apparel production to local SMEs • Improved industrial relations between locals and investors.	• Aggressive training programme for Basotho apparel experts in design, marketing and branding • Identification of trainees & training institutions • Financial support through ADF for Basotho entrepreneurs in joint-ventures and niche market apparel firms • Undertake a study on how to improve industrial relations between local and Asian investors.	Trainees & Funding, Funding Funding	MTICM, LTEA, MoET GoL, US MTICM, MEL

Strategic Activity 5: Local and Regional Supply Chain

The development of local and regional supply chain is one of the most important objectives for the medium to long-term survival of the apparel sector in Lesotho. It is not only meant to meet conditions defined by AGOA but most importantly to sustain the competitiveness of the industry post-AGOA. Developing local and regional value chains would substantially reduce the high incidence of vertical specialisation[10] that characterise the apparel industry in Lesotho. Although it is imperative on Lesotho to develop and deepen local supply chains in order to achieve its long-term objective as a regional apparel hub, it would also make good business sense to forge regional supply links based on comparative advantages and maximise regional sourcing. In this context the main thrust of the strategy should be to accelerate initiatives to identify and work with local and regional sources of input material. Beyond 2015, AGOA is expected to, rekindle the interest of investors who have all along been interested to invest in Lesotho. In line with gravity model dynamics, given the size of Lesotho's apparel industry and critical mass, the 10 years of AGOA extension will send positive signals regionally to attract more apparel investors and other critical complementary industries. According to the LNDC investment pipeline, there is currently a strong interest from regional investors wanting to locate in Lesotho to set up new apparel firms or other complementary activities attracted by, among other things, the size of the industry, potential positive externalities and economies of scale and scope. Not only is there a possibility that Lesotho's industry will expand as there will also be a high probability that some regional firms in the value chain will upgrade and increase

[10] High dependence on imported raw materials used to produce exported goods.

production in line with the anticipated growth of the apparel industry in Lesotho. The recombinant growth resulting thereon should obviously lead to both local and regional trade intensification and diversification which would all be attributed to AGOA.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
Develop the most critical value chains of the textile & garment industry	To have a vertically integrated textile & garment sector	• Source knit fabric locally/regionally • Source trimmings locally/regionally • Source complementary items and critical services locally/regionally i.e. buttons, hangers, packaging, etc.	Prepare a regional value chain development Plan	• Consultant • Technical assistance • Funding	LNDC, MTICM, IMTT

Strategic Activity 6: Skills & Training

Provision of relevant training and acquisition of proper technical and management skills needed by the apparel industry is a *sine qua non* for the expansion of the industry and new investment or upgrading. Based on interviews with the industrialists, Basotho workers lack relevant skills and the existing training facilities in the country do not match the demands of the industry. Consequently, labour productivity is low and despite relatively competitive wages compared with the region, the competitiveness of the industry is still far below main Asian competitors who still manage to beat Lesotho on price even without AGOA. Skills and training improve productivity which is a more important determinant for new investment and long-term sustainability of the sub-sector than low wages.

Given that technical training is by nature expensive and firms are usually reluctant to spend on it, it is proposed that a public-private sector arrangement in the form of a Training Fund be established. Whereas firms would use their contributions for the training of their employees, government contribution would be mainly used for pre-employed and unemployed workers to prepare them for employment in accordance with the MSME policy.

The following strategic framework is proposed:

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
Provide the best training and skilled manpower for the textile and garment industry	• Raise productivity • Diversify to higher value added products • Attract new investment	• High productivity • Export diversification • High value products • Increased FDI	• Develop a Training Programme for the industry • Identify tertiary institutions to offer the course • Establish a Training Fund jointly financed by GoL and industry	• A Study • Funding	LTEA, MTICM, MET MET, LTEA, MTICM MTICM, LTEA

Strategic Activity 7: Sourcing & Distribution, and Research & Development Services

As part of value chain development, Lesotho has to have locally based design, sourcing and distribution services, and research and development. Acquiring these skills or capacity would elevate the sub-sector to the ODM/OBM/full package level. Currently all these services are provided from Asia where most CMT companies' headquarters are based. The reason these services are based outside Lesotho is because as high-value services, they need advanced skills, sophistication, and knowledge of the industry, market and technology; all of which are absent in Lesotho. Maintaining the status quo would only mean that the textile and garment industry in Lesotho will forever remain footloose and fickle because of the centralised control at the headquarters based outside Lesotho. In the short and medium term Lesotho should expand the production capabilities of its textile and garment industry as well as acquire all the high value skills required to foster local ownership and decision-making. It is only through an aggressive local ownership of the apparel industry that these high level value adding activities can be introduced in Lesotho.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
Development of high value adding skills in sourcing, distribution & marketing, and research & development	Fostering local ownership and decision-making	• Localised Sourcing, Distribution and Marketing • Localised Research & Development	• Diagnostic study • Implementation of recommendations	Funding	LNDC, MTICM, LTEA

Strategic Activity 8: Infrastructure Development

Supporting infrastructure for the apparel industry in Lesotho has been mainly demand driven and developed incrementally over time. The development of industrial sites and supply of factory shells has been given the main priority at the expense of other equally critical infrastructural requirements like regional roads linking Lesotho and South Africa, a dry port, and waste management facilities among others.

In the medium to long-term a dry port has to be developed either at the existing premises of MASCON or an alternative site be identified. The latter is recommended as the area around MASCON is fully populated and removals may come at a high cost. Secondly, Lesotho has to engage its South African counterparts on the improvement of roads and bridges that connect the two countries. While road infrastructure on the Lesotho side has been improved, some if not most of South African roads have not been given similar attention and thus pose a drawback on Lesotho's attempts to improve road infrastructure for transport of goods to the ports. Waste management facilities need to be provided as matter of urgency and more specifically for hazardous material which is currently exported to South Africa for disposal at high cost.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
1. Improve road infrastructure connecting Lesotho & South Africa	Infrastructure Development	• Tarred roads connecti ng	• Identify inter-connecting roads between	Study	MPWT

2. Develop a state-of-the art dry port in Maseru		Lesotho & RSA • Maseru dry port	Lesotho & RSA for improvement • Engage in negotiations with RSA • Develop the roads & bridges • Develop plan for Maseru dry port • Secure funding		MPWT, MFA MPWT MPWT, MF
3.Develop waste management facilities, especially for hazardous material		Waste Management Facility	Implement the project at Ha Teko	Funding	MLGCA, MTICM, MF

Strategic Activity 8: Upgrading of Technical Support Institutions

Technical support institutions are vital for enhancing productivity and competitiveness of the manufacturing sector. Institutions can support industry either by providing technical assistance or services that the industry needs as a collective. For example, metrology, standards, testing and quality assurance (MSTQ), technical training, and/or issuance of visas and permits. For the apparel industry in Lesotho, the standards and quality assurance is the responsibility of buyers and distributing agents based at headquarters. The only technical support activities for which the industry relies on local institutions are training, issuance of visas, permits and licences, and resolution of industrial disputes.

With regard to training, there has not been any institutions providing technical training needed by the garment industry until 2009 when two training institutions were established in Maseru and Maputsoe. Before then all training was undertaken on-the-job and was of a very basic nature because firms prefer to spend minimally on training. Most firms interviewed about the two training institutions raised reservations on their depth and quality of training. The footwear and textiles firms actually declared that the training offered is not at all geared towards their type of business. Another observation made by the industry is that there is an acute shortage of supervisory and management skills with a strong bias to the apparel industry in Lesotho.

At the tertiary level, Lesotho has a number technical schools all of which the industrialists complain do not provide skills relevant to the industry. They just do not prepare their learners for the world of work. There is therefore a significant challenge to provide properly trained manpower at both artisan and management levels in Lesotho, and very importantly, work ethics as well which is said to be acutely lacking.

The LNDC serves a very strategic role of promoting both foreign and domestic investment in Lesotho. As an investment promotion agency (IPA), the organisation in collaboration with MTI, has played a very important role in the development and growth of the apparel sector in Lesotho. However, more still needs to be done to beef up the institutional capacity of LNDC especially in relation to marketing and the upgrading of the apparel sub-sector. As an IPA, LNDC needs to be strengthened in the following areas:

- Market analysis and prognosis – Competitive advantage in investment promotion is derived from knowing the market. LNDC has to have a deep knowledge of the apparel sector and other potential export sectors.

- FDI demand analysis and FDI flows – It is equally important that LNDC becomes more astute at gathering information pertaining to investment flows destined for other countries, especially in the region. The 'first mover' strategy is essential in investment promotion.
- LNDC must develop Lesotho's 'brand equity' – The apparel sector has put Lesotho on the global radar screen and thus provided a good foundation for branding. The Lesotho brand should be a promise of what Lesotho can offer the investor.
- Investment Targeting – Investment targeting entails ability to distinguish between market driven FDI and resource driven and/or supply-side influenced FDI where LNDC would flaunt Lesotho's strengths. Market driven target selection occurs where priority sector selection is based on what investors demand. Conversely, supply-side influenced selection is based on what the country needs from the investor.
- Effective aftercare – Although LNDC provides this service quite well to investors, it performs it as an unstructured and reactive 'hand-holding' exercise. LNDC needs to provide a more proactive and dynamic aftercare service to retain and attract investors.
- Policy advocacy – LNDC does not play an active policy advocacy role. One of the most important functions of an IPA is to advocate for policy and other reforms to help improve the product it markets to investors.

LNDC, the OBFC and the Ministry of Home Affairs are also providing critical support services in the form of issuance of licences, visas and permits. LNDC also provides training and dispute resolution services that the industrialists find quite useful in managing industrial unrest and avoiding unnecessary litigation by workers, which sometimes happen due to ignorance of labour regulations. With regard to the issuance of visas many industrialists were not happy with the service delivery of Ministry of Home Affairs which is said to be riddled with inefficiencies.

There needs to be a clear and well defined interface between MTI's Department of Trade, Department of Industry and LNDC on matters relating to investment promotion. Although MTI is supposed to provide policy direction on both trade and industry, communication and implementation has often proved to be a big challenge among them.

The role of Basotho Enterprise Development Corporation (BEDCO) cannot be over-emphasised in the promotion and development of local enterprise, especially SMEs. Programmes for SME development and training should be coordinated between BEDCO, LNDC, The World Bank Private Sector Competitiveness and Economic Diversification (PSCED) Project and the newly proposed AGOA Secretariat.

Strategic Objective	**Purpose**	**Output**	**Activities**	**Inputs**	**Responsibility**
To have the best resourced and efficient technical support services for the apparel sector	To facilitate productivity and competitiveness of the apparel sector	• Fast and efficient service delivery • Cutting-edge competency-based technical training • Supervisory and management skills that are related to the industry	• Take stock of training needs of the apparel sector • Develop a technical & management training programme covering all areas of the apparel sector	Technical assistance and Funding	MTICM, LNDC, MHA, LTEA, MET

		• Reduced time-to-market • Institutionally stronger LNDC	• Identify tertiary & technical institutions to offer training programmes & roll out • Better coordination between LNDC, BEDCO, PSCDP and ASec • Take stock of services offered by LNDC, OBFC and MHA and streamline and improve • Strengthen institutional capacity of LNDC • Strengthen communication between MTICM and LNDC.		

Strategic Activity 9: Supporting Incentives

Currently the incentives for the manufacturing sector are mainly tax-based. Until 2009, the main instrument that was used in the whole SACU region specifically for the apparel sub-sector was the duty credit certificates (DCCs). DCCs allowed apparel manufactures to earn duty credit certificates for proven exports which were then used to claim a remission of duties on imports. Due to DCCs being not compliant with WTO rules, they were discontinued in 2009. Since then Lesotho's manufacturing incentives have been:

- 10% income tax for all exporting manufacturers. Since 2006 to 2014 entities exporting outside of SACU enjoyed zero income tax.
- No withholding tax on dividends
- 125% tax deductible training costs
- Imports of capital goods and inputs exempted from VAT
- Duty free imports on inputs used to make products for export outside of SACU.

While almost all the above incentives are also offered by neighbouring countries and competitor countries in Asia, local manufacturers are of the view that Lesotho could do more to retain and attract new investment. Firstly, they propose that an alternative incentive be identified to replace the DCCs. Secondly, they recommend that given the fluctuating nature of the loti which sometimes depreciates to critical levels, an exchange rate Stabilisation Fund be established. With regard to DCCs, based on studied conducted, it has been realised that unlike other countries in the region, Lesotho qualifies to subsidise exports by virtue of its being classified as a least developed country. The main challenge would be the source of funding. However, there is a need to explore alternatives based on Lesotho's Asian competitors who provide various forms of support to their industrial sector, especially apparel.

Another incentive could be to promote Lesotho as an ethical sourcing country even though double standards by some international buyers has compromised the practice.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
Design an innovative incentive package to retain and attract new investment	To promote competitiveness of the manufacturing industry and increase exports regionally and internationally	1.A new investment incentive Package 2. Retention of existing investors 3. Attraction of new investors 4. Export & employment growth	• Review and revise the incentive structure and align it with those in competitor countries • Consider replacing DCCs with an affordable alternative • Consider establishing exchange rate stabilisation Fund • Promote Lesotho as an ethical sourcing centre.	Study Funding Professional advice Funding Professional Advice Funding	MTICM, MF, LNDC MTICM, MF MTICM, MF, CBL LNDC, ASec, MTICM

Strategic Activity 10: Funding Mechanisms

In Lesotho there are no specialised trade finance or export/import financing institutions. Commercial banks fill up that gap but the services they provide are considered too costly and not properly structured towards managing risk related to manufacturing companies trading internationally. The few that source their financing locally do so because for one reason or another they are unable to access funding from their traditional sources in Asia. The lack of trade finance and capital markets has also been cited as one of the factors constraining growth of SMEs and entrepreneurship generally.

1. **Export Finance**

There are a few options that can be considered to provide export finance services in Lesotho.

First, the country can establish a Special Fund designed to provide financial assistance to all exporting manufacturing firms in the country, local or foreign. The main purpose of the fund would be to provide short-term bridging trade finance which firms usually find costly to secure from commercial banks. Alternatively, the already existing facility at the Central Bank of Lesotho (CBL), the Export Finance Scheme, can be converted into such a fund. The fund should be operated as a public-private sector partnership whereby financial assistance would be offered on matching grant basis.

Second, the Africa Export-Import Bank (Afreximbank) is a pan-African bank established in 1993 based on a model of public-private partnership and its main mandate is to promote intra and extra African trade. The bank offers many trade financing products to manufacturing firms in its member countries. Lesotho as a country with a well established apparel manufacturing industry, is advised to consider joining the bank as a member in order to expose its manufacturing sector to a wider choice of financial products, financial intelligence and technical assistance.

Third, as part of providing capacity to AGOA eligible countries, the US government has put at the disposal of these countries many of its state-owned financial and technical institutions to provide technical and financial assistance. These organisations have been mentioned in section 3 above. Since joining AGOA Lesotho has never established any business relationship with these institutions. It is recommended that the country should as matter of urgency engage these institutions to leverage its manufacturing sector in export financing.

2. AGOA Development Fund (ADF)

It is proposed that the AGOA Development Fund be established. The main objective of the Fund would be to provide financial support for upgrading and other operational necessities. The facility should among others, provide the following financial instruments to deserving manufacturing and exporting enterprises:

- project finance
- guarantee facility, and
- equity finance.

The ADF should be established as a joint-venture between GoL and the US government. To ensure its sustainability, the Fund should offer matching grants to qualifying firms. Apart from providing various forms of credit for trade and upgrading, the Fund should also facilitate the development of joint ventures between foreign investors and local entrepreneurs to promote local ownership and transfer of technical and management skills. It is a political and social imperative that ownership, inclusion and/or participation of Basotho in the apparel industry be implemented in the short to medium-term in order to justify the financial support by GoL to that industry. Involvement of locals in the industry would solidify its long-term survival. To qualify for ADF, enterprises should satisfy the following conditionalities:

- Manufacturing and exporting
- Direct upstream/downstream value chain enterprises
- Upgrading to improve productivity and competitiveness
- Making attempts to source locally and regionally
- Creating employment
- Indigenising supervisory and management positions
- Establishing joint-ventures with local investors
- Establishing linkages with local SMEs.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
Establish financing mechanisms to support sustainable development of the apparel sector	To facilitate and enable the development of a fully integrated apparel sector with full package and design and branding firms	• Trade finance facility • Membership of Afreximbank • Financial and technical assistance from US trade finance institutions	• Develop a business plan for a local trade finance facility • If viable establish a trade finance facility • Establish business	Technical assistance Funding	MTICM, LTEA MTICM, LTEA, Private sector

		• ADF	relationships with US trade finance institutions • Develop business plan for ADF and establish ADF	Financing proposals Technical assistance	MTICM, LTEA, Private sector GoL, US

5.2. Other Potential Priority Sub-Sectors

5.2.1 Footwear and Leather Goods

Footwear: The footwear and leather goods sub-sector falls within the apparel sector and shares the same policy and infrastructure requirements. As earlier mentioned, the footwear sub-sector which produces for the South African mass market is comprised of two firms only with the third one having recently closed down. The reason for closure has been poor competitiveness. The short-term strategic support for growth and competitiveness of this sub-sector is similar to the one proposed for the textile and garment sector above.

The medium to long-term strategy is somewhat different as it mainly proposed expansion of production and capacity to export outside of South Africa including the US. For the footwear sector the strategy should be to build up capacity by upgrading, diversify product range and markets by producing other footwear products with high tariff preferences in the US, and familiarisation with the US and EU markets. The other objective should be to elevate the level of production to the OEM stage whereby firms should develop the capacity to source and produce on their own account. In the long-term the footwear sub-sector should acquire the full package stage of either ODM or OBM stage which would include designing and branding.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
Upgrade and expand capacity of the footwear sub-sector	Position footwear sub-sector for diversified exports to the US	1. Expanded capacity 2. Exports of plastic shoes 3. More exports sports and other types of shoes 4. Elevation to OEM stage and eventually ODM and/or OBM stages	• Undertake diagnostic study for upgrading needs of the sub-sector • Upgrading of equipment & technological processes • Upgrading to OEM production stage • Upgrading to ODM/OBM stages	Diagnostic Report Funding Funding Partnering Funding Partnering Funding	MTICM, LIEA, LNDC

Leather Goods: Unlike the more mechanised footwear sub-sector, the leather goods sub-sector is mainly dominated by the small and micro-enterprises who produce to supply the local market, not for export. With increasing globalisation, the local SMEs can longer afford to hide behind their inefficiencies and fear of external competition. Otherwise they risk the ever growing unrelenting attack from imports. The strategies outlined below are aimed at capacitating leatherwear producing SMEs to change their mind-set and become more export-oriented.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
SME Development	Capacity building	1.Growth of leather goods industry 2.Increased participation of youth, women, and disabled in the industry	1. Take stock of leather goods SMEs 2. Undertake entrepreneurship and capacity building development programmes with special emphasis on youth, women, and disabled 3. Develop leather goods related skills development programme to promote technology, and technical skills.	Development Programmes; Funding	MTICM, MAFS, MET, MGSR, ASec
Improve product quality	Product attractiveness	High demand of product	• Upgrading equipment & technology (Process Upgrading)	Funding	MTICM/ASec
Improve productivity	Efficient production	High output, competitive costs	Upgrading & technology; Technical training	Funding	MTICM/Asec
Attain international quality & service standard	International acceptability and recognition of products	Access to export markets	Introduce companies to quality management systems & international certification	Training Funding	MTICM/ASec
Develop efficient value chain	Efficient production	Efficient systems for access to raw materials, transport, and other logistics	1.Identify the critical value chains 2.Develop a plan for their improvement and implement plan	Diagnostic report Funding	MTICM/ASec
Improve marketing skills	Access to international export markets	Increased exports	1.Establish export consortia to strengthen export capacity 2.Embark on export promotion campaigns	Design a plan	MTICM/ ASec
Improve technical & management skills	Productivity; Innovation	1. Footwear experts 2.Acquisition of niche markets 3.Diversified products 4.Acquisition of design, branding & marketing skills	1.Identify entrepreneurs for training in footwear technology, design, branding, marketing & management 2.Attach footwear entrepreneurs to overseas technical institutions 3.Introduce footwear technical training in TVET schools	Training Plan	MTICM, ASec, SMEs

Provide good infrastructure	Affordable accommodation & amenities	Increases production & exports	1.Establish a footwear training & design centre 2.Develop a turn-key footwear manufacturing cluster for SMEs	Funding	MTICM, ASec
Promote regional & international partnerships & networking	Acquisition of knowledge	1.Company and sector growth 2.Market access 3. Market intelligence	1.Analysis of SMEs capacity for partnership 2.Identification of market opportunities 3.Training of managers on negotiation skills 4.Organisation of promotional campaigns 5. Search for joint-ventures and sources of funding	Partnership & Networking Plan; Funding	MTICM, ASec
Provide relevant market information	Strategic positioning	1.Development of good business strategies	Establish a portal of business information for footwear sub-sector	Funding	MTICM, ASec
Improve access to finance	Upgrading, innovation and new investment	1.Sector growth 2.Export growth	1.Establish AGOA Development Fund 2.Provide financial incentives	Funding	MTICM, ASec
Technical Support	Capacity building	1.Growth of the sub-sector 2.Exports	1. organise sector associations and cooperatives 2.Gather and disseminate technical and market information 3.Promote international alliances and joint-ventures in the value chain.	Technical assistance	MTICM, MAFS MAFS LNDC, ASec

5.2.2. Potential Priority Sub-Sector 3: Horticulture & Agro-Processing

Success in agri-business at the global export level lies in a world class research system, attention to quality, phytosanitary and sanitary issues, enabling infrastructure and well established networks with established markets. A lot of effort is also needed in inspection, control and testing of products, reduction of post-harvest losses, management of food crops, finance, export marketing and environmental management. For the sub-sector to realise its exporting potential the following strategic interventions are proposed:

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
SME Development	Capacity building	1.Growth of agri-business SMEs 2.Increased participation of youth, women, and disabled	1. Take stock of agri-business SMEs 2. Undertake entrepreneurship and capacity building development programmes with special emphasis on	Development Programmes; Funding	MTICM, MAFS, MET, MGSR, ASec

			youth, women, and disabled 3.Develop agro-processing related skills development programmes to promote technology, and technical skills.		
Integrated Infrastructure Development	Enabling environment	Roads, electricity, water, ICT, storage & warehousing facilities	1.Take stock of development sites 2.Identify development needs of the sites 3.Provide required infrastructure and all logistics 4.Encourage cluster formations and cooperatives to develop economies of scale & scope	Funding	MTICM, MWPT, MF, ASec
Develop vibrant downstream supporting industries	Development of critical value chains	1.Inputs suppliers 2.Machinery suppliers & maintenance 3.Transport operators 4.Business development service providers (BDSPs) like: horticulturists, financial advisors, packaging, ICT, etc.	1.Facilitate establishment of strong private inputs suppliers 2. Facilitate establishment of strong agri - plant/machinery suppliers and maintenance centres 3.Support and facilitate development of BDSPs	1.Mobilisation of entrepreneurs 2.Funding	MTICM, LNDC, ASec, MF
Developing markets access	Exports	1.Investment promotion campaigns 2.Quality & phytosanitary & sanitary systems 3.Strategic alliances	1. Establish metrology, standards, testing and quality assurance systems (MSTQ) or outsource regionally 2.Producers should improve packaging, distribution and marketing of products 3.Producers to participate in international fairs to promote products 4.Producers to visit target markets 5.Promote international strategic alliances in the value chain.		
Technical Support	Strengthening capacity	Growth of the sub-sector	1.Provide efficient extension services 2.Organise sector associations & cooperatives 3.Gather & disseminate technical and marketing information 4. Promote networking & joint	Technical assistance	MAFS MTICM, MAFS, MGSR MAFS LNDC, ASec

			ventures with foreign investors.		

5.2.3 Potential Priority Sector 4: Mining & Quarrying

In line with the Draft White Paper - Minerals and Mining Policy 2014, the strategic actions mentioned below mainly revolve around removing obstacles to increasing levels of value-addition in the mining and minerals industry as well as to raise participation of locals in the industry through skills transfer and ownership.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
Enhance and broaden skills base	1.Development of local capacity 2.Attraction of new investment	1.Trained workforce 2.More investment flows 3.Export growth 4.Employment growth	1.Develop a technical training plan for: engineers, geologists, geo-technicians, drilling & blasting, metallurgy etc.	Technical development Plan	MTICM, ASec, MET, Mining companies
Beneficiation of diamonds	Up-stream value added activities	1.Cutting & polishing 2.Jewellery manufacturing	1.Undertake study tours 2.Support development of industries	Development Plan for beneficiation	MTICM, ASec, Donors
Develop vibrant downstream supporting industries, mostly SMEs	Development of local value chain	1.Local sourcing of inputs and services 2.Import-substitution 3.Employment growth	1.Undertake a diagnostic study of supporting services 2. Design plan and implement 3.Develop a strong foundry industry 4.Promote collaboration & networking 5. Improve technological capabilities of downstream industries 6. Assist firm to upgrade/invest in new technologies	Diagnostic Study & Plan Funding & technical assistance	MTICM, Mining companies, ASec, Donors
Promote regional & international partnerships & networking	Attract new investment through joint-ventures and partnerships	More US SMEs forming joint-ventures with Lesotho SMEs	Investment promotion missions to US and other destinations targeting SME joint-ventures	Investment promotion plan	MTICM, ASec
Infrastructure development	Enabling environment	Roads, electricity, water, communication	• Develop roads • Provide electricity, water and ICT	Funding	MPWT, MTICM, ASec
Technical assistance	Strengthening Capacity	Strong regulatory & legislative framework	1.Review and strengthen regulatory & legislative framework and environment protection	Legal experts	MM, Mining Companies

5.2.4 Potential Priority Sub-Sector 5: Wool & Mohair

The strategic actions presented below are aimed at providing solutions to the constraints identified in Section 5.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
SME Development	Capacity building	1.Growth of wool & mohair farmers 2.Increased participation of youth, women, and disabled in the industry	1. Take stock of wool & mohair farmers 2. Undertake entrepreneurship and capacity building development programmes with special emphasis on youth, women, and disabled 3.Develop related skills development programmes to promote technology, and technical skills 4. Improve stock and range management.	Development Programmes; Funding	MTICM, MAFS, MET, MGSR, ASec
Integrated Infrastructure Development	Enabling environment	Roads, electricity, water, ICT, and warehousing facilities	1.Take stock of development sites 2.Identify development needs of the sites 3.Provide required infrastructure 4. Upgrade wool sheds 5.Encourage cluster formations and cooperatives.	Infrastructure Development Plan; Technical assistance; Funding	MTICM, MWPT, MF, ASec
Improve logistics	Ease-of-doing business	1.Efficient transport system 2.Timely payments to farmers	1.Review transportation system 2.Review payment system	Technical assistance	MAFS, MTICM, LWMA, ASec
Technical Support	Strengthening capacity	1.Improved stock & security 2.Better logistics & marketing 3.Data and information 4.Networking & partnerships	1.Provide efficient extension service 2. Support formation of cooperatives 3. Set up marketing systems 4.Set up data and information dissemination system 4. Beef up livestock security.	Veterinary services Police	MAFS MTICM MAFS MDPJS

5.2.5 Potential Priority Sub-Sector 6: Handicrafts

The handicraft industry in Lesotho is broad as it covers garments, leather, wool & mohair, stone, grass, and wood. The strategic actions proposed below are mainly premised on capacity building.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
SME Development	Capacity building	1.Growth of handicraft producers and products 2.Quality products 3.Increased participation of youth, women, and disabled in the industry	1. Take stock of all handicraft producers 2. Undertake entrepreneurship and capacity building development programmes with special emphasis on youth, women, and disabled 3.Develop related skills development programmes to promote technology, and technical skills 4. Promote environmental protection.	Development Programmes; Funding	MTICM, MAFS, MGSR, MET, ASec
Enhance and broaden skills base	Development of skills	Promotion of artistic skills, especially among women, youth and disabled; Promotion of business & management skills.	1.Develop training programmes for artists on leather, fabric, wool & mohair, stone, grass and wood. 2.Establish training centres for artists	Training Programme Funding	MET, MTEC, MGYSR MTICM
Infrastructure Development	Enabling environment	Training and Production Centres; Warehouses	1.Take stock of handicraft centres 2.Identify development needs of the centres 3.Provide required infrastructure 4. Upgrade equipment 5.Encourage cluster formations and cooperatives.	Infrastructure Development Plan Technical assistance Funding	MTICM, MTEC, ASec
Improve logistics	Ease-of-doing business	1.Efficient transport system 2.Timely payments to handicraft centres	1.Review transportation system 2.Review payment system	Technical assistance	MAFS, MTICM, LWMA, ASec
Technical Support	Strengthening capacity	1. Export promotion networks 2. Access to finance	1. Promote local handicrafts in international markets 2. Handicraft producers to attend regional and international expos 3. Design environmental regulations and guidelines for artists 4. Provide financial incentives to producers	Funding	MTEC, MTICM, MGYSR

6. Element 4 - Developing a Comprehensive Strategy for Increasing US Investment in Lesotho

According to USITC report (USITC 2013), in 2012 the US cumulative FDI position in SSA was US$28.6 million and the three largest destinations were Nigeria, Mauritius, and South Africa. The bulk of the investment went into mining and petroleum with manufacturing getting only 6%. In the manufacturing sector the report mentions that most US investment has gone into consumer products, food and beverages, and automotives. It is noteworthy that none of the above FDI flowed into Lesotho.

It is important to identify reasons why US investment has been very limited in the case of Lesotho. The first one is the US investment bias towards mining and petroleum sectors, which is beyond the control of Lesotho. The second one is lack of a formally structured US investment promotion strategy to brand and sell Lesotho as an investment destination of choice in priority sectors with strong potential to export to the US. The third one is failure on the Lesotho side to form strategic alliances with US trade and investment institutions to leverage US investment flows. With the exception of the first reason, the other reasons are within the grasp of Lesotho to promote US investment.

This section presents a strategy for attracting US investment to Lesotho in the sub-sectors mentioned above, namely, garments and textiles, footwear & leather goods, agro-processing, mining & quarrying, wool & mohair, and handicrafts. It is argued that the four elements mentioned below are essential for developing a strategy that can foster more investment from the US:

- Identification of Lesotho's competitive edge
- Market analysis
- Investor targeting; and
- Establishing alliances with US trade and investment promotion institutions.

6.1 Identifying Lesotho's Competitive edge (Branding)

It goes without saying that the first thing US investors would need to know are the compelling reasons why they should invest in Lesotho. Ideally, they can only invest in Lesotho if they are given a promise that they will get better value for their money compared with other competitor countries. That promise is Lesotho's brand equity and it has to be strong and convincing. Given the international cut-throat competition for investment, especially in the apparel sector, the role, scope and need for professional branding of Lesotho has never been so urgent. Country branding is not automatic nor is it accidental. In branding, what makes a country gain a competitive edge is the ability to give a foreign investor a perception that processes for decision making and/or mitigating and managing risk are simple and transparent. There are seven reasons that are often cited for the quintessential need for branding (IPAK-2014) and these are:

- An improved investment climate is no longer a sufficiently compelling reason to attract investors given the widespread economic transformation taking place;
- Growing power and influence of international media;
- Increased product parity;

- Tighter linked global economic systems with finite number of investors being pursued by increasing number of investment promotion agencies warrants better brand positioning in the marketplace;
- Ever widening sourcing of products and services increases the need to build and substantiate trust in both company and country of origin;
- Increasing competition from countries, regions and cities to attract talented immigrants to boost the quality of labour supply;
- Competition is spreading given the advances in telecommunications and continuing trend in terms of the shift from manufacturing to services means a significant decrease in proximity sensitive FDI projects.

The strategy to build Lesotho brand is proposed as follows:

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
Brand Lesotho as a destination of choice by regional and international investors	To give investors a positive impression that in Lesotho "they will find a profitable solution to better serving existing and new customers while mitigating business risk exposure"	Increased new investment in all exporting core sectors	• Test perceptions about Lesotho on existing local investors • Test awareness of Lesotho by US investors • Determine what investors like and dislike about Lesotho • Prepare the Lesotho brand based on the following principles: • Memorability • Meaningfulness • Likeability • Transferability • Adaptability	Branding Plan	MTICM, LNDC, ASec

6.2 Investor Targeting

When it comes to wooing US investment, Lesotho must have a clear understanding of the extent to which the supply-side dynamics have to be improved to competitively satisfy the demand-side. In other words, Lesotho must cut her coat according to her cloth. Even though General Motors can generate more jobs, it may not be feasible to attract such investment in Lesotho because there is no infrastructure to accommodate it.

While it may be important to identify sectors that have a high potential to export to the US as done above, this is not a sufficient and perhaps the most effective way to attract US investment to Lesotho. Having a relatively long and successful experience with the apparel industry in Lesotho is not a *fait accompli* for attracting US investment. *To effectively attract sustainable US investment, Lesotho must develop a razor sharp focus on US demand for investment locations and their capacities.* It has to learn to anticipate and respond to the needs of investors. This is to say, target sector selection must be aligned with investor demands. Finally, for Lesotho to strategically attract investors, it must develop, substantiate and take value propositions to companies operating in sectors within which the most numerous investments are being made[11].

However, contrary to the above argumentation, the investor targeting strategy proposed here is resource based and/or supply-side driven, meaning that it relates to Lesotho's perceived strengths.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
1.For the apparel SME sector target US investors who can form joint ventures with local SMEs in niche markets 2.Expand the pool of buyers for Lesotho apparel in the US	Capacity building and market diversification Retain existing buyers and attract more buyers in the US	• Professional local producers of apparel • High value apparel products and exports; More US buyers and increased demand for Lesotho apparel	• Identify local apparel SMEs and prepare profiles • Prepare value substantiated proposition for US investors • Undertake investment promotion visits to the US. • Identify and establish relationships with US promoters for buyers • Prepare a value substantiated proposition for US buyers • Undertake buyers promotion visits to US	Study Reports Funding	MTICM, LNDC, ASec
3.Unlock the export potential for AGOA of core strategic sub-sectors like footwear & leather goods; mining & quarrying; horticulture & agro-processing; wool & mohair; and handicrafts.	Maximise the benefits from AGOA trade preferences	Diversification of exports and more exports	• Prepare company and SMEs profiles in the potential core exports sectors • Prepare value substantiated propositions for all potential export core sectors • Take stock and target US companies with potential to form joint ventures with local SMEs • Identify US footwear buyers with potential to source from Lesotho and		

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			assess demand and investor needs • Mount invest promotion campaigns for buyers and investors.		

6.3 Market Analysis – Knowing the Competition

Access to information has been and continues to serve as an essential element in decision making for both investors and investment promotion agencies. It makes little sense to promote investment in a market one is ignorant about or invest in a country of which one knows nothing. To this end, it is imperative that if Lesotho intends to attract US investment it must know better about the US market than its competitors. The market for FDI is one about first movers and to be a first mover one needs to be well informed. Principally, FDI projects are driven by the market and therefore having accurate market information is an imperative.

Lesotho currently does not undertake any market analysis on foreign direct investment flows for investment promotion purposes. As the main targeted market in order to maximise benefits from AGOA, statistics about US FDI outflows is critically needed to determine:

- Which US companies are investing abroad?
- Which US companies are more interested in AGOA incentives?
- To which countries is the US investment directed and in what sectors?
- How much is being invested?
- What are the most favoured routes into the host country i.e. privatisation, greenfields, brownfields, joint ventures or acquisitions?

Through market analysis of the US and others countries, Lesotho can learn about market trends and behaviour and pre-emptively position itself to respond to the demands of investors. According to recent trend analysis, the FDI market is mainly influenced and characterised by the following:

- Rebound of outsourcing to lower cost locations
- Rationalisation and consolidation of existing operations
- Continued search for government support and funding to lower start-up and operational cashflow pressures
- Shift to flexible work patterns
- Focus on market flexibility and growth
- Regionalisation and globalisation rather than localisation.

The latter is very important in the case of Lesotho in that one of the strategies for targeting US investments could be to focus on some US investments in South Africa to extend part of their operations to Lesotho. Among other things AGOA is about promotion of regional integration. Knowing how the FDI market behaves in the US and other regions, especially the SADC sub-region, is fundamental for attraction, retention and growing of FDI in Lesotho.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
Develop a well structured data analysis system on US FDI flows and other regions	To know the competition	1.Flexibility to investor demands 2.Efficient investor targeting 3.Better planning and decision making	• Establish a working relationship with USITC and USTR on US FDI flows • Purchase relevant data management system • Produce FDI reports by sector, investor origin, products, value, demand trends, etc	Funding	MTICM, ASec ASec ASec

6.4 Establishing Alliances with US trade and Investment Institutions

Section 122 of AGOA directed the US President to target US government technical assistance and trade capacity building in AGOA beneficiary countries (CRS Report for Congress – 2012). The areas for assistance were identified as:

- Liberalising trade policy;
- Harmonising laws and regulations with WTO membership commitments;
- Engaging in fiscal and financial restructuring;
- Promoting greater agribusiness linkages;
- Developing private sector business associations and networks with US enterprises
- Increasing trade in services; and
- Addressing critical agricultural policy issues.

In 2010 alone the US earmarked around US$588 million in trade capacity building of which US$341 million was assigned for infrastructure and US$200 million for trade-related agricultural projects. Lesotho did not utilise this opportunity simply because since the inception of AGOA it had never established a strategic relationship with any of the US trade and investment facilitating institutions. Going forwards, Lesotho needs to use every opportunity availed under AGOA bearing in mind that it is a unilateral and temporary arrangement. To this end, it proposed that Lesotho should urgently engage the following institutions and formally establish working relationships with them in order to fully take advantage of trade and investment facilities they offer.

- USAID – AGOA's mandate to trade-related technical assistance is primarily implemented by USAID through the African Global Competitiveness Initiative (AGCI). These initiatives are generally used to focus activities around a common goal, but there are AGOA-related activities funded by other initiatives within USAID. Besides many other technical assistance programmes aimed at improving trade, USAID also supports the Southern African Trade Hub based in Botswana. The Trade Hub specifically provides assistance in promoting trade and addressing food security, providing technical assistance aimed at reducing trade costs, supporting trade corridors, supporting regional integration, and assisting in the development of regional information sharing and monitoring networks for market information.

With regard to potential private sector linkages between US and Lesotho businesses, the USAID funds the South African International Business Linkages (SAIBL) to assist SMEs to prepare business plans, achieve ISO certification, attend US trade shows, and facilitate export financing. SAIBL can also assist in identifying investment opportunities between the US and Lesotho as well as sources of financing.

- OPIC – OPIC is a US development finance agency whose mandate is to promote economic growth in developing and emerging economies, and expand US exports by providing political risk insurance, project financing, investment funds support, and other services. Thus, OPIC programmes primarily promote US private investment by mitigating, mainly though not exclusively, political risks such as expropriation, political violence and terrorism. Since 1974 OPIC has supported investments of nearly US$6.3 billion in Africa, but none in Lesotho. Based on the foregoing, it is obvious that OPIC is one of the essential elements for US investment outflows to Lesotho through its risk management capabilities.
- Export-Import (Ex-Im Bank) – The Ex-Im Bank maintains finance and insurance programmes to facilitate US exports to developing countries. Its main programme instruments are direct loans, loan guarantees and export credit insurance. It is gratifying to note that in 2011 alone, 80% of transactions supported by Ex-Im Bank went to US small enterprises doing business in Africa. This is a direct challenge to Lesotho to ensure that it embarks on an aggressive campaign to attract US small enterprises under AGOA to form joint-ventures or partnerships with local SMEs. US investments located in Lesotho would all qualify to access resources from Ex-Im Bank and thus be in a position to strengthen trade links between the two countries.
- USTDA – The USTDA's mission is to promote economic development and US commercial interests in developing countries. This agency links US businesses to export opportunities by funding project planning activities, feasibility studies, pilot projects implementation, creating enabling infrastructure and facilitating economic growth in developing countries. With regard to infrastructure USTDA specifically supports sectors such as transportation, energy and telecommunications.
- CS – The CS is the main export promotion arm of the US and its services are mainly targeted at small and medium enterprises. Regionally, there are CS offices is Cape Town and Johannesburg in South Africa and this presents a good opportunity for Lesotho to forge a relationship to promote awareness between US and Lesotho SMEs. The following strategic approach is proposed to forge relationships with US trade, exports and development institutions.

Strategic Objective	Purpose	Output	Activities	Inputs	Responsibility
Investment/trade and export promotion entities in Lesotho should form strategic alliances with US counterparts	1.To improve marketing and productive capacities and competitiveness of export sectors in Lesotho. 2. To be well informed about the US market.	1.Joint-ventures and partnerships between US and Lesotho SMEs 2.Increased US apparel buyers 3. Increased trade flows between US and Lesotho 3. Diversified exports 4. Technical upgrading	• Pay visits to US trade and investment supporting institutions • Identify areas of cooperation • Develop Cooperation Plans	1. AGOA Response Strategy 2.Lesotho Investment Promotion Plan 3.Company and SMEs profiles.	MTICM, LNDC, ASec

		5. Export market intelligence 4.Employment growth.	• Implement Cooperation Plans.		

7. Element 5 - Establishment of the Lesotho AGOA Institutional Structure

7.1 Review of the current Institutional Framework

The Ministry of Trade and Industry (MTI) is the main custodian of industrial development in Lesotho. The MTI has five (4) departments, namely, industry, trade, OBFCand standards. The department that is directly charged with the responsibility of industrial development is the Department of Industry, in collaboration with other departments, especially the Department of Trade.

In 2004, with the impending expiry of ATC at the end of that year and the 3rd country sourcing provision expiring in 2008, the Prime Minister established the Inter-Ministerial Task Team (IMTT), to advice Government on the threats and opportunities facing the textile and garment industry.

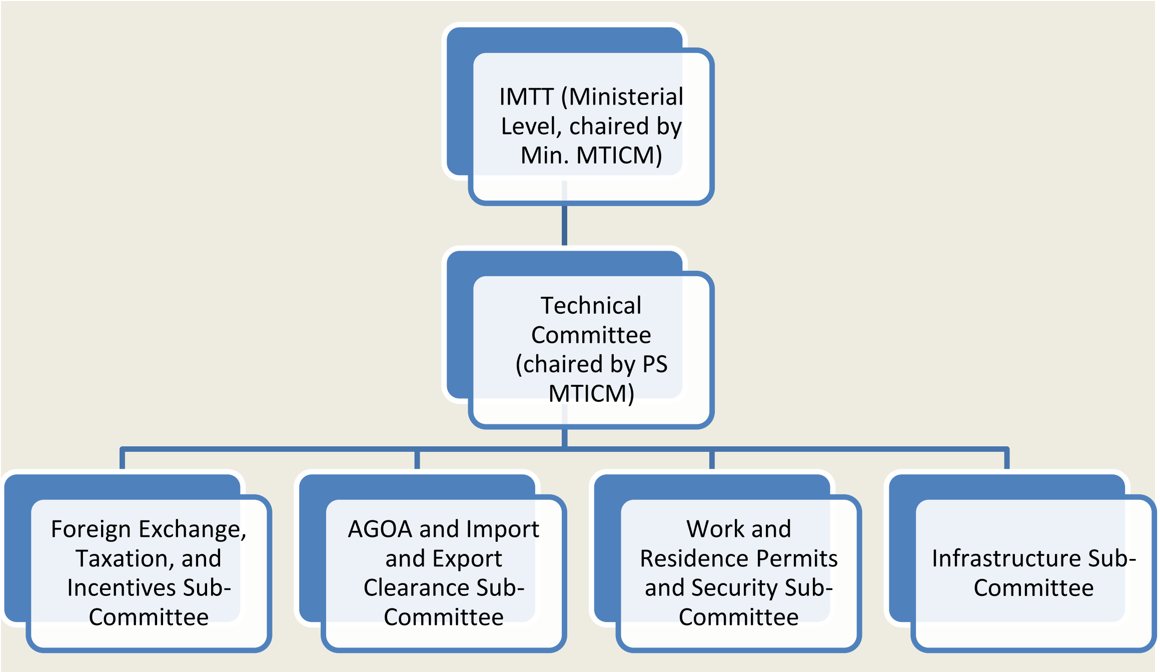
The IMTT was mandated to advise the Government on policy relating to the expansion of the apparel industry, retention of existing investments, infrastructure requirements to support it, and local and external threats and opportunities that it faced. A technical committee was formed under IMTT to specifically deal with the following issues:

- Infrastructure: factory shells, roads, water, electricity and telecommunications
- Issuance of visas: entry visas, work and residence permits
- Clearance procedures: customs and import/export permits
- Taxation: accelerating VAT refunds and tax incentives
- Incentives: Duty credit certificates, wage subsidies, export finance scheme, export processing zones
- Security, and
- Foreign exchange: Introduction of financial loti, exchange rate stabilisation fund.

Four sub-committees were formed under the technical committee after grouping the above strategic issues into four categories, namely:

- Infrastructure Sub-Committee
- Import/Export Clearance Sub-Committee
- Work and Residence Permits and Security Sub-Committee, and
- Foreign Exchange, Taxation and Incentives Sub-Committee.

The role of the Technical Sub-Committees (TSCs) was to conduct analytical work assigned to them by the Technical Committee and advise accordingly. The IMTT structure as currently constituted is as follows:



As the structure shows the IMTT is chaired by the Minister of Trade and Industry (MTI) and the Technical Committee chaired by the Principal Secretary of the same ministry. Given its multisectoral character, the IMTT is composed of all government ministers whose portfolios have a bearing on apparel sector support and development. It also has representation from parastatals, private sector, and labour unions. The IMTT and its structures played a very effective role for the first three years to 2007 and established a very close relationship between the apparel industry and government. During that time a number of infrastructure projects were implemented mainly related to construction of factory shells, water reservoirs, treatment plants and electricity supply.

Since 2007 the IMTT has been somewhat inactive due to, among other things, the lacklustre leadership at ministerial level. However, recently there has been a revival of interest to the extent that there has been a review of the structure and revision of the terms of reference of the IMTT. The main change in the structure is that the four technical sub-committees have been increased to six and they have their respective terms of reference as follows:

Capacity and Training	The skills and training sub-committee will be tasked with reviewing issues relating to labour productivity and delivering recommendations that can be implemented to improve productivity, encourage skills transfer for foreign companies to Basotho employees, increase the capacity of the workforce to encourage investment, and promote the progression of domestic employees to positions of management.
Infrastructure	The infrastructure sub-committee will consider issues and make recommendations pertaining to the availability of factory shells, utilities and transport costs. They're focus shall be on improving the operating environment, and, importantly, the competitiveness of Lesotho for both existing and potential investors.
Trade Promotion	The trade promotion sub-committee shall consider trade preference negotiations, including AGOA, as well as trading and border conditions. It will

	aim to promote exports of Lesotho's manufactured products and will consider relevant issues such as international standards, marketing and trade fairs.
Enabling legal and regulatory environment	The legal and regulatory environment sub-committee will focus its attention on improving Doing Business Indicators, and specifically reducing the burden of compliance with legislation, the ease with which permits and licences can be obtained, tax administration and any other hurdles faced by both existing and potential investors. It will also include labour force issues such as the approach to wages negotiations and collective bargaining (although it will not become directly involved in the negotiations themselves) and working conditions including Better Work.
Investment Promotion and Diversification	The investment promotion and diversification sub-committee will be responsible for developing strategies to encourage further investment diversify Lesotho's manufacturing portfolio, the importance of which is recognised in the National Strategic Development Plan. This will include the development and support of the local private sector.
Environment	The existing ad-hoc sub-committee on environment will be invited to report to the IMTT.

Since the inception of the IMTT, the Department of Industry within MTI has been playing the role of IMTT secretariat.

Although the IMTT has been very instrumental in growing and developing the existing apparel industry, it could have achieved far better if it had the following:

- Sustained strong leadership
- Ownership and accountability
- Implementation capacity
- Better coordination and a cohesive common purpose stakeholder relationship
- A structured integrated sectoral development plan
- A tailor-made incentive system adapted to local needs and conditions
- Strong US-Lesotho consultations beyond the annual AGOA Forum
- Monitoring and evaluation framework.

7.2 Proposed Institutional Structure for the AGOA National Response Strategy

The overriding purpose for an institutional structure of the AGOA response strategy is to ensure that its planned objectives are achieved within the set time limits of the extended AGOA. Cognisant that AGOA is a temporary arrangement and that the trade preferences Lesotho is currently enjoying are quickly getting eroded due to compliance with WTO rules, it is imperative upon Lesotho to ensure that in the 10 years of extension, it is capable of making up for the lost ground. For that to happen, the IMTT governance structure has to be strengthened. The improvement has to entail strong leadership, accountability, coordination, planning, implementation, and monitoring and evaluation which according to the Lesotho Industrial Policy are the key elements of any industrial policy circle. It has to be borne in mind that the existing structure established by GoL is generally an adequate structure that only needs some fine-tuning to ensure that it fits with the industrial policy cycle. To this end, the proposed structure shares a lot in common with the existing structure. However, it is further proposed that the new structure be lean, have few components, be focused, and without any overlaps.

7.2.1 Components of the Structure

- Cabinet
- IMTT
- AGOA Steering Committee
- AGOA Secretariat
- Technical Sub-Committees

Cabinet – As the highest executive arm of government, all decisions and policy about the role of AGOA in Lesotho will have to be approved by Cabinet.

IMTT – The IMTT should, as is still the case now, be the overarching body having the overall responsibility for AGOA and providing strategic guidance on its implementation. As such, it should formulate policy for approval by Cabinet and take appropriate decisions as and when necessary. The IMTT should be composed of ministers from ministries related to AGOA activities either directly or indirectly, the CEOs from relevant private sector organisations, CEOs from relevant parastatals, and labour unions. The IMTT should meet on a quarterly basis and its Chairman should submit quarterly progress reports on AGOA Response Strategy to the Cabinet.

AGOA Steering Committee (ASC) – The AGOA Steering Committee is proposed to play the oversight role over all the activities of the AGOA Secretariat and accordingly, advise the IMTT. In essence, the Steering Committee will ensure that the AGOA Secretariat implements policy in accordance with the guidance provided by IMTT. The Steering Committee should be composed of PSs and Directors from relevant ministries, parastatals, private sector and labour unions. The Steering Committee should meet at least once a quarter and should be chaired by PS MTICM.

AGOA Secretariat (ASec) – The AGOA Secretariat is the implementing arm of the IMTT. It is responsible for the day-to-day implementation of all AGOA projects but more specifically to:

- To implement the AGOA National Response Strategy
- To prepare annual work plans and implement them
- To monitor and evaluate AGOA programmes and projects
- To sell and articulate the National AGOA Strategy to all stakeholders
- To organise and coordinate AGOA programmes and activities
- To closely communicate with AGOA beneficiary companies and potential ones on strategies to access the US market
- To actively facilitate US/Lesotho SME joint ventures and partnerships
- To organise training and capacity building activities in industrial upgrading, technology, innovation, quality & standards, etc
- To provide trade and export information between Lesotho and US
- To provide a one-stop facility and clearing house for US/Lesotho FDI flows
- Support business associations and labour unions.

For purposes of efficiency and effectiveness in carrying out its mandate, the centre should have a strong leadership, qualified staff and financial resources. The ASec should have full operational independence but administratively report to the PS MTI. It is important that ASec report to a senior authority to avoid bureaucracy. However, upon expiry of AGOA and ASec, the Department of Industry and/or LNDC should take over all ASec resources and its responsibilities as part of capacity building.

In terms of staffing it is proposed that ASec have 5 strategic core experts headed by the Chief Accounting Officer (CAO)[12] and 2 support experts. The 5 core experts should be in the following strategic areas:

- Investment and Export Diversification – To promote investment, especially between Lesotho and US, upgrading and export diversification.
- Enterprise Development – To promote SME capacity building and joint-ventures/partnerships between US and Lesotho SMEs.
- Policy & Advocacy – Policy analysis and formulation on the enabling environment, policy advocacy, and investment incentives.
- Skills & Training – Capacity building skills and training to support upgrading and export diversification.
- Monitoring & Evaluation – To oversee the implementation of the National AGOA Response Strategy and to assess the risks and challenges facing the Strategy.

The 2 support experts should be in:

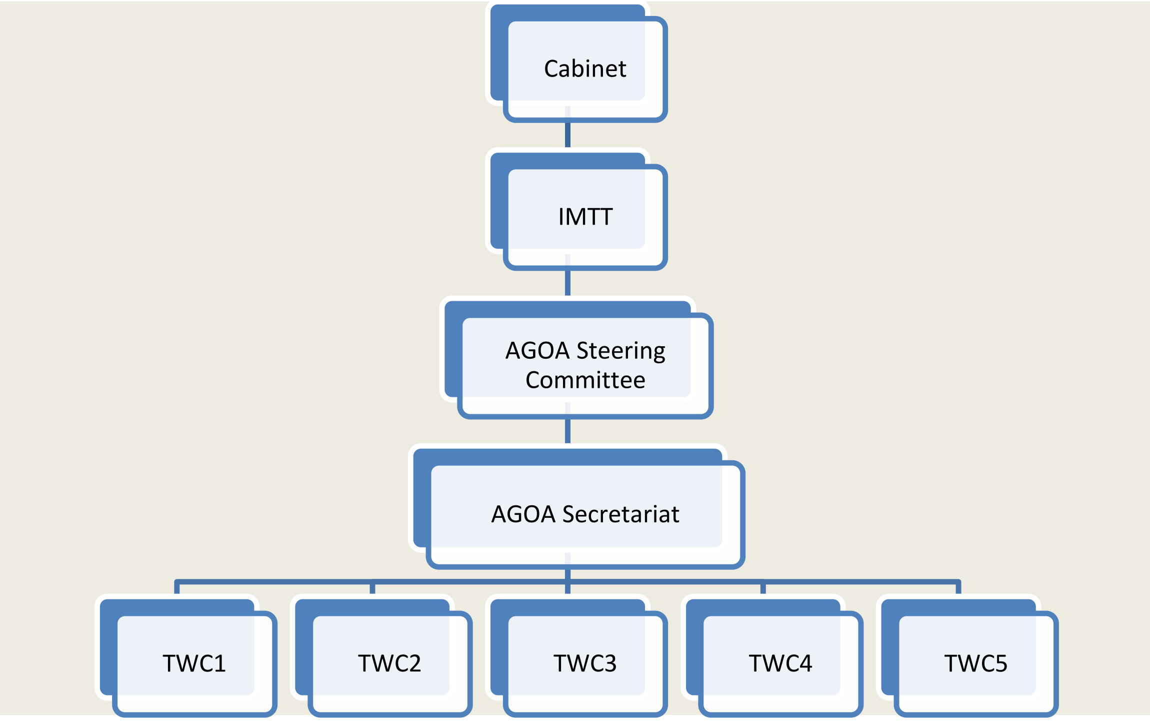
- Finance/Procurement & Administration, and
- Marketing & Communications.

Technical Working Committees (TWCs) – It is proposed that TWCs be established to assist the ASec in the formulation of annual work-plans and implementation of the Strategy. Specifically, the TWCs should provide a platform for collaborative engagement of key stakeholders in the core strategic areas covered by ASec. Instead of ASec unilaterally preparing plans and executing them, it is deemed very important that its activities be planned and implemented in a consultative and collaborative manner with all the relevant stakeholders. To this end, it is proposed that there be 5 TWCs aligned with the 5 core and strategic areas of ASec mentioned above. These will be:

- Investment & Export Diversification TWC1
- Enterprise Development TWC2
- Policy & Advocacy TWC3
- Skills & Training TWC4
- Monitoring & Evaluation TWC5.

Schematically the proposed AGOA National Response Strategy institutional framework is proposed to be as follows:

[12] Job Description in Annex 1



7.2.2 Operational Framework: According to the proposed structure, the Cabinet is the highest authority and approves policy. The IMTT is a national body responsible for the AGOA Response Strategy and provides guidance on its implementation as well as approves the budget. The role of the AGOA Steering Committee (ASC) is to provide executive oversight on the ASec. More specifically, the ASC should coordinate and consolidate the work between ASec and TWCs.

As previously mentioned ASec is the implementing agency of the AGOA Response Strategy. It sets out work programmes, budgets, operational reports and day-to-day administration of the agency. It also acts as the secretariat of IMTT and ASC by scheduling meetings and taking minutes.

For each of the five key strategic areas in which ASec is expected to have technical experts, there will be a corresponding Technical Working Committee assigned to each expert. The TWCs together with the experts will be responsible for formulating work programmes and budgets of ASec for approval by ASC. The TWCs will be chaired by the CEO of ASec. While ASec experts will be working full-time for ASec, members of TWCs will be drawn from the various ministries, parastatals, the private sector and labour unions represented in the IMTT. Where necessary TWC members can also be sourced from any other organisation depending on the need. TWC members can also be experts from embassies, donor agencies or other international organisations. TWCs will meet as and when it is necessary and their members should always be on call subject to proper notification.

8. Element 6: Monitoring and Evaluation Framework

Having a comprehensive strategy for responding to AGOA such as the one proposed above would be futile without a well designed and structured M&E framework. A monitoring system provides regular information on the degree of achievement of results at a particular point in time. Evaluation on the other hand, is about explaining why a particular problem has occurred or why the programme is not reaching its planned goals. It is suggested the proposed M&E programme be under the custodianship of ASec.

The M&E framework for the Lesotho National AGOA Response Strategy must have the following components:

- A report on the specific outcomes of implementing the Strategy
- A performance measurement framework which acts as a worksheet for monitoring and evaluating
- A risk register that assesses the risks of implementing the Strategy
- A report on key challenges faced in the course of implementing the Strategy.

Under Elements 4 and 5 in sections 6 and 7 above, strategies for and specific outcomes from supporting priority sectors and attracting US investment have been outlined. Specific expected outputs/results as well as activities to be implemented to achieve them have been identified. It is these strategic activities on which the M&E framework will focus.

A performance measurement framework will be designed followed by a risk register and finally a review/evaluation report.

The strategy will be reviewed and improved biennially in terms of the section 107 of the new legislation therefore Lesotho will follow the same route in terms of reviewing the strategy.

8.1 Performance Measurement Framework (PMF)[13]

A PMF will be prepared for all critical and strategic activities identified in sections 6 and 7. A PMF is a project management tool for collecting and analysing performance information on the AGOA National Response Strategy. The PMF is a worksheet divided into eight columns:

- Expected Results – These will be derived from Sections 6 and 7.
- Indicators – Indicators provide the pointers or measures that help to assess progress towards achieving the outcomes or outputs.
- Baseline data – Baseline data presents the set of conditions that exist prior to programme implementation for each selected indicator.
- Targets – Specify a particular value of the performance indicator that is expected to be accomplished by a specific date in the future.
- Data source – The source from which the data to measure each performance indicator's achievement is to be collected.
- Data collection method – methodology used to collect data to measure results for a given indicator.
- Frequency – Measures timing of data collection, i.e. monthly, quarterly etc.
- Responsibility – Who is responsible for collection and/or validating data.

[13] David Shiferaw 'Monitoring and Evaluation Framework for the African Growth and Opportunity Act (AGOA) 2012

The table below gives an outline of a PMF table.

Date ....

	Expected Results	Indicators	Baseline Data	Targets	Data Sources	Data Collection Methods	Frequency	Responsibility
Long-Term Objectives/Impacts								
Medium Term Objectives/Impacts								
Short-Term Objectives/Impacts								
Outputs								

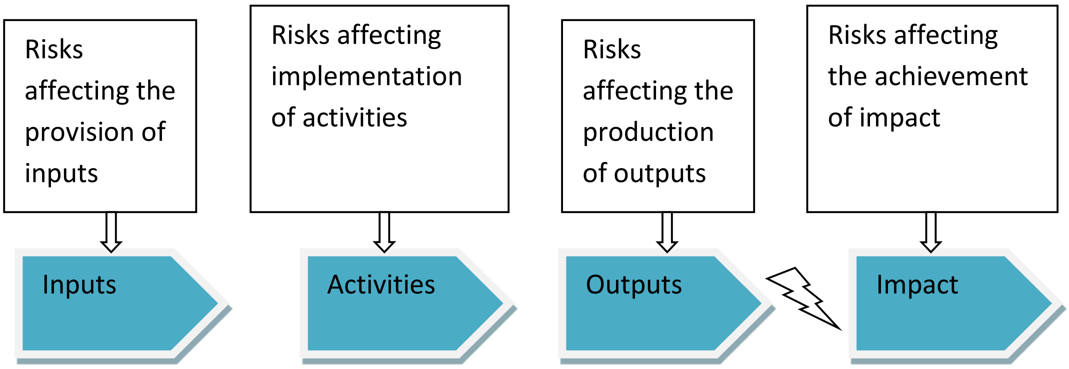
Source: Ibid

8.2 Risk Register

The M&E exercise requires ASec to identify and evaluate risks that are associated with the implementation of the Strategy on an annual basis. The risks fall into four categories as follows:

- Financial Risk – Reflects the potential impact of risks/events on the ability to protect funding;
- Development Risk – Reflects the potential impact of risks/events on the ability to achieve expected development results;
- Operational Risk – Reflects the potential impact of risks/events on the operation of the Strategy;
- Reputation Risk – reflects the potential impact arising from a reduction in confidence of stakeholders including Government.

A Risk Register[14] would be expected to map inputs, activities, outputs and impact (long-term objective/s) against their corresponding risks as shown below:



8.3 Evaluation Report

The purpose of an evaluation or review exercise is to explain why a particular problem has occurred or a programme is not achieving its desired goals. It provides an analysis of cause and effect which the monitoring activity does not cover. The description of the proposed report is presented below:

Evaluation Criteria	Some relevant questions to raise

[14] Results Management in Norwegian Development Corporation – A Practical Guide p.21

Impact: The totality of the effects of an intervention, positive or negative, intended or unintended	•How has the intervention affected the well being of targeted stakeholders, intended or unintended? •What do the beneficiaries affected by the intervention perceive the effects of the intervention? •Would have the identified changes taken place without the intervention?
Effectiveness: The extent to which an intervention has has achieved its objective	•Do the observed changes accord with the planned results of the intervention? •To what extent is the identified change the result of the intervention rather than external factors? •What are the reasons for the achievement/non-achievement of results? •What can be done to make the intervention more effective?
Efficiency: The extent to which the cost of an intervention can be justified by results, taking alternatives into account	•What measures were taken during planning and intervention to ensure that resources are efficiently used? •Could the intervention have been implemented with fewer resources without reducing quality/quantity of the results? •Could more of the same results have been produced with the same resources?
Relevance: The extent to which the intervention conforms to the targeted needs and priorities and policies	•Is the intervention consistent with expected objectives? •Is it consistent with policy? •Is it a technically adequate solution to the problem at hand? •Does the intervention have a potential for replication?
Sustainability: The continuation or longevity of the benefits from the intervention after the cessation of the intervention	•Is the intervention consistent with the set priorities? •Is it supported by local institutions and integrated with local conditions? •Are requirements of local ownership satisfied? •Do benefeciaries have the financial capacity to maintain benefits after the interventio?

Evaluations/reviews are complementary to regular monitoring and should be used selectively to deal with information that monitoring does not provide. For an evaluation or review to be feasible, it is a must that monitoring data be available.

9. Key Challenges/Risks Faced in implementing the AGOA National Response Strategy

- Political Instability: Civil conflict, domestic political violence and disputes can significantly reduce GoL's capacity to own and implement the AGOA National Response Strategy.
- Macroeconomic Instability: Macroenomic instability can be a hinderance to successful implementation of the AGOA National Strategy . Fiscal, monetary, and price stability are essential factors.
- Lack of Commitment at the top: Successful implementation of the AGOA National Strategy is highly dependent on strong ownership and commitment by GoL at IMTT and the Prime Minister's level.
- Weak AGOA Secreriat, Steering Committee and TWCs: These are the central cogs for the successful implementation of AGOA National Strategy and they have to be well staffed and financially resourced.
- Weak Coordination and Collaboration by Stakeholders: Lack of coordination and poor collaboration between stakeholders can scupper all the good intentionLos of the Strategy.
- Private Sector Buy-in: The National AGOA Strategy is about capacitating the private sector and its buy-in is critical. Without full private sector participation and support the Strategy will not be sustained.
- the prevailing concern on the US vigorous and current mega-trade arrangements particularly the implications of TPP and its potential eronsion on AGOA preferences for apparel manufacturing countries like Lesotho who will now have to compete with countries like Vietnam which is currently competitive without any preferences
- Losing US Buyers: This could be one of the worst external shocks to the Strategy. Lesotho has to do everything within its means to retain existing and attract new US buyers.
- Inability to attract US investors and SMEs: Lesotho has to maximise the benefits of AGOA by establishing relationships with US trade and investment agencies to attract US investors and trade.

10. Conclusion

The AGOA National Response Strategy is a timely statement by GoL that Lesotho is ready to do business with the rest of the world and more specifically the US. To this end, it is recommended that the National Response Strategy be approached and implemented as a public/private sector project with strong coordination, collaboration and consultation among the stakeholders. Further, for this project to succeed, there has to be champions at government and private sector levels to provide direction and leadership. At government level the MTI is the best placed ministry while LTEA and LIEA have to provide a strong representation from the apparel sector. The other recommended potential export sectors should have active representation from their associations or capable elected members from their sectors.

The last point to emphasise is that AGOA is a unilateral agreement, hence temporary. It is imperative that all the short and medium-term actions recommended in this report be exigently implemented. For this to happen there has to be commitment from all stakeholders. Both financial and human resources that will be deployed to turn the recommended actions into reality will send a strong message to Lesotho's trading partners and the US in particular, that Lesotho is serious about AGOA as a catalyst for its industrial development.

11. Annexes

11.1 Annex I: AGOA Secretary (AS) - Skills Inventory

The AGOA Secretary (AS) articulates the vision for the Inter-Ministerial Task Team (IMTT) and provides the Secretariat with needed leadership and pursues its vision with a sense of urgency. The AS should have years of experience in both industry and government and should use this experience to successfully lead the *AGOA Secretariat*.

A roster of the AS's required attributes and skills is listed below:

- Integrity and ethics;
- Analytic intelligence and results orientation (with a sense of urgency);
- Communication, team-building, and interpersonal skills;
- Leadership and mentorship skills;
- Problem solving, decision-making, and critical thinking skills; and
- Political impartiality.

In terms of job description, the AS should have functional responsibility for strategic planning, management, financial management, human resource management, marketing and public relations, community relationships, programmatic effectiveness and fundraising skills. The specific responsibilities under these individual functions are listed below:

Strategic planning - the AS:

- Collaborates with the *Inter-Ministerial Task Team* to define and articulate the vision of the Secretariat and to develop strategies for achieving that vision;
- Creates annual operating plans that support the strategic direction as set by the IMTT, and which correlate with annual operating budgets. These annual plans are submitted to the *IMTT* through the Steering Committee (SC) for approval; and through the SC,
- Develops and monitors strategies for ensuring the long-term financial viability of the *AGOA Secretariat*.
- Management - the AS:
    - Promotes a culture that reflects the Secretariat's values, encourages good performance and rewards productivity;
    - Hires, manages and fires the human resources of the Secretariat according to authorized personnel policies and procedures that fully conform to local laws and regulations;
    - Oversees the operations of the Secretariat and manages its compliance with legal and regulatory requirements;
    - Creates and maintains procedures for implementing plans approved by the *IMTT* through the SC;
    - Ensures that staff, SC and the *IMTT* have sufficient and up-to-date information; and
    - Evaluates the Secretariat and staff performance on a regular basis.
- Financial management - the AS:
    - Oversees staff in developing annual budgets that support operating plans and

submit these budgets for *IMTT* approval through the SC;
  - Manages the Secretariat's resources within budget guidelines;
  - Ensures that staff practice all appropriate accounting procedures in compliance with Generally Accepted Accounting Principles (GAAP); and
  - Provides prompt, thorough and accurate information to the SC and *IMTT* to keep them apprised of the Secretariat's financial position.
- Human resource management - the AS:
  - Recruits and contracts the Secretariat's staff;
  - Supports staff development and training;
  - Develops human resource policy and documentation;
  - Engages in employee relations;
  - Institutes a performance management and improvement system;
  - Ensures employment compliance to regulatory concerns; and
  - Facilitates companywide meetings/committees, including arranging meetings, attending meetings, setting agendas, and taking down the minutes of the meetings of SC and IMTT.
- Marketing and public relations - the AS:
  - Manages press development, advertising opportunities and organizes the availability of the Secretariat members for media/PR events as necessary;
  - Oversees content, production and distribution of all marketing and publicity materials; and
  - Coordinates invitation of potential future promoters and supporters of the Secretariat.
- Community relationships - the AS:
  - Serves as the primary spokesperson and representative for the Secretariat;
  - Assures that the Secretariat and its mission, programs and services are consistently presented in a strong, positive image to relevant stakeholders;
  - Actively advocates for the organization, its beliefs, and its programmatic efforts; and
  - Acts as a liaison between the Secretariat and the community, building relationships with peer organizations when appropriate.
- Programmatic effectiveness - the AS:
  - Oversees design, delivery and quality of programs and services;
  - Stays abreast of current trends related to the Secretariat's deliverables and anticipates future trends likely to have an impact on the Secretariat's work; and
  - Collects and analyzes evaluation information that measures the success of the Secretariat's program efforts; refines or changes programs in response to that information.
- Fundraising - the AS:
  - Serves as a primary person in donor relationships and the person to make one-on-one fundraising solicitations;
  - Develops fundraising strategies with the *IMTT* and supports it in fundraising activities;
  - Oversees staff in the development and implementation of fundraising plans that support strategies adopted by the IMTT;
  - Oversees staff in the timely submission of grant applications and progress reports for funders; and

- Develops fundraising strategies with the Steering Committee and supports the IMTT in all fundraising activities.

11.2 Annex 2-TERMS OF REFERENCE: Lesotho's National AGOA Response Strategy

I- BACKGROUND AND JUSTIFICATION

AGOA is a U.S. development effort that was promulgated into law in May 2000 and it provides eligible countries in sub-Saharan Africa with more liberal access to the U.S. market. Initially set to expire in 2008, AGOA was extended to 2015 in 2006, and efforts are currently under way to extend AGOA beyond 2015.

After 11 years of implementation of AGOA, there is evidence that AGOA has resulted in a substantial increase in exports from sub-Saharan Africa to the U.S., with an increasing share of these exports utilizing the AGOA preferences. In addition, AGOA has resulted in a significant increase in U.S. direct investments in Africa. In spite of these impressive statistics, however, it is acknowledged that only a few countries have taken advantage of AGOA and the product coverage under AGOA of these countries' exports to the U.S. are still limited.

Although a number of reasons can be identified as having contributed to this lack of an effective country response to AGOA, one of the very important considerations has been the lack of a structured framework at the national level in responding to AGOA. This lack of a structured framework at the national level has prevented the development and implementation of a dynamic AGOA National Response Strategy that can be subject to monitoring and evaluation.

ATPC recently commissioned a report that provided guidelines for developing AGOA National Response Strategies for African countries that are designated as eligible under the African Growth and Opportunity Act (AGOA). These guidelines have the objective of ensuring a structured and results-based country-response to AGOA.

The report commissioned by ATPC identifies gaps in AGOA's performance as it relates to AGOA's expectations and outlines four broad elements for the development of a National AGOA Response Strategy that ensure a results-based country-response to AGOA.

It is against this background that the African Trade Policy Centre (ATPC) is the leading trade technical support institution providing strategic guidance to African countries for the development of their AGOA National Response Strategies.

In pursuance of this mandate, ATPC proposes to recruit a Consultant with the relevant knowledge and expertise, to develop Lesotho's National AGOA Response Strategy.

II- OBJECTIVE OF THE CONSULTANCY

The main objective of the consultancy is to provide substantive inputs into developing Lesotho's National AGOA Response Strategy in line with the priorities of the Lesotho Ministry of Trade and Industry and in consultation with other stakeholders.

In preparing the strategy document, the Consultant shall be guided by the need to: outline concrete proposals to be implemented to address identified shortfalls between AGOA's expectations and AGOA's performance within Lesotho; establish a national AGOA institutional infrastructure; identify priority sectors for support as well as the specific support programs for the priority sectors, and align all implementable program activities to a monitoring and evaluation (M&E) framework which would allow for continuous monitoring of the implementation of the National AGOA Response Strategy.

III- DESCRIPTION OF TASKS

- Under the overall guidance of the Director of RITD and the direct supervision of the Coordinator of the ATPC, the Consultant will:
- Produce a document outlining a structured framework at the national level in support of Lesotho's National AGOA Response Strategy that is subject to monitoring and evaluation.
- Provide strategic guidance, advice and technical support for programmes and activities of identified priority sectors, and define roles and responsibilities for supporting agencies/institutions/partners in implementing the National AGOA Response Strategy
- Facilitate consultation and engagement between relevant sector Ministries and key stakeholders (private sector, civil society, youth, women, media, academia, parliamentarians, and development partners) by organizing workshops, seminars & training programs, in respect of the implementation of National AGOA Response Strategy
- Undertake research and policy analysis and provide expert advice on Lesotho's National AGOA Response Strategy
- Undertake any other related duties assigned by the Coordinator of ATPC/Director of RITD.

11.3 List of Workshop Participants (Lesotho Sun 11/04/2014)

Name	Organisation
M. Mphaka	MTICM
M. P. Ncholu	“
J. Karonga	UNECA/ATPC
M. Masupha	MTICM
M. Khoboko	“
K. Masupha	“
S. Maleke	“
A. Rapotso	“
P. Fiee	“
R. Sekake	“
M. Matsoetlane	“
M. Mohapeloa	“
M. Mokoaleli	LNDC
S. Tsukulu	“
P. Sematlane	“
M. Raphuthing	“
N. Sekete	“
M. Mamool	Fantastic Clothing

Bella	“
M. Heiver	Springfield Manufacturers
T. Qhesi	Private Sector Foundation of Lesotho
F. Weideman	Carca Components
T. Aumane	One-Stop Business Facilitation Centre
T. Kekeletso	“
P. Mashoai	Ministry of Agriculture
D. Maphalala	Basotho Enterprise Development Corporation
T.M. Majara	Lesotho Textiles Exporters Assoc. (LTEA)
M. Rabolinyane	MTICM
L. Makhate	“
M. Molapo	Ministry of Development Planning
S. Monyamane	Lesotho Chamber of Commerce & Industry
M. Thakhisi	“
S. Khoabane	Central Bank of Lesotho
M. Lepasa	MTICM
M. Au	“
M. Lebitsa	LWMEA/LMC
C. Seame	MOLE
R. Makoa	Ministry of Development Planning
C. Mokuku	PSCEDP
A. Lin	LTEA
D. du Toit	Carca Components
K. Matooane	Lesotho Mountain Crafts
M. Seeiso	Tlotliso
M. Klass	LNDC

List of Participants – (Cooperative College - 8/07/2014

Name	Organisation
M. Ncholu	MTICM
M. Mokhele	“
N. Manesa	“
P. Fiee	“
S. Yeboah	“
M. Raphuthing	LNDC
M. Thakhisi	LCCI
M. Rasephei	Mazenod Tannery
T. Thabane	Haka Productions
M. Lekhanya	MTICM
M. Lebitsa	Maseru Tapestry
M. Au	OBFC
M. Matsau	Formosa Textiles
R. Chen	“
S. Roya	CGM Group
M.Temeki	Seithati Weavers
M. Mojaje	Leribe Crafts
T. Mosito	Upper Qeme Market
J. Chen	LTEA
T. Mokoma	T.M. Upholstery
D. Maphalala	BEDCO
T. Mofelehetsi	PSCEDP
T.M. Majara	LTEA
M. Tsoakae	PSFL

Aitsa M. Khabale	Super knitting “

Interviewees

Name	Title	Organisation
M. Mphaka	Principal Secretary	MTICM
M. Ncholu	Deputy Director	MTICM
D.	President	Lesotho Textiles Exporters Association
A. Lin	Manager	Tai-Yuan Garments
R. Chang	Admin. Manager	Formosa Textile Co.
J. Lyons	President	Lesotho Industrial Exporters Association
M. Mpemi	Manager	Springfield Manufacturers
C. Pedlar	Manager	Reflex Footwear
M. Maharasoa	Chief Executive Officer	Lets’eng Diamonds
T.P. Aumane	T.P. Aumane	One-Stop Business Centre
A. Salm	Executive Director	ALAFA
Dr M. Moteane	President	Lesotho Wool & Mohair Association
K. Marite	Director of Planning	Ministry of Public Works and Transport

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