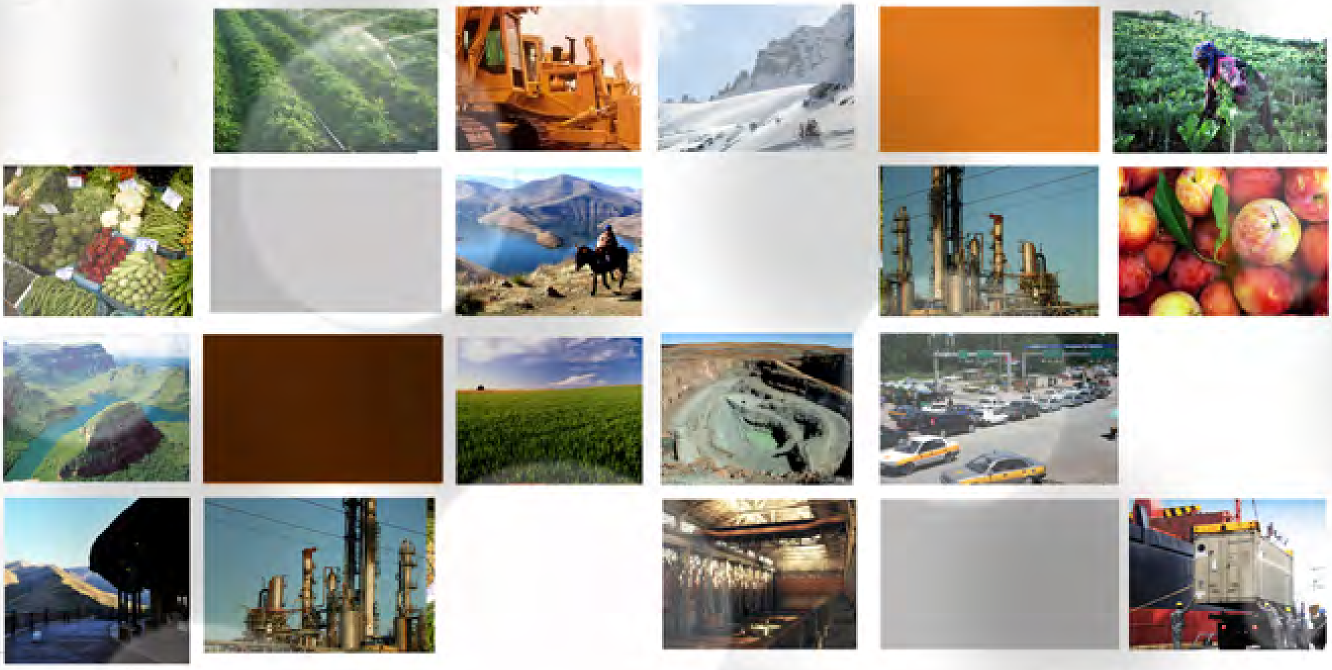
Diagnostic Trade Integration Study Update 2012

Volume II



Enhanced integrated Framework
for trade–related technical assistance for least developed countries

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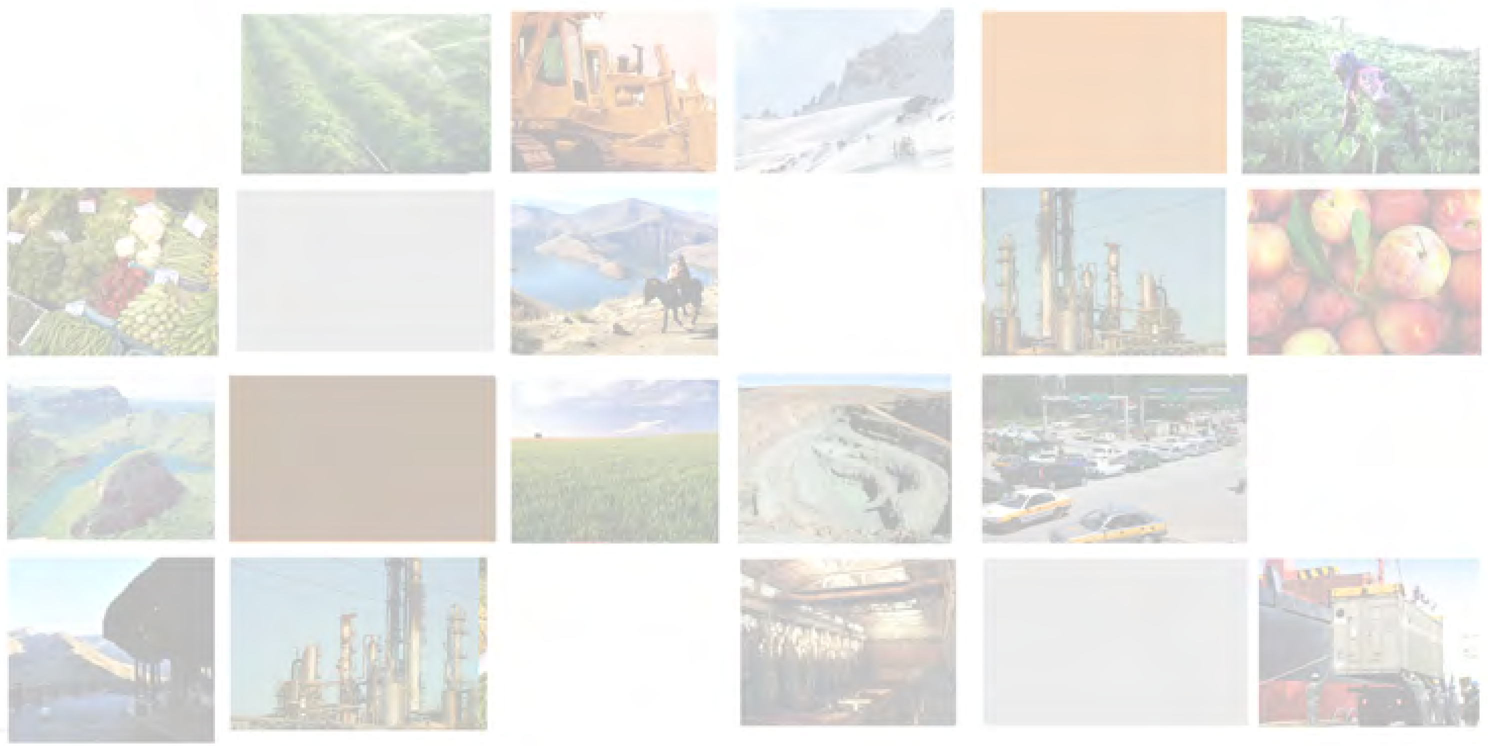

Lesotho: Diagnostic Trade Integration Study Update

Submitted by: AECOM International Development

Submitted to: USAID/Southern Africa & Enhanced Integrated Framework National Steering Committee, Lesotho

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Lesotho

The Government of Lesotho

Ministry of Trade Industry Cooperatives and Marketing

LESOTHO Diagnostic Trade Integration Study Update

TABLE OF CONTENTS

LIST OF ACRONYMS

AGOA	Africa Opportunity and Growth Act (of the United States)
BEDCO	Basotho Enterprise Development Corporation
BOS	Bureau of Statistics
COMESA	Common Market for Eastern and Southern Africa
DOE	Department of Environment
DTIS	Diagnostic Trade Integration Study
ECF	Extended Credit Facility
EIF	Enhanced Integrated Framework
EPA	Economic Partnership Agreement
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GNI	Gross National Income
GoL	Government of Lesotho (the Government)
HIV/AIDS	Acquired Immunity Deficiency Syndrome
HS	Harmonized System
IF	Integrated Framework
IFC	International Finance Corporation
IMTT	Inter-Ministry Task Team
LAA	Land Administration Authority
LBS	Lesotho Bureau of Standards
LCCI	Lesotho Chamber of Commerce and Industry
LCN	Lesotho Council of Non-Government Organizations
LDHS	Lesotho Demographic and Health Survey
LEC	Lesotho Electricity Corporation
LEWA	Lesotho Electricity and Water Authority
LNDC	Lesotho National Development Corporation
LRA	Lesotho Revenue Authority
LTC	Lesotho Telecommunication Corporation
LTDC	Lesotho Tourism Development Corporation
MAFS	Ministry of Agriculture and Food Security
MCA	Millennium Challenge Account – Lesotho
MCC	Maseru City Council

MDGs	Millennium Development Goals
MDP	Ministry of Development Planning
MEMWA	Ministry of Energy, Meteorology, and Water Affairs
MF	Ministry of Finance
MGYS	Ministry of Gender, Youth and Sports
MJHC	Ministry of Justice, Human Rights and Correctional Services
MLGC	Ministry of Local Governments and Chieftainship
MOET	Ministry of Education and Training
MOLE	Ministry of Labor and Employment
MPWT	Ministry of Public Works and Transport
MTEC	Ministry of Tourism, Environment and Culture
MTICM	Ministry of Trade and Industry, Cooperatives, and Marketing
NIU	National Implementation Unit
NSC	National Steering Committee
NSDP	National Strategic Development Plan
OBFC	One Stop Business Facilitation Centre
PSFL	Private Sector Foundation Lesotho
RSA	Republic of South Africa (or South Africa)
SACU	Southern African Customs Union
SADC	Southern African Development Community
SATH	Southern Africa Trade Hub
SPS	Sanitary and Phytosanitary
SWOT	Strengths, Weaknesses, Opportunities and Threats
T&TCI	Travel and Tourism Competitiveness Index
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
VAT	Value Added Tax
WASCO	Water and Sewerage Company
WB	The World Bank
WTO	World Trade Organization
YEP	Youth Employment Program

ACKNOWLEDGEMENT

Enhanced Integrated Framework

National Implementation Unit, Maseru

December 2012

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The DTIS Updateteam comprised: Ramesh Adhikari (Lead Consultant),Tomasz Iwanow (Trade Institutions Review), Tania Revault D'Allonnes (Policy Environment Review), Geoffrey West (Macroeconomic Review), Elsie Awadzi (Legal Review), Michael Jinrich (Horticulture/Commercial Agribusiness Sector Review), Mark Bennett (Textiles Sector Review) and Piers Relly (Tourism Sector Review). Ms. Machabana Lemphane provided research support for the case studies on trade logistics, customs procedures, and business registration and licensing, and Morabo Morojele provided research support to the sector reviews.

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Special thanks and sincere recognition of leadership in providing an excellent coordination and support to the study go to Mr. Bokang Montsi, the Coordinator, Lesotho Enhanced Integrated Framework (EIF) National Implementation Unit, and the EIF Focal Point former Principal Secretary Mr Teleko Ramotsoari and the current Acting Principal Secretary Mr Hlopho Mpeta, Ministry of Trade Industry Cooperatives and Marketing (MTICM), without which the DTIS Update would not have been successfully completed. Thanks also go to Ms'Lipolelo Motloli Lephosa, EIF Lesotho Programme Assistant, MTICM, for her excellent support in coordinating meetings and logistics.

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EXECUTIVE SUMMARY

PROGRAM FOR PROMOTING TRADE, INVESTMENT AND EXPORT EXPANSION:

PROGRAM FRAMEWORK AND ACTION MATRIX (2012)

Background

The 2003 Diagnostic Trade Integration Study (DTIS) provided a comprehensive analysis and discussion on trade integration issues and opportunities. It also provided an action matrix for implementation by the Government to remove barriers to trade and investment promotion and to gain from the opportunities provided by regional and global trade integration. Lesotho commenced the implementation of the DTIS action matrix in 2004. Subsequent studies have examined key aspects of business environment, trade mainstreaming, private sector development, economic competitiveness, and export diversification potentials in Lesotho.

This DTIS Update reviews the progress in implementing the DTIS Action Matrix, identifies gaps, constraints, challenges and opportunities. The Update makes recommendations for further reform aimed at strengthening the enabling environment for trade and investment promotion and related capacity building for both government institutions and private sector for export expansion.

The DTIS Update has built on the lessons learned from the earlier DTIS experience and has been carried out in consultation with relevant national stakeholders in order to encourage and maintain national ownership. The research and field work followed a participative process approach with stakeholders in order to ensure commitment to implementing the recommendations and action matrix.

The final report is based on the review work prepared by the DTIS Update Team, covering institutions for trade and related capacity, policy environment, new legislation and draft papers, and three sectors (horticulture, textiles and tourism), and the feedback from stakeholder consultations in the country. This report was discussed at a national validation workshop in Maseru in September 2012 and takes into account comments and observations from a wide range of stakeholders including the international cooperating partners.

The guiding strategic documents of the Government of Lesotho (GoL) are the National Vision 2020, Poverty Reduction Strategy, and National Strategic Development Plan. Government ministries and agencies prepare their own respective strategies and implementation programs following the national vision, policies and strategies. Annual budget speeches define the budgetary allocations for their implementation.

Key Findings

Lesotho has achieved a steady long term economic growth (4%), despite a weak industrial base and turbulence in global markets. However, the economic growth has not translated into large scale reductions in poverty. This can be explained by two main reasons: the economic growth rate itself was not high enough to offset the relative decline in importance of remittances from migrant labor. Further, the economic growth was not sufficiently inclusive being based primarily on the growth of manufacturing exports (garments) and natural resources based sectors such as diamonds and water.

The medium to long term outlook is estimated to be positive. The GDP growth is likely to continue to be at least 5% per annum due to mainly the planned capital investments in water and mining sectors.

and SPS compliance will be useful to developing investment, production and exports.

Improving physical infrastructure for facilitating trade and promoting investment is another important area for action. Lesotho needs to address the issue of lack of industrial sites, inadequate supply of water for industry and agriculture, and inefficient trade facilitations (including trade logistics and use of ICT for improving trade facilitation).

Achieving export competitiveness and export-led growth is crucial for Lesotho's future welfare. Successfully diversifying and expanding export capacity is dependent on continuing to enhance the enabling environment and strengthen trade related institutional capacity.

With a small domestic market, Lesotho needs to leverage its economic proximity to South Africa, SACU and SADC, as well as to the EU, US and the rest of the world through advantageous trade arrangements. The type of investment Lesotho has attracted to date has limited local and regional supply linkages and continues to be dependent on preferential market access.

Recent upsets in world markets and Lesotho's vulnerability to these have highlighted the need for the country to develop a strategy that will encourage the diversification of products and markets, and not on at-will preferential schemes. Improving the overall operating environment will attract more stable and diverse investment that will foster local skills development and linkages while providing new employment opportunities and budget contributions.

There are potentials and opportunities for expanding export oriented productive capacity, which arise mainly from: (i) cultivable land, minerals, water; (ii) stable labor market, relatively low cost educated labor compared to South Africa (with high proportion of youth); (iii) locational advantages for integrating with value chains in South Africa and making use of transport infrastructure and trade logistics; and (iv) market access opportunities from regional and multilateral trade integration and bilateral economic partnership agreements.

Lesotho continues to export a number of unprocessed natural resources based products to the region and beyond, of which the major ones are raw water, rough diamonds, sandstones, wool and mohair. Value addition in varying degree is possible in all these areas of natural resources, e.g., hydropower, bottled water, finished diamond and diamond jewellery, cut and polished sandstones, woollen yarn and knitted/ woven products. This list is not exhaustive but these sectors are often emphasized by the Government in its policy statements through Annual Budgets, NSDP, agriculture and industrial development strategies and plans. The update looked at three priority sectors at the outset of the Update – horticulture, textile and garments, and tourism.

Lesotho has potential to develop horticulture, commercial agriculture and related agribusiness as the country is endowed with favorable soil and climatic conditions and located next to large regional markets. However, exploiting these potentials will require ensuring a more conducive enabling environment for the private sector through improved business registration and licensing, access to credit and markets, adequate provision of extension services), showcasing and rolling out the piloted products and approaches, and promoting both smallholders and subsistence farmers and also those big farmers with potential for commercial orientation. The focus of the Government in the short to medium term should be on improving the business enabling environment and facilitating private sector to lead the roll out and scaling up of recently piloted fruits and vegetable products. For the medium term (five years or more), a sector level strategy and action plan should be developed and implemented.

Lesotho has a rather favorable access to foreign markets for its textile and apparel exports related to its membership in several preferential agreements. As part of AGOA and EPA Agreements it benefits from tariff-free duty-free access to the world's two biggest markets for Textile and Garments including a favorable "single transformation" Rules of Origin (ROO). Also as a Member of SACU it benefits from no tariffs to enter Africa's biggest importer of Textiles and Apparel – South Africa. Only with regard to SADC, Lesotho's access to export garment to countries such as Tanzania or Zambia is somewhat restricted. SADC's ROO in textiles and apparel require for a "double transformation" rule. This means that only fabric made in SADC Member States then manufactured into garments qualifies for preferential treatment under the REC.

The expiry of AGOA currently extended only to 2015, is therefore likely to have significant effect on Lesotho textile and garment industry but on the contrary to, some speculations, it will not destroy the industry altogether. Lesotho has already established a small but viable garment manufacturing cluster has a limited but viable ability to diversify its export base. A key example of this is the recent sharp increase in Lesotho knit garment exports to South Africa, which now accounts to around 20% of the industry's exports. The increase in exports to South Africa is the result of a high preferential margin for exporting to that market as SACU Common External Tariff rose recently from 40% to 45% and Lesotho exports to South Africa duty-free. In the short to medium term it is unlikely that this preference margin will diminish nevertheless it is crucial for Lesotho to finalize internal procedures for setting up SACU's Tariff Board. This will enable Lesotho to influence SACU's and hence its own tariff rates that could benefit the garment industry.

Lesotho's textile industry has one vertically integrated mill. There are however significant opportunities for investments in fabric knitting plants, and dye houses, if certain critical supporting industrial infrastructure is developed. Should fabric knitting operations develop, yarn production would also increase. This will, however, require considerable capital expenditure for developing, e.g., water reservoirs, industrial waste water treatment/recycling plants in addition to the cost of knitting plant/s.

As to the tourism sector, the scenic highlands, winter sports, rich Basotho history and culture, and clean environment provide potential for tourism promotion. This is a unique selling point to potential tourists and tour operators. This potential could be exploited by improving enabling environment for tourism industry and by branding and marketing the country as a tourist destination through regional and international media and by linking with tour operators in South Africa, Europe, UK and USA. For the medium term, there is a need for MTEC and LTEC to jointly formulate and implement a corporate strategy and business plan that will address systemic issues in the enabling environment for tourism development. This will also empower them to engage productively with the private sector, enter successful partnerships, support community development and employment and manage the impacts of tourism on the physical and cultural space.

Recommendations

Program for Promoting Trade, Investment and Export Expansion: Program Framework and Action Matrix (2012)

The guiding principles for framing the program and new action matrix included:

Make sure the already achieved reform actions under the 2003 DTIS are sustained to continue their impacts;

On-going and outstanding actions are completed;

New actions are fully implemented;

Stakeholders adequately engaged in the implementation of the reform measures and development of export oriented and tourism activities;

Ensuring a high level inter-ministerial body to coordinate, oversee, and provide guidance for implementation; and

Make use (as much as possible) of existing institutional structures for inter-ministerial coordination and oversight, instead of creating new ones.

The overall goal/long term impact of the program is to contribute to achieving Lesotho's National Vision and NSDP objectives through trade and investment promotion that will facilitate export diversification and expansion and create jobs for Basotho people. The intermediate outcome will be an improved enabling environment for trade and investment that will attract and foster additional private sector investments and lead to export expansion. The key pillars or expected outputs are:

Strengthened institutional capacity for trade and investment policy analysis and implementation;

Increased trade integration;

Improved business environment; and

Improved infrastructure for trade and transport logistics(see Program Framework and Action Matrix below).

The Action Matrix contains 20 actions – of which 19 are within four categories: institutional capacity for policymaking and trade enhancement, regional and multilateral integration, the business environment, and physical infrastructure (see below program framework and Action Matrix).

In addition, it is recommended to develop and implement a strategy and implementation program for export oriented productive capacity for the medium term in selected priority areas such as horticulture, textiles and tourism drawing on the experience of the pilot projects and the sector reviews (see draft outline in Annex 3). Scaling up and rolling out to other districts of the horticulture products piloted already (e.g., mushroom, apples, peaches),a knitting mill, and tourism marketing should be the focus for the short term (see Chapter 5 for details).

The Action Matrix also provides an indicative timeline for each action, and indicators to facilitate monitoring and evaluation. More precise timelines and monitoring indicators should be specified by the designated implementing agencies. The implementing agencies should include the relevant actions and program for their implementation in their respective annual work programs and budgets. The recommended actions also support the implementation of the trade mainstreaming envisaged in the Government's Strategic National Development Plan (2012/13-2016/17)(see below the program framework and new action matrix for implementation, which is followed by recommendations for implementation arrangements).

PROGRAM FRAMEWORK AND ACTION MATRIX:
PROMOTING TRADE, INVESTMENT AND EXPORT EXPANSION (2012)

PROGRAM FRAMEWORK AND ACTION MATRIX:PROMOTING TRADE, INVESTMENT AND EXPORT EXPANSION (2012)

LEVEL	STATEMENTS		MONITORING INDICATORS
Goal/Impact	• Contribute to achieving Lesotho's National Vision and NSDP objectives through trade and investment promotion that will facilitate export diversification and expansion and, create jobs for Basotho people(L).		GDP growth rate Per capita Income Gini coefficient
Intermediate Outcome	• More enabling environment for trade and investment that will attract and foster private sector investments and lead to export expansion (M).		Increase in private sector investment Increase in exports New exported products New export markets
Key Pillars/Outputs	• Strengthened institutional capacity for trade and investment policy analysis and implementation (M).		Quality issues papers, position papers for negotiations, and regulatory impact assessments
	• Increased trade integration (M).		Increased volume of export within and outside the region
	• Improved business environment (M).		Reduced time and cost for starting business, licensing, and investor services
	• Improved trade infrastructure and logistics.(M		Reduced cost and improved efficiency in trade facilitation, and supply of utilities for industry and agriculture.
Matrix of Actions/ Interventions			

INSTITUTIONAL CAPACITY: NATIONAL POLICY MAKING AND TRADE ENHANCEMENT			
Barrier or Opportunity	**Policy Action and Timeframe (Short - S, Medium - M or Long term - L)[1]**	**Responsible parties**	**Monitoring indicators**
Insufficient trade data for policy analysis	• Computerize trade data collection, compilation and analysis (S). • Integrate data reporting with SACU (M). • Publish trade data in a timely manner (S).	LRA, BOS, MF, MAFS LRA, BOS, MTICM, MF, MDP LRA, BOS	Computerized Customs operations Standardized, up-to-date, reliable data
Weak analytical capacity in support of trade and investment policy and negotiations	• Create trade policy analysis unit in MTICM, and establish clear lines of communication (see also Policy Action #3) with both the MIF and MDP and other relevant ministries (S). • Expand and train staff in trade policy analysis, planning, promotion and negotiations (M). • Deepen public-private debate and coordination with development partners.	MTICM, MF, MDP, MAFS MTICM	Staffed trade policy analysis unit Exchange of information Joint training, joint reports Number of public-private debates/consultations.
Fragmented trade policy	• Implement an inter-ministerial coordinating body with specific work program and timeline for trade policy related discussions and decision making (S). • Set up technical working groups to support the coordinating body by undertaking analytical work • Prepare a single consolidated Trade Policy Framework document and publicize it(M).	PM Office, MTICM, MF, MDP MTICM, MF, MDP	Inclusive committee set up Itemized agenda, realistic timelines Consolidated trade policy document

REGIONAL AND MULTILATERAL INTEGRATION

Barrier or Opportunity	Policy Action and Timeframe (Short, Medium or Long term)	Responsible parties	Monitoring indicators
Multiplicity of trade arrangements	• Catalogue trade arrangements, prioritize in light of overarching trade policy and related preferences (S). • Develop negotiating positions for each (M).	MTICM	SWOT analysis for each arrangement Clear list of advantages to preserve Consistent position briefs
Excessive economic borders and inconsistent regulatory frameworks within SACU	• Establish national priorities within SACU (S). • Actively pursue opportunities for positive harmonisation and cost-saving (taxation, certification, and information.) (M).	MTICM	Review of best regional practices Proposals to leverage, match or better these Greater administrative integration
SACU tariffs, SADC rules of origin, use of de facto joint trade measures	• Identify SACU, SADCand tripartite negotiations bottlenecks and set positions (S). • Lobby SACU and SADC for trade liberalisation (M).	MTICM MF, MDP/MTICM	Lower barriers on international inputs More access to regional supply chains Increased regional exports
Integrating into regional and international production networks	• Implement business-friendly, national infrastructure and efficient quality management system (S). • Leverage RSA capacity (physical facilities and training) on SPS and TBT (S).	MTICM MTICM/MAFS	More consumer protection More export opportunities Less administrative costs
International preferences	• Develop negotiating position to preserve needed preferences in light of RSA-led bilateral negotiations (M).	MTICM	Clear position on double-transformation, duty- and quota-free access, reciprocity.
International (WTO) agreements	• Review TRIPS, GATS, and GPA for potential opportunities for the country (M).	MTICM	Improved FDI attractiveness Economic diversification

IMPROVING THE BUSINESS ENVIRONMENT

Barrier or Opportunity	Policy Action and Timeframe (Short - S, Medium - M or Long term - L)	Responsible parties	Monitoring indicators
Dispersed and unreliable data for policy analysis	• Fully computerize and improve the data compilation and dissemination systems ofOBFC, LAA, LNDC, LTDC, LRA and other business service and utility providers (S).	MTICM, MF, MDP, MTEC	Up-to-date, reliable data
Poor regulatory and investment environment	I• mplement a high-level inter-ministerial body with specific work programme and timeline for improving business environment(S) [see 2 above]. • Expand and train staff in applied economic analysis and regulatory impact assessment(M). • Consider an Ease of Business Action Plan and electronic filing across government (S). • Strengthen investor protection system (S). • Strengthen corporate governance by fine tuning the Companies Act 2011 (S).	PM Office, MTICM MTICM, MF, MDP MTICM, MF, MDP MTICM, MJHC	Inclusive committee set up Itemized agenda, realistic timelines Quality technical analyses Draft *Ease of Business* Action Plan e-government functions, cost savings Companies act amended.
Difficulties in conducting due diligence about opportunities in Lesotho	• Refocus LNDC and LTDC to attract investors (S). • Institutionalize OBFC (S) and bring its services online (S). • From the sector/subsector level strategies in the medium term, the Ministry of Development Planning could then identify and develop potential project proposals for public and/or private sector participation. These could include other relevant ministries/ departments, development finance institutions, banks and co-operating partners. • Create and run a fully-fledged credit information system by implementing the new legislations on credit bureau and data protection (M).	MTICM, MTEC OBFC MTICM	Clear, up-to-date information Single point of information Options for electronic forms, e-filing. More investor interest realized

Remaining rigidities in land market	• Deepen actions of LAA (S). • Provide LAA services to districts outside Maseru (S). • Fully computerize and bring land services online (M). • Review and streamline the role of local governments/authoritiesin land allocation for industrial use (S). • Bring land services online (M). • Remove stamp duty on property transfers • Review construction (building) permit rules and streamline procedures (S). • Publicize (through printed and electronic media) the procedures and requirements for obtaining land and construction (building) permits from local councils/governments for good governance,transparency and accountability(S).	LAA, MLGC, MCC	More land titling More land transfers More access to credit
Cumbersome Environmental Impact Assessment	• Review the 2008 Environment Act and implement changes to improve environmental governance (S). • Introduce a list of activities which are subject to: (i) full EIA; (ii) partial EIA; and (iii) no EIA in relation to their nature and potential environmental effects (S). • Streamline process for low-risk activities (S). • Expand responsible staff compliment (S). • Set clear assessor qualification criteria (M).	DOE/MTEC	Better targeted resources Quicker decisions More environmental protection More investment New profession

Inadequate labor skills, access to credit, poor work ethic, low entrepreneurship, and worker discontent	• Work with industry and investors to commit to on-the-job training and to promoting Basotho to higher positions (S). • Work with industry, banks, educational facilities, civil society to adapt the curriculum to market needs(M). • Work with banks, finance houses, micro-finance institutions and other institutions to improve SMME access to credit using the credit bureau, data protection provisions under the new legislations, collateral substitutes and other financing instruments (S). • Work with banks, finance houses, developmental finance institutions and other related institutions on leasing under the new regulation (S). • Undertake entrepreneurial development programmes with tertiary and other cooperating partners • Encourage expatriate entrepreneurs and personnel to impart technical and managerial skills to public and private sector entities including the national labour in the country (M). • Work with industry, educational facilities, civil society to develop the professional ethics of service delivery and more particularly public service delivery (L) and an active citizenry for good governance (L). • Address market constraints facing micro and small enterprises (MSEs), particularly rural women's and youth's enterprises: • Mobilize and pool officers from different Ministries/Departments that would gather (and deliver) relevant information (S); • Work with public and private institutions to improve MSEs access to credit, extension services, quality assurance/certification schemes, marketing channels (M).	MTICM, LNDC MTICM, MOET, MGYS MTICM, MOET,MGYS, MOLE MTICM, MF, MDP MTICM MTICM, MOET, MGYS	More Basotho managers More Basotho projects More skilled workers, managers, businesspeople Ownership and empowerment More Basotho entrepreneurs and enterprises established (wholly or partly Basotho owned through joint ventures etc.) More formal SMMEs Improved work ethic (productivity) Skilled employment increased Corruption reduced Better service delivery by public sectors and increased efficiency and competitiveness for the private sector

IMPROVING PHYSICAL INFRASTRUCTURE			
Barrier or Opportunity	**Policy Action and Timeframe (Short, Medium or Long term)**	**Responsible parties**	**Monitoring indicators**
Lack of industrial sites	• Review the role of and constraints faced by LNDCin providing industrial site development and management including sub-leasing of industrial plots to private sector(S). • Review industrial site rent subsidies (S). • Develop careful industrial zoning plan2 (S). • Work with utilities suppliers on improved, cheaper services (M). • Foster private enterprise in site building and maintenance (L).	MTICM	More industrial sites Better-suited, private sites Well-coordinated and manageddevelopment of industrial sites Optimal development path of industrial sites resulting, among other things, in Government cost savings
Water resources	• Deepen efforts to save, clean and recycle water, especially from industry (M). • Reduce non-revenue water (M). • Develop water supply for commercial agriculture (by implementing an Irrigation Policy).	WASCO, MEMWA, MAFS	Increased coverage and reserves
Trading Across Borders/Weak Trade Facilitation	I• mprove customs procedures and move towards a single window system and strengthen capacity (S). • Computerise Customs procedures to reduce documentation, delays and discretions (S). • Build capacity of Customs officials at border posts (S). • Pursue risk-based management (S). • Lobby RSA for joint border crossing points and more commercial border control points (M). • Improve physical facilities at main border control points including road widening (M). • Set up National Plant Protection Offices at Border Posts to check incoming consignments for purposes of SPS (S). • Build capacity of the Plant Protection Unit of MAFS (S). • Put up Tourist Information desks at the main border crossing points (S).	LRA MTICM MPWT/LRA MAFS, MF, MDP MAFS LTDC, MTEC	Time and cost savings (also for LRA) Standardized procedures Professional Customs code of conduct and service ethics developed Administrative cost savings Increased trade opportunities Improved trade facilitation. Improved plant protection. Plant Protection units up and running
Trade and transport logistics	• Computerise Customs to standardise and streamline procedures (see also above in 18) (S). • Work with SARS to ensure compatibility (S) • Lobby RSA for better transportation rights (for Lesotho taxi, freight) (M). • Strengthen logistics capacity by professionalising the industry (L). • Strengthen ICT infrastructure and related services.	LRA MTICM, MPWT MST	Users and LRA save time and money through ICT applications in customs clearance and transit cargo handling (e.g. time and cost to clear a standard size container at a border post). Administrative cost savings, better data New profession New business opportunities Cost saving Improved services and reduced costs

EXPORT ORIENTED PRODUCTIVE CAPACITY EXPANSION			
Barrier or Opportunity	**Policy Action and Timeframe (Short, Medium or Long term)**	**Responsible parties**	**Monitoring indicators**
20.Strategy and implementation program for export oriented productive capacity expansion	• Formulate a strategy and specific action plan to develop horticulture, textiles and tourism drawing on the experience of the pilot projects; the sector reviews and additional analysis as may be necessary (see Appendix 3 for a draft outline) (S). • Mobilize and pool technical and financial resources from the Government, private sector and development partners for the implementation (S). • Implement the above in a properly sequenced, coordinated and timely manner with result indicators and regular monitoring (M). • The commercial viability of an "ethical" branding strategy for Lesotho's apparels could be assessed	MTICM, MAFS, MTEC, MF. MDP	Diversified exports More job opportunities for men, women and youth across the country Sustained natural resources and protected environment Increased contribution of exports to national income

(Note: Please see the List of Abbreviations for the acronyms)

Implementation Arrangements

A high level inter-ministerial body is necessary to oversee, and guide the implementation process. It is expected that already existing and well-functioning government structures should be used with some extension or fine tuning as it may be necessary, rather than creating whole new structures. Gender and social inclusiveness as well as the environment are cross cutting issues that needs to be considered when designing and implementing the prioritized actions under each component of the recommended program.Stakeholders at the validation workshop supported this approach.

The existing institutional structures are namely the IMTT and SACU National Committees and sub-committees discussed above. These structures should become the anchors for inclusive trade policy formulation.

Under the IMTT a special sub-task team or working group could be formed to deal exclusively and effectively with trade policy issues and business environment improvement. The sector level issues such as customs and agriculture could be dealt with through the existing SACU structures. These new and additional sub-task teams should extend their participation to a much wider set of stakeholders including the private sector and also to a more comprehensive array of trade policy issues. The capacity to understand trade issues should be built up across Government, business and civil society in order to develop a sustainable reform effort and joint commitment to future prospects. The above task team should be supported by a group of technical experts selected from each of the participating ministries, departments and government agencies (e.g., LAA, LRA, LNDC, and OBFC).

The MTICM has played a very important lead role and has garnered useful lessons that have the potential to enhance the effectiveness and advance the reform process aimed at improving the enabling environment for trade and investment. The creation and operation of the OBFC showcases how a concerted effort and coordination among the key stakeholders under the leadership of the MTICM lowered the cost of business registration and licensing and, improved the delivery of related services to the private sector with a 'one stop' facility.

The EIF National Implementation Unit, within MTICM, should continue to play the key coordinating role in the new DTIS action matrix implementation. At the MTICM level, there is the NSC for the EIF, which could be mobilized to guide and oversee the implementation under the MTICM's leadership. The NSC, as envisaged, can trouble-shoot, provide guidance and coordination in related fields as it comprises government agencies, private sector, NGOs and donor coordinator. The NSC and EIF Unit should also regularly brief the IMTT or the National Committees on the progress and constraints in implementing the new action matrix and export capacity expansion programs. The NSC could be strengthened with participation of the newly created Ministry of Development Planning and heads of specialized agencies such as LRA, LAA, OBFC and heads of the key departments like Industry, Standards and Trade.

Technical Assistance Requirement

The implementation of the proposed actions and the development of sector/subsector level strategies and their implementation will require additional technical expertise and financial resources from international cooperating partners and development agencies. The key areas requiring technical assistance are:

Strengthening institutional capacity for trade (see main text section 6.3.1);

For increased regional and multilateral trade integration support the MTICM in TRIPS, Sanitary and Phytosanitary (SPS) and other World Trade Organization (WTO) rules and compliance (see main text section 6.3.2);

For further improving the business environment (see main text section 6.3.3); and

For scaling and rolling out already piloted fruits and vegetables, (b) tourism marketing; and (c) for formulation and implementation of strategy for horticulture, textile and garments and tourism (see main text section 6.3.5).

A sector wide programmatic approach may be considered for pooling government, private sector and development partners' assistance to implement the program in a coordinated and efficient manner.

The Integrated Framework (IF), a multi-donor funded program, was established in 1997 to help least developed countries (LDCs) play a more active role in the global trading system.

CHAPTER 1

INTRODUCTION

LESOTHO'S TRADE JOURNEY STARTS...

INTRODUCTION

The Government of Lesotho benefited under the IF for the six-year period from February 2003 to May 2009. The development of a Diagnostic Trade Integration Study (DTIS) in 2003 represented the first stage of this project which involved identifying binding constraints to the opportunities offered by regional and global markets. The DTIS contributed to the development Lesotho's trade capacity and mainstream trade in the national development strategy as outlined in the Poverty Reduction Strategy.

The 2003 DTIS recommended four key action areas to be carried out by the Government of Lesotho for further trade integration:

Building capacity in institutions for national policy making and boosting trade;

Regional and multilateral integration to help open up regional and global markets while developing the domestic markets;

Improving the business environment; and

Improving physical infrastructure for trade.

The matrix included 42 actions to remove barriers or exploit opportunities for trade sector development. The DTIS also identified major areas for comprehensive technical assistance and resulted in key intervention activities including support for product and market development in agriculture, and improvements in the business environment through support for the development of policies on investment and competition.

A Task Force for the Enhanced Integrated Framework provided recommendations in 2006 which led to the current Enhanced Integrated Framework (EIF). This is thesuccessor program to the IF and aims to support the integration of LDCs into the multilateral trading system by providing capacity building support.

Lesotho acceded to the EIF process in 2010 and Tier I of the project involved setting up a national implementation arrangements and the update of

the 2003 DTIS. While some progress has been made in implementing key elements of the DTIS action matrix under IF, there are areas where Lesotho can be supported further to enhance its integration into the regional and multilateral trading systems.

At the request of the Ministry of Trade, Industry, Cooperatives and Marketing (MTICM), Government of Lesotho, the USAID Southern African Trade Hub (SATH) agreed to undertake a DTIS Update study for Lesotho under the EIF.

1.1 Objective and Scope

The main objective of the DTIS Update was to take stock of the progress made under the DTIS/IF, draw lessons, and identify priority areas for capacity building for Lesotho's further trade mainstreaming and integration under the EIF that will contribute to socially inclusive and sustainable economic growth and poverty reduction in the country.

The DTIS Update process included:

A review of Lesotho's (a) current macroeconomic environment to identify those binding constraints that significantly affect the development of trade and investment in Lesotho, including implications for government revenue, exchange rate and inflation, and (b) national development strategies;

A review of Lesotho's trade policy making and negotiation regime (policy directives, institutional arrangements, and technical skills) and trade logistics (dry ports, warehouses, customs procedures) to identify gaps and weaknesses;

An assessment of the extent of progress made in implementing the DTIS Action Matrix, mainstreaming trade into Lesotho's national development plans, and opportunities and challenges for further trade mainstreaming;

A review of accomplishments under the IF/DTIS to understand their impact and to learnkey lessons for the EIF process; and

Finally, identification of areas where targeted intervention is needed to support:

Strengthening of institutional capacity for trade mainstreaming and benefitting from trade integration;

Further improvement in business and regulatory environment; and Improving physical infrastructure for trade; and Expanding export supply capacity.

1.1.2 Method and Analytical Framework

1.1.2.1 General Approach

The 2003 DTIS had already provided a comprehensive analysis and discussions on trade integration issues and opportunities. A number of other studies carried out subsequently in recent years by various consultancies for the Government and for its development partners have also examined key aspects of business environment, private sector development, economic competitiveness, and export diversification potentials in Lesotho.

The DTIS Update focused on stock-taking and updating progress in implementing the 2003 DTIS Action Matrix and identifying gaps, constraints, challenges and opportunities, and making recommendations for further reform to improve policy environment for private sector driven trade and investment promotion, and capacity building for implementation of trade mainstreaming and trade and export development.

The preparation of the DTIS Update study encouraged and maintained national ownership throughout the process through stakeholder consultations at conceptualization, inception, main fact-finding and data collection, and validation of the draft final report. It applied a participative process approach to maximize inputs from stakeholders in order to ensure commitment to implementing fully the recommendations and action matrix. The update work was carried out in coordination with the local donor facilitator (i.e., United Nations Development Program (UNDP)), Lesotho's EIF Focal Point and the EIF National Steering Committee (NSC), which has representation from the government, private sector, nongovernment organizations and academia.

1.1.2.2 DTIS Process and Analytical Framework

The DTIS Update study followed the suggested EIF outline for DTIS update as appropriate in the context of Lesotho. It also applied strengths, weaknesses, opportunities, and threats (SWOT) framework to analyze issues and opportunities at selected industry levels and at the national level for trade and investment promotion. The DTIS Update study undertook:

Collection of necessary data and information from the concerned government agencies and their development partners and private sector through structured interviews, surveys, case studies and literature reviews;

Review and analysis (using the data and information generated by (i) above):

Macroeconomic developments and medium term forecasts and their implications for domestic production and export activities;

Trade policy making and negotiation regime (policy directives, institutional arrangements, and technical skills);

Progress made in implementing the DTIS recommendations as listed in the Action Matrix;

DTIS/IF implementation, arrangements and coordination, key projects/activities and their accomplishments, DTIS implementation challenges;

The organization and operations of One Stop Business Facilitation Centre (OBFC) to assess its performance so far, constraints and opportunities for further improving its performance and sustainability;

Trade logistics and customs procedure to assess constraints and reform opportunities for improving capacity and performance of Lesotho's trade across border; and

Newly enacted laws related to improving business environment and assess their adequacy and progress in implementing them;

Examination of trends in the values (rank) and the underlying factors behind the indicators of Doing Business and Global Competitiveness indicators for Lesotho;

Review of three selected priority sectors – horticulture/ commercial agribusinesses, textiles and tourism to identify constraints and opportunities for their expansion; and

Preparation of an Action Matrix for further reform of the business and investment environment, strengthening of trade policy making and negotiation capacity, trade infrastructure and strengthening export supply capacity in selected priority areas.

The DTIS Update process conducted a series of consultation with stakeholders, including regional consultations with local business communities, and a national validation workshop in Maseru for the ensuing report and recommendations. It imparted knowledge and skills to the government counterparts and private sector partners through their participation in the DTIS update process and through workshops. The DTIS update team also had working sessions with the members of the National Steering Committee (NSC) and the MTICM management team to discuss emerging issues and way forward (Annex 2).

The Trade Hubsent a mission to Maseru from October 24-28,2011 to launch the DTIS Update and another mission to undertake the main field study (fact-finding) on January16–February 3, 2012. This was followed by three sector review missions in March-April 2012.

The missions met with key senior government officials, private sector representatives, non-government organization (NGO) representatives, Hon. Minister for Trade, Industry, Cooperatives and Marketing, Government of Lesotho, the H.E. US Ambassador and Deputy Head of the Mission at the US Embassy in Maseru, representatives of development partners resident in Maseru, and Local Donor Facilitator, UNDP (see Annex 1 for the list of stakeholders met).

A national validation workshop was held on September 13, 2012, which was attended by national stakeholders and international cooperating partners.

1.1.3 Organization of the Report

The rest of the report is organized as follows: Chapter 2 presents an update on macroeconomic environment and trade mainstreaming; Chapter 3 reports on the progress made in improving the enabling environment for trade and investment in the country, external and internal perception on the enabling environment; Chapter 4 reviews the experience and lessons from the implementation of DTIS action matrix, IF and EIF projects; Chapter 5 presents the summary of the key findings of the three sector reviews; andfinally, Chapter 6 presents the conclusions and recommendations of the DTIS Update for further improvement in the enabling environment for trade development and export expansion and diversification.

CHAPTER 2

MACROECONOMIC ENVIRONMENT AND TRADE MAINSTREAMINGN IN LESOTHO

2.0 Macroeconomic Environment and Trade Mainstreaming in Lesotho

2.1Gross Domestic Product (GDP)

Over the last decade Lesotho achieved a relatively robust rate of economic growth (in terms of GDP), but this was not sufficient to reduce poverty in large scale and income inequality. Ind eed income distribution became more unequal owing to weak inclusiveness in the economic growth process[1].

Lesotho achieved an annual average growth rate in GDP of 3.8% between 1982/83 (which is the base year for a revised series of national accounts) and 2010/11 at constant prices[2]). The IMF estimated real GDP growth of 3.6% for 2009/10, 2.4% for 2010/11, and 4.2% for 2011/12. The IMF forecasts average GDP growth rate for the next five years to be around 4.5%[3].

Over the past three decades, real GDP has nearly trebled (+198%), whereas Gross National Income (GNI) has grown by only 28%. As per the IMF report, GNI per capita grew at an annual average rate of only 1 percent annually between 2001 and 2010, compared with real GDP of about 4% over the same period. The decline in the GNI was associated with the decline of Basotho workers employed in the South African mines, partly because of a shift toward the use of domestic labor in South African mines.

Despite consistent positive economic growth, income inequality (Gini Coefficient 0.66) and unemployment (22.7% of the work force) both remain high (IMF2012). Poverty rates in rural areas have also remained high, which means that the economic growth has not been socially inclusive – not reaching the poor. Heavy capital investments in the water sector, mining, SACU payments and textile exports were the key drivers of the GDP growth. The majority of the employment opportunities were created in the apparel (garment) sector which stagnated following the end of WTO Agreement on Textiles and Clothing in 2005 and the strengthening of the Loti against the Dollar.

As a small economy with a narrow production base and a heavy reliance on SACU revenues for half of government revenue, Lesotho remains vulnerable to exogenous shocks. Lesotho maintains its currency, the Loti, at par with the South African Rand in line with its membership of the Common Monetary Area (CMA). This facilitates increased trade and investment with South Africa and also underpins domestic price stability. However, the absence of an independent monetary policy constrains the Government of Lesotho (GOL) to rely on fiscal adjustment for maintaining adequate import cover (i.e. international reserves).

The transition to a new SACU revenue sharing arrangement in 2004 coincided with a rapid increase in trade and resulted in windfall gains. The GOL used part of this revenue windfall to retire non-concessional debt. The global contraction in world trade during 2008 resulted in sharply lower SACU revenues in 2009/10 and 2010/11. To mitigate the impact of the decline in SACU revenues the GOL requested access to the IMF Extended Credit Facility (ECF). Significant fiscal tightening along with measures aimed at enhancing the efficiency of revenue administration and augmenting the quality of government spending have all contributed to the GOL meeting the quantitative targets agreed with the IMF under the ECF.

While SACU revenues have increased significantly in the current financial year the high level of volatility has resulted in the GOL agreeing to separate future SACU payments into a core component (equivalent to 15 per cent of GDP which represents the minimum payment received over the past two decades) and the rest (noncore). The core fiscal balance is now defined as the overall fiscal balance excluding the noncore component of SACU revenues and foreign-financed project loans. This represents a sound basis for developing a sustainable fiscal policy aimed at reducing Lesotho's exposure to external shocks.

Lesotho was confronted with new challenges in the first quarter of 2011 with serious flooding. The floods caused pervasive damage to physical assets and infrastructure and losses of crops and livestock, thus giving rise to the need for emergency food imports. Furthermore, international commodity prices have stayed high, and uncertainties surrounding the global economic outlook persist.

In this context, the IMF report highlights the following actions for the Government: (i) step up fiscal adjustment effort in the medium term (including reform in public financial management and tax administration, (ii) enhance growth through improving the business climate, and (iii) promote financial intermediation under proper supervisory oversight.[4]

2.2 Prices and the Exchange Rate

The pegging of the Loti with the South African Rand has helped to maintain price stability. For the decade from 2000/01 to 2010/11, the annual average rate of consumer price inflation has been only 6.8%. From 1982/83 until 1993/94, annual increases in the Consumer Price Index (CPI) were consistently double-digit (particularly high rates of 17.3% and 18.2% were recorded in 1991/92 and 1992/93). However, tighter monetary policy throughout the Common Monetary Area kept inflation at single-digit levels from 1994/95 onwards and the rate was only 6.1% in 2000/01. Since then the rate has remained at single-digit levels, except for inflation of 10.7% in both 2002/03 and 2008/09 arising from the exceptional increases in food pricesresulting from scarcity in the regional market and spikes in international prices.

In nominal terms, the Loti was 0.8 per US$ in 1980/81 and had depreciated to 9.53 in 2001/02 (average annual rate). Since 1994, the South African Reserve Bank has built a reputation for sound monetary management and strong inflation targeting, which has reduced volatility of the currency. In recent years, the exchange rate has fluctuated between a high of 6.12 in 2004/05 to a low of 8.72 in 2008/09 (and was 7.16 in 2010/11). These movements have largely been driven by changes in the international strength of the dollar and the inflation rate

2.3 Structural Change in the conomy

2.3.1 Structural Change

A number of significant developments have contributed to structural changes in the economy since 1982/83. Over the entire period, Agriculture has grown by only 12% (an annual rate of 0.4%), with livestock growing by just 0.2% each year and crops showing annual growth of 0.4% (but only because of the strong performance recorded for 2010/11). Apart from a few good seasons in the late 1980s and again in the late 1990s, agricultural performance shows a flat trend. The 1987 agreement between South Africa and Lesotho led to the construction of the Lesotho Highland Water Project (LHWP) Phase One. The payment of water royalties has had only a limited impact on the country's total revenues. However, the completion of LHWP Phase 1A in 1996 and Phase 1B in 2003 enabled the water sub-sector to grow from M18.1 million in 1990/91 to M 209.8 million in 2000/01.

Manufacturing has increased more than seven-fold (7.8% a year) over the same period. Textile and garment has been the main growth driver, expanding at an annual rate of 12.2%, although Other Manufacturing has also made a substantial contribution (7.4% annually), especially in recent years. Rapid growth in an export-oriented garments manufacturing sector started in the mid-1980s (mainly with South African investors) but was subsequently driven by foreign direct investment from the Far East, as investors exported to the US market by taking advantage of the tariff concessions provided under the United States Africa Growth and Opportunity Act (AGOA) and a favorable tax regime. The textile and clothingsector has become a leading wage employer and, by 2002, Lesotho was Africa's largest exporter of garments to the US. Although there has been no aggregate growth since 2003/04 as the industry deals with challenges resulting from exchange rate movements, the ending of the Agreement on Clothing and Textiles (ACT), termination of SACU's duty credit certificate scheme and an increasingly competitive international environment. Over the past 7 years there has been a change in structure with

1] This has been exacerbated by the reduction in opportunities for migrant labor in South Africa.

2] Based on International Monetary Fund data.

3]International Monetary Fund, *Lesotho Country Report No 12/101*, May 2012, Washington. For example, the projected estimate of the GDP rate is 5.2% for 2012/13, 2.2 % for 2013/14, 5.9% for 2014/15, 6.3% for 2015/16, and 3.1% for 2016/17

4] Since June 2010, the International Monetary Fund has been supporting the authorities' policies and reforms under the program under a three-year Extended Credit Facility. The program is designed to restore fiscal and external sustainability, achieve broad-based growth and strengthen the financial sector.

production targeted for the US market under AGOA declining, while sales to South Africa have increased significantly(up from 2% of total exports to over 20% currently).

The mining industry became moribund with the closure of the only operating mine, at Letseng Le Terai, in 1982 but higher international diamond prices prompted a revival of interest in Lesotho's extensive kimberlitic deposits. The resumption of diamond mining from 2002/03 onwards has enabled the sector to grow at an annual average rate of 48% (despite a fall in 2010/11) and it now generates 7.2% of total GDP in current prices. A further period of major investment is anticipated up to 2015/16 and diamond exports may quadruple.

Overall, construction has achieved an annual growth rate of 6.2% but its contribution is volatile, being mainly determined by the timing of major civil works. There was rapid growth during implementation of LHWP Phase IA (to a peak of M633.4 million1996/97) but it declined to M 368.6 million in 2004/05 once Phase IB was completed. An increase in public capital works has lifted it to M 655.1 million in 2010/11.

In the tertiary sector high rates of growth have been generated by Posts & Telecommunications (especially since take-off of the boom in mobile phones) at 11.5% and by Financial Intermediation (10.9%). Public Administration has grown broadly in line with aggregate GDP (3.6%). There has been stronger growth from domestic trade (4.8% per annum) but surprisingly weak performance by Business Services & Renting at 2.8% and by Hotels & Restaurants (usually taken as a proxy for the tourism industry) at only 1.7%.

High domestic unemployment has traditionally been mitigated by opportunities for migrant workers. Net factor income from abroad earned by Basotho working on the South African mines provided a key source of livelihoods and remittances. However, from 125,000 migrant mine-workers in 1989, the number had halved to 61,412 by 2001 and it has continued to fall to less than 50,000 in 2010. This is the result of restructuring of the mining industry, driven by technological change, increases in average wages and the relatively low price of gold throughout the 1990s. Concurrently, it appears that there has been an increase in the number of Basotho engaged in non-mining employment activities in South Africa but these are mainly informal, seasonal work opportunities and the income is correspondingly limited.

Transfers rose significantly as a result of (i) LHWP-related imports under SACU Agreement 1969, and (ii) the new revenue-sharing arrangements implemented under SACU Agreement 2002 with effect from 2005/06. Capital grants rose from 3% of GNI in the late 1980s to about 4% in the early 1990s but, after RSA's transition to democracy in 1994, dropped to less than 2% of GNI. There has been a recent increase through the Millennium Challenge Account and contributions by global donors to the HIV and AIDS programs.

2.3.2 Trade in Goods and Services

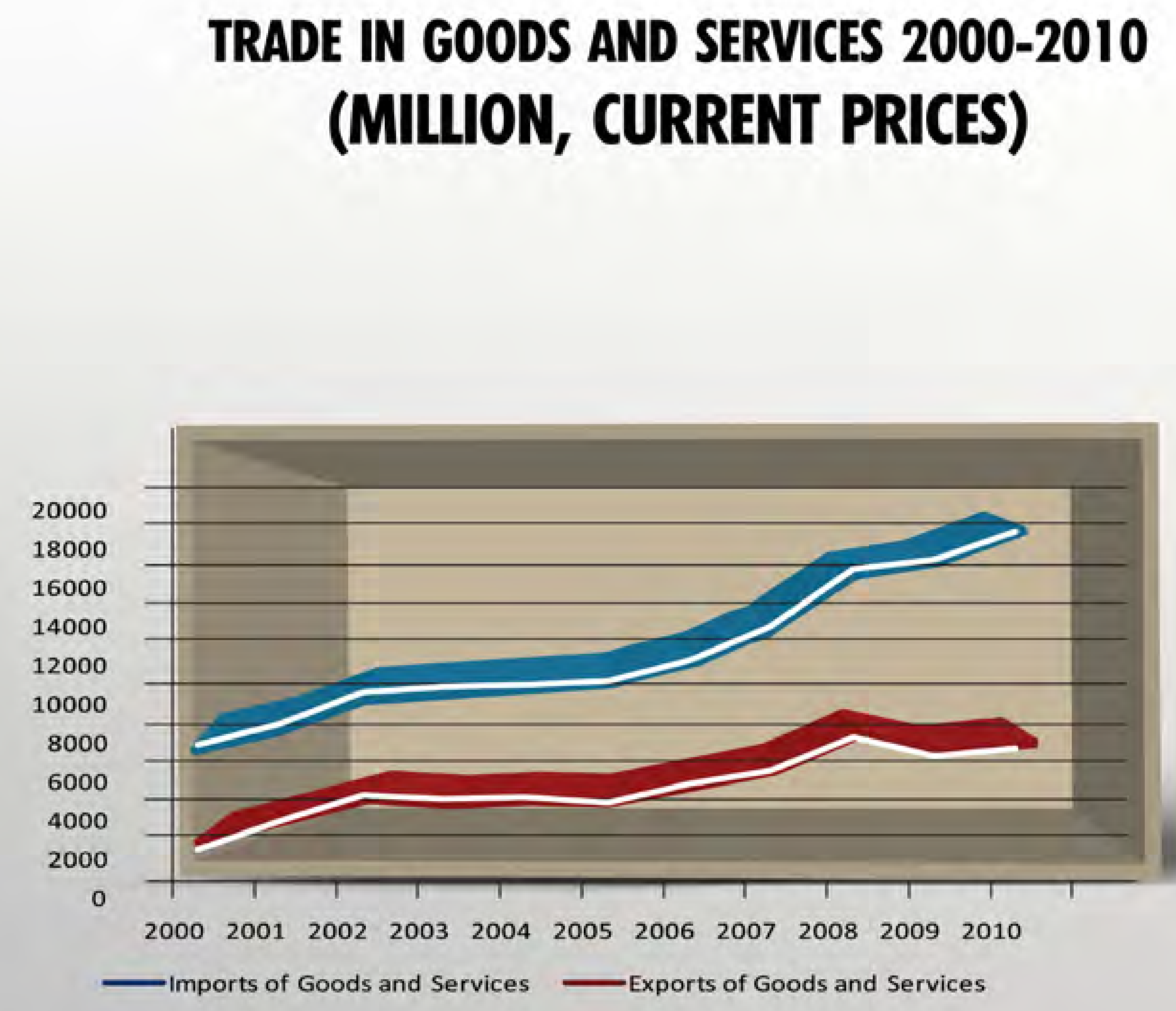
Although there are reservations about the quality and timeliness of trade data, the National Accounts generates figures for imports and exports of goods and services that are broadly consistent with both the Balance of Payments and the Social Accounting Matrix. Over the period (2000-2010), SACU has provided 77% of all imports of goods. The trend (Figure 2.1) has generally been downward (although the low of 73% occurred in 2002) as non-SACU imports have grown by 228.4% (an annual average of 12.6%) whereas SACU imports have only gone up by 152.3% (9.7% per annum).

Exports of Services have grown by 168% (10.4% per annum) to M 835 million in 2010. Approximately half of these earnings are generated from the transfer of water from the Lesotho Highlands Water Project Phase One.

In current prices, Total Imports of Goods have increased from M 5,612 million in 2000 to M 14,897 million in 2010 (an increase of 165.5% and an annual average growth rate of 10.3%). Imports of Services have grown by 104.8% from M 1,599 million in 2000 to M 3,275 million in 2010 (7.4% per annum). Over 80% of these imports involve expenditure by Basotho overseas (migrant workers, students, travelers and embassies).

In current prices, Exports of Goods have grown by 296.2% from M 1,554 million in 2000 to M 6,156 million in 2010 (14.8% per annum). Over the entire period, clothing has contributed 63% of exports of goods but this proportion has declined from 72% in 2000 to 45% in 2010. This is the result of two main trends:

Figure 1:



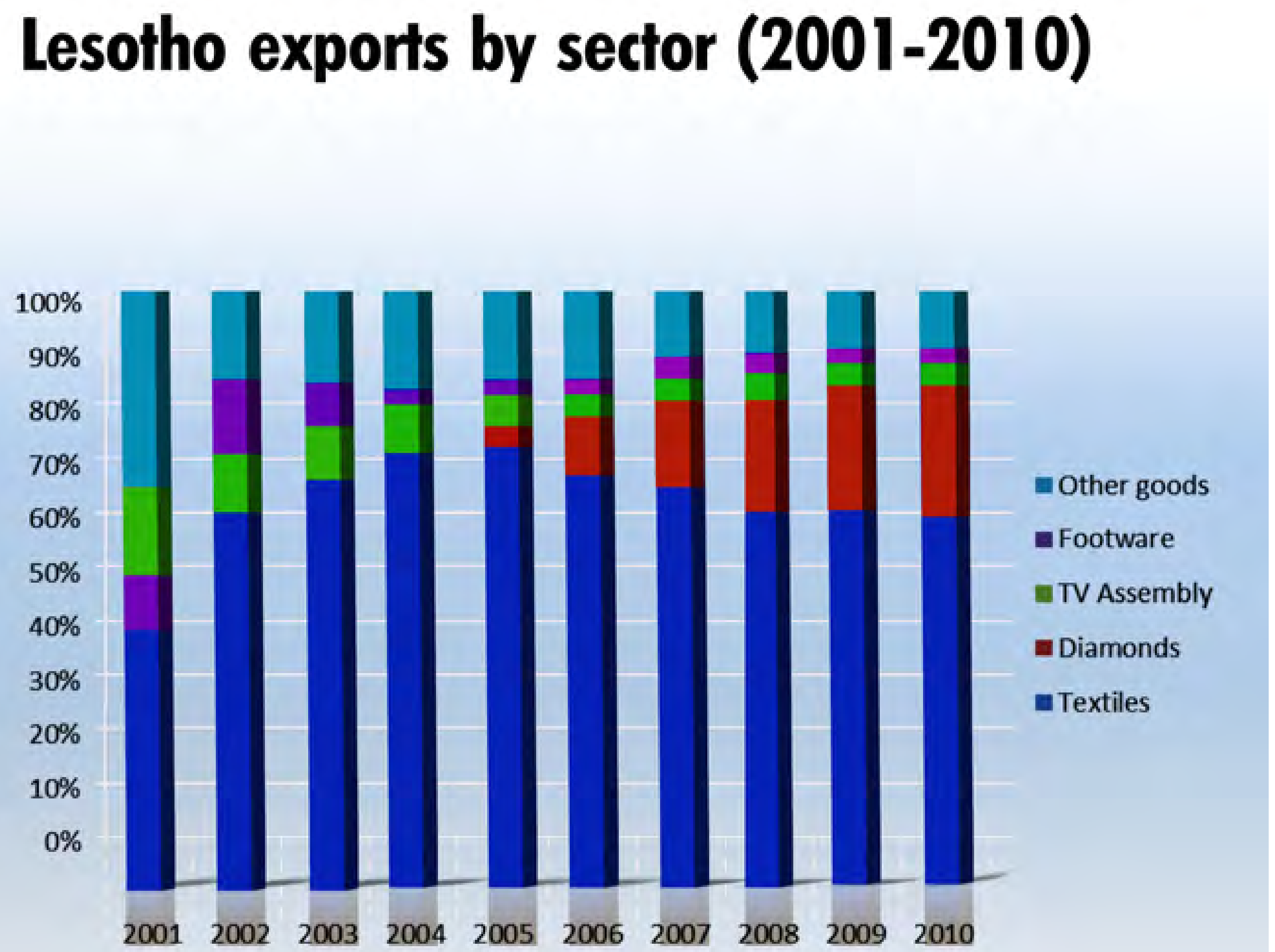
Source: Prepared by the DTIS update team using government trade statistics.

Figure 2 shows Lesotho's export pattern by main industry in the ten year period between 2001 and 2010. It shows that there has been significant change in these patterns. Since the introduction of AGOA the exports of garments became Lesotho main export. In 2010 textile and clothing exports amount to over half of total exports. Clothing exports trebled up to 2004; they subsequently stagnated up to 2007 (although there was a fall in 2005 when the industry was experiencing problems with adverse movement of the exchange rate and the end of the international Agreement on Textiles and Clothing); and, despite reaching a high of M 3,500 million in 2008, the global recession has caused declining sales of around M 2,800 billion in both 2009 and 2010;

Increased demand in the international diamond market encouraged renewed interest inthe development of Lesotho's diamond-bearing deposits and new mines opened in 2003. Diamond exports grew from M 3.8 million in 2002 to M 1,545 million in 2008. The global downturn resulted in a decline in exports in 2009 to M 1,390 million although in 2010 they recovered and increased to M 1,606 million.

TV assembly was has been an important Lesotho export accounting to roughly 3-4% of total export however with the closure of the main assembly plan in 2012 these exports have dwindled. Similarly, exports of footwear has decreased in its importance as the share of these exports decreased from 14% of total exports at the beginning of the decade to just 4% in 2010.

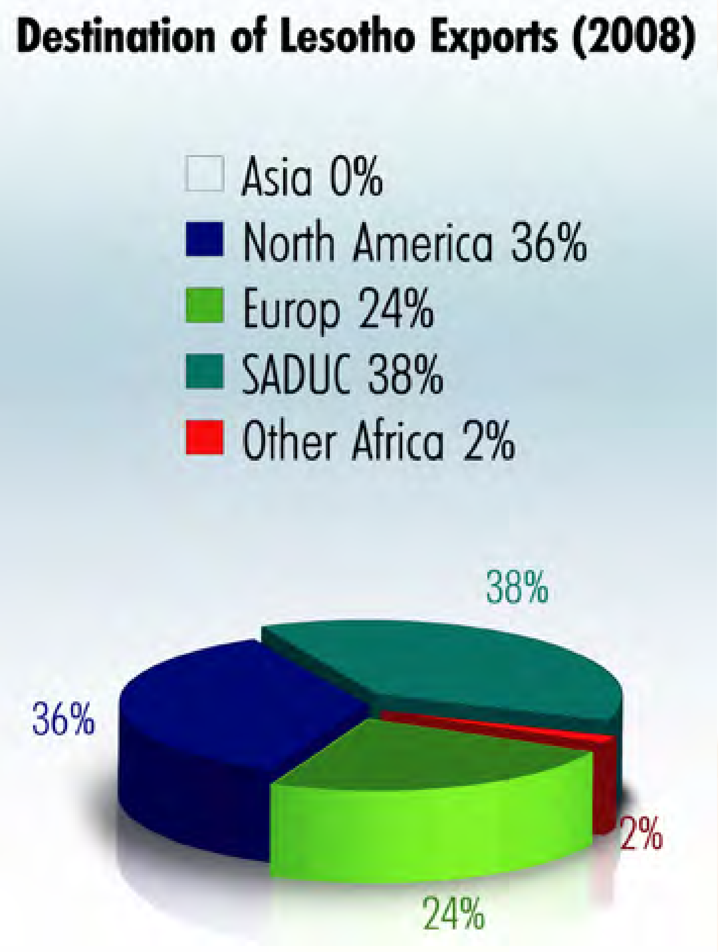
Figure 2:



Source: Bureau of Statistical Yearbook 2011, Statistical Report No.15 2011.

Lesotho exports primarily to SACU (and South Africa in particular) with 38% of total exports destined to the region (see Figure 3). 36% of total exports of which the vast majority are exports of ready-made garments to the US are destined to North America. Exports to Europe comprise of roughly a quarter of total exports. Of these exports the majority are diamonds exported to Belgium for sorting and polishing.

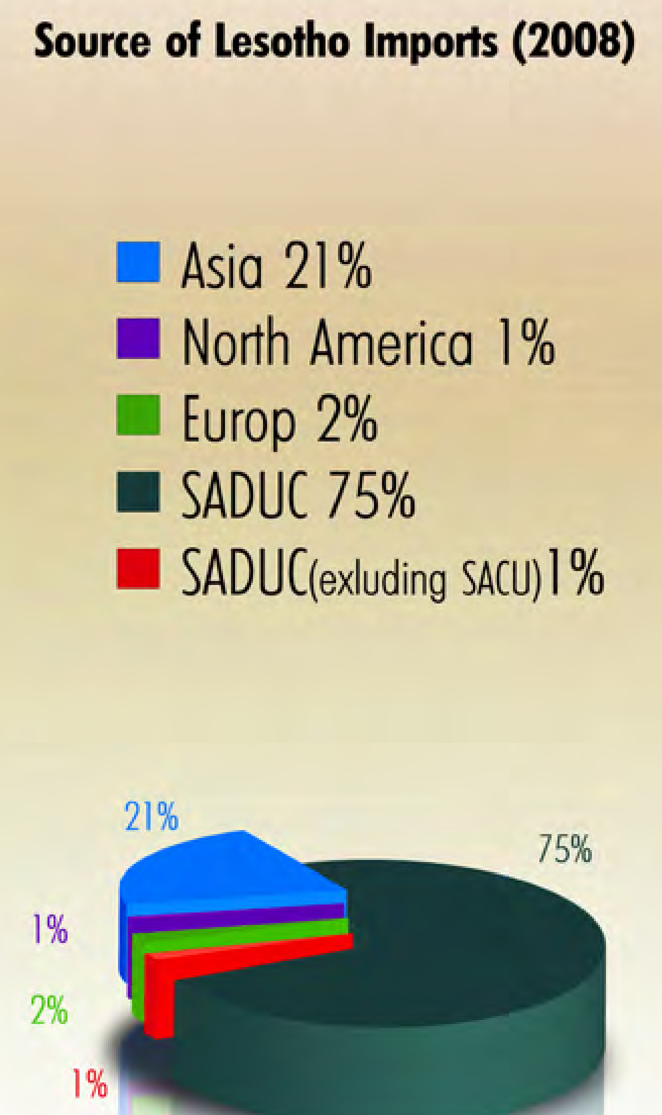
Figure 3:



Source: SACU Trade Policy Review, 2009 (WTO)

Lesotho import goods primarily from South Africa which is the source of roughly three fourths of total imports. Asia supplies 21% of Lesotho imports many of which are inputs for garment factories. Other regions such as SADC, North America or Europe are an insignificant source of imports for Lesotho.

Figure 4:



Source: SACU Trade Policy Review, 2009 (WTO)

2.3 Poverty Reduction and Human Development

National Accounts data show that the GNI per capita is M 10,393 (equal to US$1,450 per capita at the market exchange rate) in 2010. Thus, although Lesotho remains a least-developed country, the World Bank classifies it as a lower middle income country. Differences between local and international prices mean that GNI expressed at purchasing power parity is approximately 80% higher than at official exchange rates (WDI 2011).

The national poverty line recorded an average national poverty headcount of 54 per cent (58% in rural areas, 40% in urban areas) in the 2002/03 Household Income Survey. The World Bank international US$1 a day poverty line figure produced a significantly lower average national headcount of 37% (41% in rural areas, 25% in urban areas). It is estimated that 27.5% of the population and 21.4% of households (117,309 out of 548,032) are at risk of multi-dimensional poverty (i.e. including deprivation of health, education and living standards). Larger households with many children, headed by older and less educated people, were worse off, while households headed by migrating males are better off. Households receiving remittance income from abroad have amongst the highest incomes and best outcomes in the rural economy. Unusually, the poorest households grow less of their own food than do higher-income households.

Household Income and Expenditure Surveys indicate that the national Gini coefficient declined from 0.57 in 1994/95 to 0.53 in 2002/03 but has subsequently increased to 0.66[5]. The recent increase in inequality may result from the secular decline in migrant employment in South Africa over the past decade. Unemployment has remained at 23.7% of the work force over the same period.

Information from the Lesotho Demographic and Health Survey (LDHS) 2009 suggests that 76.7% of the population have access to improved water sources (although that includes 7.6% who rely on protected wells or springs) and that 72.2% are less than 30 minutes from water; in the area of sanitation, 25.1% have improved, non-shared facilities, 38.8% have non-improved, shared facilities and 36.0% have no facilities. In the case of energy, 16.1% of the population (17.0% of households) has electricity, although for cooking, 49.4% use wood, 20.5% use LPG and just 6.1% use electricity. Furthermore, the Human Development Index (HDI) for Lesotho has only shown modest improvement. In 2005 was it was 0.404. This rose to 0.549 in 2007 beforedeclining to 0.423 in 2009 and then rising slightly to 0.427 in 2010.[6]

2.5 Progress in Achieving Millennium Development Goals (MDGs)

Lesotho in 2000 along with other members of the United Nations adopted the United Nations Millennium Development Goals (MDGs), an eight-point agenda which seeks to focus attention on prioritizing initiatives aimed at enabling developing countries to substantially reduce poverty by 2015. Of the 8 MDGs, the available data indicated that Lesotho is on track in 2 (universal primary education and gender equality), making slow progress in another 3 (HIV and AIDS, environmental stability and global partnership for development), and trailing in the remaining 3 (eradication of extreme poverty, reduction in child mortality and improvement of maternal health).

2.6 Gender, Youth and Inclusiveness

The Gender Inequality Index (HDR 2010, using 2008 data) indicates that Lesotho performs relatively well with an index score of 0.685 and a rank of 102. Women can be found holding higher civil service and political positions. However, women, particularly in rural areas, have long been disadvantaged by cultural traditions even though they play a vital role in the economy (the LDHS 2009 indicates that 35% of households are female-headed). On the other hand, there are unemployed mineworkers and a growing youth population seeking jobs. Ensuring gender and inclusiveness issues are addressed substantively in trade development and diversification would go a long way towards alleviating poverty as these groupsaccount for a substantial proportion of the poor, both male and female.

The textile and garments industry employs a large number of women (See Box 1 below).

5] World Bank, Smallholder Agriculture Development Project, October 2011, Washington.

6]UNDP, Human Development Report 2010, The Real Wealth of Nations, Palgrave Macmillan, New York, pp. 151

Box1

Trade and Gender in Lesotho

Lesotho ranks 9th out of 135 countries on the World Economic Forum (WEF)'s Global Gender Gap Index 2011. The number of women engaged in the labor market has increased significantly in absolute terms; women now make up the majority of the high-skilled workforce. According to the WEF, women's estimated earned income is about 74 percent that of men. For comparable work, men would earn about one-fifth more than women. Trade preferences played a catalytic role in fostering structural change and productive transformation in the economy, bolstering women's empowerment. Most significantly, trade expansion (given the high proportion of female employment in the apparel sector) has created a large number of new jobs for underprivileged, relatively unskilled women that would otherwise have little chance of being formally employed. Being able to work and earn income is a strong force behind women's empowerment and decision-making, both within and outside the household. Women working in apparel factories have access to innovative workplace health programs that provide free-of-charge HIV care and treatment. In a context where about 40 percent of workers in the textiles/apparel sector are HIV positive, this industry-wide initiative is critically important.

On the downside, low wages, limited skills development, and new patterns of vulnerability to external shocks are noted. Working conditions are hard, though there are no reports of child labor, forced labor, or "sweatshops". Female job segregation in the unskilled/labor intensive nodes and the segregated nature of tasks within each node has significantly limited skills development; very few workers are able to manufacture an entire garment. It is widely recognized that if the apparel factories were to shut down, it would be very difficult for the female workers to relocate given the limited effect of textile and apparel FDI on fostering skills development and the low wage levels.

Removal of the US Africa Growth Opportunity Act (AGOA) preferences in 2015 can put the viability of Lesotho's clothing industry under threat. These changes in trade are likely to disproportionally affect women, given the high proportion of female employment in the sector. Lesotho may wish to establish itself as a responsible sourcing destination; exploring ways to leverage efforts to tackle HIV/AIDS in the workplace. The significant potential socioeconomic impact of large-scale infrastructure projects, for instance in water, should not be overlooked.

It must be noted that in Lesotho, "engendering" policy is "not simply a question of improving women's status, as there are a number of situations where males are disadvantaged".

Source: Compiled from who is benefitting from trade liberalization in Lesotho? A gender perspective, UNCTAD

In the past decades government of Lesotho has undertaken several initiatives aimed at treating men's and women's rights equally. In 1995, Lesotho ratified the UNConvention on the Elimination of All Forms of Discrimination against Women (CEDAW), in 2004 the country signed the African Union (AU) Solemn Declaration on Gender Equality in Africa and in 2008 Lesotho was one of the signatories of the SADC Protocol on Gender and Development.

In line with Lesotho's international commitments Lesotho has reformed its legal framework and mainstreamed gender issues in national policies and strategies to eliminate built-in gender discrimination. The Legal Capacity of Married Persons Act 2006 repealed many discriminatory provisions in the formal legal system and represents a crucial improvement in women's legal position. Once the Act's provisions are fully implemented, women will be able to access credit, improve their land (assuming they own it), invest their money, engage in entrepreneurial activities and be the sole guardians of their children. It repealed many discriminatory provisions in the formal legal system and represents a crucial improvement in women's legal position.

In the Ministry of Gender, Youth and Sports (MGYS) has developed the Gender and Development Policy (2003), a Draft Implementation Plan for 2008/10 to mainstream gender concerns into different sectors. The National Strategic Development Plan treats gender as a cross cutting issue in an effort to mainstream it in a wide range of government policies covered by the plan. Gender is mentioned over 30 times in the document.

Women in Lesotho are constitutionally guaranteed equal rights. As highlighted by a recent UNCTAD report entitled: "*Who is benefitting from trade liberalization in Lesotho? A gender perspective*" despite these government efforts to attain more gender quality major gender gaps persist in a number of critical areas. The most important of these is the fact that the constitution recognizes legal equivalency of customary law which in many cases does equate gender rights. This legal duality,whereby civil law based on Roman Dutch law and customary law coexist,is the key obstacle towards achieving equal rights for both genders as customary law which is applied in the majority of rural areas. For example, as noted by the above mentioned UNCTAD report, in matters related to marriage and succession, a woman who is customarily or traditionally married (rather than married by civil law) can only access the local courts, which will adjudicate based on customary law. The application of customary law may lead to discrimination against women in matter not only related to marriage but also property and succession as the result it moderates the advancement in terms of gender equality gained through government proactive approach in passing relevant legislative texts as well as adopting gender strategies and policies.

Furthermore, there are additional obstacles in terms of women's access to the judicial system in Lesotho. Civil courts in Lesotho are located in Maseru and a handful of district capitals and access to these courts is expensive. There is also a lack of awareness of legal rules/venues;and other socio-cultural barriers (such as fear of reprisal) which are particularly pronounced in the rural areas.

Moving onto an analysis of youth more than one in three young adults, between the ages of 15 and 35, are unemployed, according to the UNDP report. This is significantly higher than the aggregate unemployment rate for all adults. In this context, the Government in partnership with development partners (led by the UNDP Lesotho) launched a Youth Employment Program (YEP) in 2006. An external evaluation of the program carried out in 2009 reports that the program produced encouraging results. The YEP has trained successfully a large number of actual and potential youth entrepreneurs and facilitated changes in their enterprise-level and individual behavior and provided access to credit to a smaller, but growing cohort of training beneficiaries. The general perspective of the trainees towards the training was extremely positive. Trainees found the trainers were of a high quality, patient and tolerant, and they were able to manage fast and slow learners and learners with different levels of literacy and education and to more than sufficiently translate the English text in the training materials into Sesotho.

The trainees also had positive views of the impact of the training. For trainees already engaged in enterprise activities, the training resulted in changed behavior, which had resulted in some increases in business sales. For those not yet engaged in enterprise activity, the training had sharpened their notions of business and assisted them in crafting better business plans for eventual funding. The majority of active and potential enterprises are engaged in sales and retail, with a very limited number engaged in agro-production beyond the rearing of pigs and of poultry for eggs and meat. Given Lesotho's mainly rural and agricultural character, there is a clear need to build forward and backward linkages to agriculture, as well as to tourism, the other resource-based sector with considerable potential, in order to build sustainable enterprises.

A recent UNDP report[7] on trade mainstreaming notes that there is apparently weak targeting of gender and inclusiveness in national strategic development plans even though there were references to the vulnerable groups. The measures to improve gender targeting were embodied in socio-economic development issues, such as infrastructure, agriculture and food security in national development strategies. But, the issues of unemployed miners (those returned from South African mines) and youth are insufficiently addressed.

7] United Nations Development Program, Trade Mainstreaming Country Review – Lesotho, Final Draft, 2011

THE NEW TRADE ENVIRONMENT

2.7 Environment and Trade

The environment and trade related issues are multiple, complex and important for ensuring sustainable development. At the international or global level there are ongoing talks at the WTO level regarding trade opening for environmental goods. WTO members are working to eliminate trade barriers in the goods and services that can benefit the environment. Facilitating access to products and services in this area can help improve energy efficiency, reduce greenhouse gas emissions and have a positive impact on air quality, water, soil and natural resources conservation. A successful outcome of the negotiations on environmental goods and services could deliver a triple-win for WTO members: *a win for the environment, a win for trade and a win for development (www.wto.org)*.

At the national level, in the case of Lesotho, the Environment Act 2008 provides for the management of the environment and the sustainable use of natural resources. Under section 4 (1) (b), every person living in Lesotho is under a duty to inform the Director of the Department of Environment (DOE), Ministry of Tourism, Environment and Culture (MTEC), of any activities or phenomenon that may affect the environment "significantly". The scope of this duty is unclear as no published description defining the "standard" that may significantly affect the environment is provided in the law. Also under section 4 (1) (a) every person living in Lesotho is entitled to a "scenic, clean, and healthy environment." To protect this right, every person in Lesotho has the right under section 4 (2) to sue any other person whose actions or omissions they perceive to result in harm to "human health or environment." Section 83 provides for a total ban on imports of hazardous waste. It is important that the exercise of this power is not arbitrary but is based on internationally accepted standards relating to storage, carrying, and handling of hazardous waste, in order not to be in violation of international obligations.

At the project level, one of the key administrative procedures which an investor must comply with in order to set up an investment project in Lesotho is to acquire an Environment Impact Assessment (EIA) clearance. The DOE is responsible for the issuance EIA clearance, based on the Environment Act (2008). The DOE plays a pro-active role in steering the EIA process. It provides detailed EIA requirements and guidelines on its website. An EIA is required for the majority of new projects, and applies to both private and public projects. The entire EIA process can take up to a year; it is complex and requires a large amount of information and documents. The DOE therefore advises that first contact be made with them at the concept stage of an investment project.

The process of obtaining an EIA involves engaging a consultant that will prepare it. There are, however, no regulations as to what qualifications an EIA consultant should hold, though the DOE provides guidelines on who can undertake an EIA and allows for consultants from other countries to provide services in Lesotho given that currently there is only a limited pool of consultants that provide such services available in Lesotho. EIA preparation fees and charges vary greatly. Once a properly completed file is submitted, the DOE is obliged by law to turn around an EIA application within 30 days but this is constrained by low level of staff compliment. The DOE also carries out inspections to verify whether the Environmental Management Plans agreed after the EIA license has been granted have been carried out appropriately. Currently, the DOE has two staff with sole responsibility for the EIA process. This represents a critical bottleneck and serves to constraint the swift and efficient disbursement of EIA licenses to investors.

The NSDP envisages further improving of the environment governance. It also has indicated a waste treatment plan, particularly related to waste disposal of textile industry. The following observations made by the review of the 2008 Environment Act undertaken as part of the Update are relevant to further improving the environmental governance in Lesotho:

The administration of the environmental protection regime ought to be streamlined to ensure that the compliance burden imposed on firms is commensurate with the level of risks their activities pose or are likely to pose to the environment. The system needs to be streamlined to ensure that potential environmental risks represent the basis for determining the level of impact assessment and for specifying the minimum requirements. The current system appears comprehensive for all relevant activities (without reference to the risk of adverse environmental impact). This may lead to delays in the processing of permits, additional costs for smaller businesses, and could stretch the resources of the Department of Environment;

The institutional arrangements for implementing this Act appear quite confusing. These include powers given to the Minister for Environment, the National Environment Council, the Director of the Department for the Environment, committees such as the District Development Coordinating Committee, among others. These may need to be streamlined to remove the costs and burden of dealing with different agencies, and lines of authority over the same matter; and

While the Act prohibits environmental pollution in all forms, a "pollution licence" may be obtained under section 44, to be able to pollute beyond prescribed levels. It is not clear why anyone should be able to pollute beyond prescribed levels and this may have to be reconsidered.

2.8 Trade Policy, Preferences and Institutions

2.8.1 Trade Policy and Preferences

Best practice in trade policy formulation place firms and entrepreneurs at the center of the trade policy formulation and emphasize improving the business environment and promoting international competitiveness. This fundamental shift in trade policy recognizes the fact that countries do not engage in international trade – firms do. The importance of firms in international trade is consistent with the most recent developments in trade theory and the policy arena.[8] Given Lesotho's small internal market size the country needs to look outwards for its export and investment destinations hence attaining coherent and effective trade policy is critical for its development path. In the light of the above, Lesotho's trade policy needs not only to address a number of issue that form traditional trade policy framework such as, securing market access, negotiating preferential treatment and export promotion but also focus on Lesotho's competitiveness issues related to business environment, investment climate, physical infrastructure and resource endowment. Lesotho's trade policy is embedded in various trade agreements, of which the most important ones are the SACU agreement and WTO membership.

Lesotho's participation in several Preferential Trade Agreements is a crucial determinant of its export success as well as is the main source of its government revenue. The reminder of this section provides an overview of key Lesotho's multilateral and regional trade agreements.

South African Customs Union (SACU)

Lesotho is a part of the Southern African Customs Union (SACU), alongside South Africa, Namibia, Botswana and Swaziland. As a member of the union Lesotho is to a large extent subject to joint trade measures including the region's common tariff regime (with a common external tariff levied on first entry on all imports into the region, and free movement of goods within the region). As part of SACU Lesotho is also a part of a monetary union with South Africa, Namibia and Swaziland as the loti – Lesotho currency – is pegged 1:1 with the South African Rand. This means that interest rates and exchange rates are primarily driven by macroeconomic policy in South Africa and that fiscal policy is the main instrument of demand management in Lesotho.

Lesotho participates in the SACU revenue-sharing pool, which distributes import duties and excise taxes collected according to a formula on regional imports among all member states. The country's dependence on revenues from customs duties makes it particularly vulnerable to changes in the common external tariff, changes in trade flows (imports), and the weighting currently applied in the revenue-sharing formula. To place this in context, Lesotho's total government revenue receipts projected for the 2006/7 period revealed that the contribution made by customs revenues amounted to 64% of total revenue. In 2008/09 the revenue amounted to over half a billion US$. In contrast, income taxes (from individuals and businesses) contributed an equivalent of less than a quarter of that figure, and water royalties (the single largest non-tax item) approximately 4% of total revenue.

Preferential access to Lesotho's closes neighbours and South Africa in particular is crucial from the perspective of diversifying Lesotho's export base as tariff free access to a market of almost US$ half a trillion provides a wealth of opportunities to the country.

World Trade Organization Membership

Lesotho became a member of the General Agreement on Tariffs and Trade (GATT) and of the WTO in 1995. As for other Members being part of the WTO provides Lesotho with both opportunities and threats. At the WTO Lesotho belongs to the LDC group of countries that obtain special and preferential treatment in terms of longer transitional periods or permanent exemptions. WTO membership locks in Lesotho trade liberalization thought as an LDC its bound tariff level still allows for significant leeway in terms of raising tariff levels.

Lesotho benefits from guaranteed MFN access to the markets of other WTO members and from the minimization of capricious protectionist policies, which are outlined by WTO rules and regulations. On the flip side the same set of regulations also constrains Basotho policymakers from adopting protectionist policies. Lesotho enjoys access to the WTO's dispute settlement process though it is yet to take advantage of this WTO instrument.

WTO liberalization in the successful rounds of trade negotiations possesses a threat to maintaining Lesotho's current export level. As Lesotho exports are highly dependent on preferential liberalization embedded in AGOA and SACU WTO tariff liberalization might induce so called "preference erosion" and undermine the preferential tariffs that Lesotho enjoys in key export markets.

8] For a summary of recent work on policies and measures that support successful exporters see, *Pathways to African Export Sustainability*, Paul Brenton, Olivier Cadot and Martha Denisse Pierola, World Bank, 2012.

Integration with South Africa

Lesotho borders only one country—South Africa—which has the most developed economy in Africa. One cannot discuss Lesotho's trade and economic structure and performance without mentioning its close economic integration with South Africa. The level of economic interaction with South Africa is high for three main reasons: size differential, proximity and the customs union. Because of its size and relatively high level of economic development, South Africa supplies more than 75% of Lesotho's imports and, until recently, purchased the bulk of its exports. In addition to the monetary and trade linkages already mentioned their capital and labour markets are closely linked as well. Capital can move freely across borders and South African banks operate in Lesotho. Although East Asian investors have probably invested more in Lesotho's economy, South African owned firms play an important role in services and manufactures. Finally, yet importantly, South Africa provides markets for many services including water royalties and power.

South Africa's GDP per capita is almost ten times higher than that of Lesotho. Consequently, Lesotho is not as geographically isolated as many least developed countries are but is well-positioned to take advantage of South Africa's modern transport infrastructure as well as other opportunities offered by its markets. Furthermore, since both are members of SACU, the oldest customs union in the world, Lesotho has preferential access to South Africa's markets. This arrangement, falling into the "North-South" type, is a source of not only trade, but other benefits as well.

The African Growth and Opportunity Act (AGOA)

AGOA was signed into law in 2000 by the US Senate. The Act offers tangible incentives in a form of preferential market for African countries to continue expand their economies. Lesotho has been the biggest beneficiary of this scheme in SSA. Numerous studies (Hilligas 2005; Salm *et al* 2002) have documented the importance of tariff and derogation benefits provided under the African Growth and Opportunity Act. AGOA provides tariff free duty free access to the US Market for the vast majority of African manufacturing and agricultural exports.

The key provision of AGOA for Lesotho textile manufacturers has been a single-stage transformation rules of origin requirement allowing African countries to source fabric from the most competitive locations in the world, and make it up into garments for large US retailers and branded-goods merchandisers. Thus, the AGOA derogation provides Lesotho, and other least developed sub-Saharan African (SSA) producers, an advantage that no other supplier to the U.S. market can claim: ready adaptability to Asian sourcing networks for fabrics and materials, and tariff benefits ranging from 15.5% for cotton trousers to 32.0% for manmade fibre knit shirts and blouses. As will be apparent in the next section this combination of trade benefits has contributed to boom in Lesotho production and exports of textiles to the US. Lesotho garments manufactures were able to take advantage of AGOA provisions as the result since the introduction of AGOA Lesotho exports of garments to the US have substantially increased and currently hover at around US$300 million i.e. more than 90% of Lesotho's manufactured exports.

AGOA is a unilateral scheme implemented by the United States Government. It has initially been envisaged to expire in 2008 but has now been extended to 2015. The temporary nature of AGOA is a significant threat to the garment manufacturers in Lesotho as expiry of trade preference will put additional competitive pressure on an industry that is highly dependent on these preferences. The third country fabric provision that provides favourable rules of origin for exporting garments to the US has been extended in October 2012 for another three years.

Economic Partnership Agreements (EPA) with the European Union

Lesotho as a member of SADC and other African, Caribbean and Pacific (ACP) countries has enjoyed preferential trade access to the EU market for many decades under the Lome Agreement. The basic principal of the Lome Convention was a non-reciprocal duty and quota-free access for most of the ACP countries exports to the EU. In order to bring conformity with WTO rules the Convention was replaced in 2000 by the Cotonou Agreement. The latter agreement envisaged establishing an EPA, which will be more reciprocal in nature and require Lesotho to remove tariffs on 'substantially all' imports from the EU during the implementation period.

Within SADC group four countries, Botswana, Swaziland, Lesotho and Mozambique, had signed an interim EPA with the EU at the beginning of 2008. According to the agreement tariff barriers were removed through the granting on a transitional basis of full duty-free, quota-free access to the EU market, with the exception of sugar, bananas and rice, for which special transitional arrangements were established. Different liberalization schedules for imports of goods from the EU have been agreed on across SADC countries with some transitional periods.A sub-group within the SADC configuration comprising Angola, Namibia and South Africa (South Africa initially participated as an observer and in a supportive capacity but formally joined negotiations in 2007) have not signed the EPA arguing that given vast reservations over substantive provisions in the IEPA there was little point in signing and ratifying an IEPA agreement. Both sides agreed to continue negotiations for a comprehensive regional EPA covering services, investment and trade-related rules. In fact, in 2010 interim EPA signatory countries suspended the process of ratification of the agreement, pending the conclusion of comprehensive regional negotiations. It was felt that the substantive issues should be addressed first and only then should the agreement be signed and ratified.

Despiteprotracting negotiations for finalizing the EPA Lesotho benefits from quota-free duty-free access to the EU market as by the virtue of being an LDC it takes part in EU's Everything But Arms (EBA) scheme. As with AGOA the EBA agreement is unilateral and as a consequence can be cancelled by the EU at any point in time. Finalizing the EPA would provide Lesotho exporters crucial certainty that preferences be permanent.

Other Trade Agreements

Lesotho is also a Member of the Southern African Development Community (SADC). In 2009, SADC has become a Free Trade Area which gives Lesotho a preferential market access to all 15 Member States of SADC. At the time of writing SADC was finalizing the FTA which entailed phasing out any remaining intra-SADC tariffs in sensitive areas in preparation for the envisaged SADC-wide Custom Union.

As part ofSACU, Lesotho also has preferential trade agreements with EFTA (Europe), MERCOSUR (South America) and Trade and Investment Development Agreement (TIDCA) with the United States. These trade agreements and arrangements provide Lesotho trade preferences and hence opportunities for further export diversification and expansion.

There are many trade and industrial policy related stakeholders in the country, comprising the government ministries, and private sector associations which represent the organized business sector. It is important to ensure effective coordination between the different stakeholders. Realizing this coordination and achieving a consensus across divergent groups represents a challenge in all economies but is even more difficult in countries – such as Lesotho-characterized by narrow productive sector(s) with a legacy of protected domestic and regional markets and significant government intervention. Nevertheless, Lesotho's participation in such a wide array of trade agreements and preference schemes, that often reach far further than simple preferential tariff liberalization, is a significant opportunity to diversity exports and enhance the competitiveness of the economy. Several of Lesotho's trade agreements deal with what is often termed "deep integration" i.e. liberalization of services and harmonization of legislative frameworks and other procedures to facilitate trade. Lesotho stands to benefit substantially from these arrangements that encourage more competitive service sectors, improve trade logistics and reduce red tape and increase transparency. To give an example, Lesotho has a competitive and efficient banking system the vast majority of which is South African owned. It is however important to note that opening the service sectors to competition from Europe or South African firms should be weighted by the benefits and or returns that such competition contributes to the Lesotho's Ecoonomy.

2.8.2 Government Ministries

The key government ministry responsible for overseeing trade and industrial policy formulation and in Lesotho is the Ministry of Trade, industry, Cooperatives and Marketing (MTICM). The mission statement of the MTICM is that "MTICM shall be a leader in creating an enabling environment for trade, investment, business and industrial development for private sector led job creation and poverty reduction." According to the new Strategic Plan (draft 2011) of the Ministry, one of its key objectives is to: "increase and diversity export-led growth, economic integration, market access and seizing the opportunities in the global economy." Within the MITCM, the Department of Trade is responsible for leading all external and internal trade related work. Other departments are the Departments of Industry, Standards, Marketing, Cooperatives, and Planning. MTICM also has One Stop Business Facilitation Center (OBFC) and Enhanced Integrated Framework (EIF) Focal point under its roof and it oversees the work of the Lesotho National Development Council (LNDC) and the Basotho Enterprise Development Corporation (BEDCO).

The Ministry of Finance (MF) and Ministry for Development Planning (MDP) (previously one ministry) are theother key ministries involved in trade policy making and implementation as trade is important for both government revenue and the country's economic development process. The Department of Regional Integration deals specifically with SACU issues. The directorate aims at: (i) providing policy advice on regional economic integration; (ii) ensuring effective participation and contribution in the activities of relevant regional bodies; and (iii) facilitate coordination of regional strategy and policy at the national level. The other important central ministries are the Ministry of Law and Constitutional Affairs and the Ministry of Foreign Affairs which provide an important supporting role in the development and amendment of relevant legislation, trade negotiations, and liaising with foreign trading partners, respectively.

Sector ministries play an important role in trade mainstreaming in their respective sectors, e.g., Ministry of Agriculture, Ministry of Natural Resources, Ministry of Tourism, Environment and Culture. The

LNDC and the BEDCO, both parastatals, are the two main organizations involved in trade and industrial policy implementation.

2.8.3 Private Sector Associations

There are many private sector associations in Lesotho, representing a variety of private sector businesses, but the quality of their participation varies. The general feedback from the private sector is that there is not enough consultation with the private sector in trade and investment promotion related policy discussions.

The *Lesotho Chamber of Commerce and Industry (LCCI)* is one of the oldest private sector organizations, was established in 1976 as a national and broad based business association. The chamber strives to become the 'voice of business' and to ensure that this voice is heard where it matters to protect the interests of business.

The *Private Sector Foundation of Lesotho (PSFL)* is the umbrella body for the private sector in Lesotho, and was launched officially in October 2009 with the overall objective to promote and ensure sustained dialogue between the Government and the private sector as well as to facilitate the promotion and development of a dynamic private sector. The PSFL implements its objectives through: (i) fostering participation of the private sector in the Business Council and public decision making in matters affecting economic and business activity; (ii) assisting in the creation of employment and promoting strategic sectors of the economy such as tourism, agro-industry and mining; (iii) promoting the injection and generation of resources into the private sector for the benefit and welfare of the nation; (iv) creating opportunities for members to share knowledge, expertise and resources; and (v) affiliating and promoting liaison and co-operation with other groups representing business interests. To fulfill its objectives the PSFL engages in activities such as information dissemination, lobbying and advocacy, networking, joint venture and consortium development[9].There is also a council for Non-Government Organizations (LCN) since 1990. The LCN focuses on economic justice, small business's interests, standards and quality assurance, and sustainability of development results and advocacy in related areas.Other associations that focus on a specific industry or sector include truck owners, small traders, street vendors, and textile exporters.

The 2003 DTIS had noted that there were few co-ordination mechanisms for trade policy formulation both within the Government and between the Government and the private sector. This statement remains valid, although there have been somegenuine attempts by the Government and the private sector to engage and participate in trade policy formulation. One important initiative is the *Inter-Ministerial Task-Team (IMTT)*, which was created in 2004 by the Prime Minister in response to the request by the private sectorfor a consultative platform to address their concerns. This platform has been effective in addressing a number of specific concerns that were increasing business and trade costs for exporters. For example, the procedures governing the implementation of the use of import duty rebates, used widely by the apparel exporters, were streamlined and effectively eliminated the delays in reimbursement for firms in good standing with the Revenue Authority. Since then the IMTT has evolved and is understood to have started dealing with a number of trade and industry related issues.

9]LCCI, PSFL and LCN are represented on the National Steering Committee for the DTIS Update.

2.9 National Development Strategy for Achieving Economic Growth, Poverty Reduction

In 2001, Lesotho commenced preparation of a long-term perspective plan and, after an exceptional process of national consultations; the National Vision 2020 was endorsed in May 2004. Concurrently, development partners encouraged Lesotho to prepare a three-year Poverty Reduction Strategy (PRS). The Interim PRSP was presented to the Executive Boards of the International Development Association (IDA) and the International Monetary Fund (IMF) in March 2001 and, after several delays, the final version was approved in November 2004. This initially covered the period 2004/05 – 2006/07 but was extended to include 2007/08.

The PRS approach duplicated some aspects of the national planning system (even though it did not cover all areas of public sector activity) and highlighted the need for medium-term national development plans. To address some of these gaps, a draft Growth Strategy was produced in 2008. This was followed by an Interim National Development Framework, which was intended to guide planning and budgeting processes by bridging the period between the end of the PRS and the start of the National Development Plan (originally scheduled tostart in the financial year 2011/12).

The National Strategic Development Plan 2012/13 – 2016/17 (NSDP or the Plan) is intended to provide an operational outline of public sector activities to maximize progress towards the objectives of the National Vision. It emphasizes the necessity of achieving sustained and inclusive economic growth as the most effective route for poverty reduction. It sets out the intended growth and development strategy and provides strategic direction to all agencies on the resource allocations and budgeting decisions that will be integrated into the Government's annual Medium-Term Expenditure Framework (MTEF).

2.10 Trade Mainstreaming in National Development Plans

Trade mainstreaming may be understood as requiring the clear articulation of trade policies at national and sector levels; the establishment and maintenance ofappropriate institutional structures with adequate capacity for effective implementation, and though effective cooperation and dialogue ensuring international development partners include trade issues in their country and sector level strategies and assistance programs. Linked to measures to facilitate trade mainstreaming, the World Trade Organization (WTO) has initiated the *Aid for Trade* program to encourage developing countries, especially the least developed countries, to increase their gains from access to global markets by improving their supply-side capacity. This involves actions in six areas: trade policy and regulations; trade and development; trade-related infrastructure; building productive capacity; trade-related adjustment; and other trade-related needs.

National planning documents have consistently recognized the substantial economic benefits that would result from the expansion of Lesotho's international trade. These include:

(i) Increased employment opportunities;

(ii) Higher household incomes;

(iii) Lower price inflation; and

(iv) Higher tax revenue.

The expansion of international trade would also (i) stimulate entrepreneurship, (ii) improve access to technologies, (iii) promote skills development, and (iv) attract additional foreign direct investment. This, in turn, would help create a virtuous cycle in which improvements in the competitiveness of local enterprises would in turn enable further sustainable growth in exports.

Exploitation of potential export markets requires the Government to implement policy reforms, public investment, and institutional strengthening to address the current constraints holding back the growth of trade. Trade-related measures need to be integrated into all national development strategies and to receive adequate resource allocations through annual budgets. Indeed, although there is no formal written national trade policy, trade and trade-related measures are explicitly addressed in successive national development plans and sector level strategies.Several reports by international development agencies suggest that outcomes could be further improved by trade mainstreaming.

The *Growth Strategy 2009/10–2012/13* was introduced to address the threats emanating from decline in the earnings from SACU revenue pool, slower growth and possible reduction in exports to the USA under AGOA, and further reduction in opportunities for migrant Basotho workers in South Africa. Its central focus was the promotion of growth in four main sectors, manufacturing, commercial agriculture, tourism and mining. The Strategy also perceives Small and Medium Enterprises which cut across productive activities and services, as a lever for increasing productivity. But more importantly, for the first time a section dealt with trade policy and trade promotion, namely: (i) the consolidation of investment in the manufacturing industry through market diversification; (ii) market diversification would entail deepening exports with SACU/SADC, and EU under Economic Partnership Agreement (EPA); (iii) resources would be pooled within the SACU/SADC region and/or integrate with relevant institutions in South Africa to overcome the Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) requirements in the new trade agreements; (iv) building requisite infrastructure to service investors, and (v) improvement of trade and regulatory framework, expanding economic infrastructure, upgrading of market access and trade facilitation to advance investment climate, expand productive capacity and competitiveness.

These reflect the spirit of Vision 2020, especially the strengthening of investment and trade promotion capacity of Lesotho and the provision of infrastructure to industrial estates. However, the Growth Strategy lacked an operational program and prior to effective implementation attention switched to the preparation of a national strategic development plan (NSDP) for (2011/12-2016/17).

The *NSDP*[10] sets objectives for economic growth (an annual average growth rate of GDP of at least 5%) and for employment creation (approximately 50,000 formal jobs between 2011/12 and 2016/17). The Plan rightly recognizes that Lesotho has a very small domestic market and has to pursue an outward oriented strategy and utilize opportunities in regional and international markets, such as SACU, SADC, the US through AGOA, the EU through EPA and EFTA. The growth strategy of the plan is therefore predicated on increasing exports of goods and services throughout the region based on the assumption that there is considerable potential to expand export-led growth in labor-intensive manufacturing and assembly for the SACU/SADC market by building on Lesotho's regional comparative advantage in labor and access to markets. It further stresses that the opportunities for growth and employment creation can be derived from Lesotho's comparative advantages in labor, location, trade preferences and exploiting green economy status.

The Plan envisages that exploitation of these opportunities will be based on Lesotho's location

10] The information is based on November 2011 version of the National Strategic Development Plan.

and access to regional and international markets, principally through its membership of SACU and SADC. It recognizes that Lesotho is physically located at the center of South Africa and has great opportunities to integrate into their major economic centers. Moreover, access to South Africa's infrastructure means that it is easier for Lesotho than for many other African countries to access world markets (page 23). Lesotho also has natural resource based advantages that could enable it to produce clean energy (through wind and hydro power and through pumped storage schemes) for export to the southern African power pool.

The Plan notes that the private sector is expected to be the engine of growth. The main role of the Government is to intervene in ways that crowds-in private investment, thus encouraging growth that exploits the full potential of the country's productive capacity. The investment climate reform package will include a range of interventions designed to make the laws and regulations more business friendly. In addition, the Plan identifies a number of specific trade related agenda for action (Box 2).

Finally, it is important to note that Lesotho's trade deficit has been increasing in recent years hence the export promotion and diversification is crucial from the perspective of reducing the deficit.

Box 2:

Trade Promotion and Facilitation Related Agenda for Action Identified by the NSDP

- Develop policy frameworks, including a consolidated trade policy and a quality and standards policy and related laws, develop sustainable capacity building programs for trade policy analysis and trade negotiations, and review, develop and implement trade promotion strategy (page 58).
- Streamline import and export procedures, enable online application of import and export permits and upgrade customs processing and clearance facilities to enable high speed cross-border movement of goods and vehicles (page 78).
- Upgrade and/or develop key infrastructure for trade facilitation including the dry port/refurbishment of Maseru Container Terminal, one-stop border posts,use of IT to automate clearance, refurbishment of border posts, and upgrading national roads and access roads to production sites.
- Improve trade related infrastructure and services such as freight, clearing services plus trade finance services to reduce time and cost to markets.
- Engage in bilateral talks with Republic of South Africa (RSA) to explore options for speeding up shipments in Durban and other ports, also explore the possibility of establishing a Lesotho hub/ commercial presence at one of the RSA ports.
- Strengthen Joint Bilateral Commission of Cooperation programs, particularly in respect of infrastructure development, cargo handling at the ports, industrial and tourism development, skills development, transformation of local institutions and cross-border crime to improve the cozmplete border experience (including for business and tourism).
- Harmonize applicable laws and regulations (e.g. between Sanitary and Phytosanitary, One Stop Business Facilitation Centre, and Lesotho Revenue Authority [Customs]; simplify administrative and commercial formalities, procedures and documents.
- Standardize and Strengthen private sector associations (e.g. chambers of commerce, private sector foundation, business council) to participate effectively in policy development and to provide advisory business and other services.
- Review legislation such as the SACU Customs and Excise Act to facilitate automation of customs processes, and the VAT agreement with RSA to enhance the existing border arrangement.
- Negotiating for the removal (or at least the reduction) of tariff and non-tariff barriers to trade in key export markets is essential.
- Identify niche markets and develop innovative linkage programs to improve backward and forward linkages in the textiles sector.
- Create a web based trade portal that allows provision of information on importers and exporters.
- Create a National Trade Facilitation Working Group to coordinate different agencies.

Source: Compiled from NSDP document, November 2011

2.11 Need for Trade Diversification

There are major concerns that if the growth of industrial activity is primarily the result of temporary trade preferences, then that production will be vulnerable to their subsequent removal or erosion. Ideally, Lesotho wants to attract industries that while benefiting from the exploitation of trade preferences have the potential over time, to become internationally competitive so they could succeed even after the preferences are removed. In practice, this has not happened and there remains a risk that many "footloose" investors would close down their operations should preferences be eroded or ended.

There is an opportunity for Lesotho to produce a comprehensive trade policy, set up an appropriate institutional structure (with standing arrangements to deal with potential conflicts between agencies) and build capacity (especially in negotiating for better and longer trade preferences). This should also address the need to coordinate with development partners, especially in respect of trade preferences. Within existing resource and capacity constraints, efforts should be made to improve the accuracy and timeliness of trade-related data and analysis.

The trade policy will need to encourage the diversification of export products and markets through measures aimed at reducing costs and improving competitiveness in the priority value chains identified by the Government while ensuring compatibility across all sector growth strategies. This requires that incentives apply across all industries with no special tax treatment for specific industries or companies; and that there are explicit exit strategies, such as sunset provisions, to limit any existing special measures. Ensuring a level playing field across all economic activities will also serve to maximize the inclusivity of the trade development and diversification (to the benefit of men, women and youth). Much has already been said in the NSDP about trade mainstreaming, its outcome will depend on how those stated policies for trade and export diversification will be developed and implemented.

In this context, the next chapter looks at the progress made in implementing the 2003 DTIS action matrix which is meant to improve enabling environment for private sector to increase investment and to contribute to export diversification.

Improving the Enabling Environment for Tradeand Investment Promotion

CHAPTER 3

IMPROVING THE ENABLING ENVIRONMENT FOR TRADE AND INVESTMENT PROMOTION

3.0 Improving the Enabling Environment for Trade and Investment Promotion

3.1 Implementation of the 2003 DTIS Action Matrix

The 2003 DTIS recommended 42 actions under four broad areas:

(i) Institutional capacity building for policy and trade expansion;

(ii) Regional and multilateral integration;

(iii) Improving the business environment; and

(iv) Improving physical infrastructure. This review follows the sequence of actions presented in the 2003 DTIS Action Matrix.

The MTICM approved the DTIS in 2004 and commenced the process of implementing the action matrix. The implementation progress entailed various legislative changes, establishment of new institutions, and piloting the development ofnew commercial crops (Box 3).While some progress has been made in these areas, still much remains to be done for the full implementation of the action matrix as these areas remain relevant.

Overall, there has been modest progress, and the reform process has proven to be arduous and slow. This illustrates the difficulties faced by the country in implementing the recommended changes to policies, institutions and procedures aimed at improving the policy environment for trade and investment promotion. Nevertheless, the MTICM should be commended for their lead role and commitment to advancing the reforms agreed under the 2003 DTIS Action Matrix.

Box 3:

Key Achievements 2002-2012

Legislative Changes:

- VAT Act (2003), Legal Capacity of Married Persons Act (2006), Environment Act (2008), Land Act (2010), Land Administration Act (2010), Companies Act (2011), Financial Institutions Act (2011)
- Draft policies on Investment, Industrialisation, Competition, Industrial Licensing, MSMEs, and Standards.

Institutional Changes:

- Institutional Changes:
- Lesotho Revenue Authority
- One-stop Business Facilitation Centre
- Land Administration Agency
- Corporatization of public utilities and creation of regulatorss

Physical Infrastructure:

- 7,500 km of roads, 16% paved or tarred, 51% all-weather gravel
- M1 billion for road re-grading and re-surfacing and bridges in Budget Speech 2012-13
- Railhead modernization also budgeted and under procurement
- Institutional changes to improve service delivery and access to water, electricity an telecommunications for industry and households

Piloting for Export Crop Diversification:

- Trade mainstreaming in national strategies: Poverty Reduction Strategy, Growth Strategy and National Strategic Development Plan.
- Encouraging initial results from piloting fruits (apples, peaches and cherries) and vegetables (mushroom) growing and exporting.

Source: Compiled by the DTIS Update team.

Institutional Capacity Building for Policy and Trade Expansion

(Action Matrix #1-4, 41)

The DTIS Action Matrix identified insufficient trade data, weak analytical capacity and a fragmented trade policymaking process, combined with a weak industrial base, as obstacles to Lesotho's trade integration and export development. There has not been significant progress in this area since then.

INSTITUTIONAL CAPACITY: NATIONAL POLICY MAKING AND TRADE ENHANCEMENT

Barrier or Opportunity	Policy Action and Timeframe (Short, Medium or Long term)	Status at January 2012
1. Insufficient trade data for policy analysis by government and non-government actors	• Computerize Customs as a first step to establish a reliable statistical accounting system (M) • Integrate data reporting with SACU (M).	Trade data situation (collection, compilation and analysis) has not improved. Computerization has not been achieved.
2. Weak analytical capacity in support of trade and investment agreements negotiators	• Create trade policy analysis unit in MITM (S). • Expand and train analytical staff. (S).	Created with DFID assistance but did not last long. See #3. Unresolved.
3. Fragmented trade policy process	• Create coordinating body (S).	There is an Inter-Ministerial Task TeamChaired by MTICM since 2004 to address issues regarding textiles and garments. Periodicity of meetings and key resolutions not publicly available.
4. Opportunities to affect Lesotho's external economic environment Weak industrial base	• As above (M). • Organize lobbying effort in the EU and US (see above "the small size domestic market" barrier) (M). • Address supply side constraints (M).	See #1-3. See # 17. On-going; several uncoordinated donor-sponsored efforts.
FDI data are internally inconsistent	• Create better systems for gathering information • Computerization (no timeframe)	LNDC maintains FDI data. But no computerization (i.e. unresolved).

A trade policy analysis unit was established at MTICM with technical assistance from DFID. While this did temporarily increase the analytical capacity of the Ministry e.g., the unit supplied the Department of Trade with analytical work and useful data), it neither provided for the capacity building of the staff, nor did the unit integrate into MTICM. For such initiatives to succeed, government buy-in and prioritization for budgetary provision at the central level is fundamental. This was apparently lacking in this case. As a result, the unit failed to continue once the DFID assistance ended. There has consequently been very little progress, if any, in building the capacity in trade policy analysis of MTICM and its supporting agencies.

The lack of data and fragmented policymaking process similarly remain key impediments to more effective internal debate and external participation. The trade data situation of Lesotho is particularly worrying. The problem starts upstream at the data collection point, since the Lesotho Revenue Authority (LRA) (as Customs at the border points) still depends on manual revenue collection and does not maintain a computerized account of all goods being imported regardless of VAT status. Nor is there good export data collected at the border. Part of the problem with the LRA is perhaps the lack of incentives or means to provide or gather such data, in spite of the fact that the LRA is obliged to record such data and that this data would be useful to monitor revenue collection and for policy research.

In the absence of both computerization and limited technical skills (product coding is a very difficult task for the Bureau of Statistics (BOS)staff, the timeliness and reliability of trade data is challenged. The BOS continues to be constrained by weak technical capacity and inter-agency cooperation. Recently, it started reviving an inter-agency committee under its leadership to address the trade data issues and to ensure inter-agency cooperation, with consistent use and reporting of trade related data by key agencies such as LRA, Central Bank, MTICM, MFDP[11] and the BOS itself. This committee could also be useful to advise LRA on ensuring data collection and processing compatibility under LRA's planned computerization system.

In January 2012, the LRA reported that it would establish a temporary IT system to automate Customs processes by March 2012 and that a consultant had already been sourced and specifications agreed, while tenders for the IT infrastructure were being evaluated, with a target completion date for both of June 2013. The LRA is also reviewing the findings of a Time Release Study (TRS) conducted with support from the World Bank, and has prepared terms of reference for a trade information portal (also with support from the World Bank), all aimed at streamlining both Customs processes and better information exchange by mid-2013.

The prevalence of a fragmented policymaking process does not encourage resolving the data problem. Logically, the three key ministries – MTICM, MF, MDP- should be concerned to strengthen BOS's capacity and encourage the LRA to cooperate. The high-level Inter-Ministerial Task Team (IMTT), created in 2004 and chaired by the Minister of Trade, could also be used to bolster the BOS effort and imbue a common purpose and direction. At present the IMTT is focused on promoting Foreign Direct Investment (FDI) particularly related to textiles and garments. But, FDI promotion is closely related to trade opportunities. Its agenda could be broadened. The IMTT has the potential as well as opportunity to pursue a broader agenda of trade mainstreaming, development and diversification and help outline strategies and implementation programs for regional and multinational negotiations, improving the business environment and marketing Lesotho as a desirable investment and tourism location (for *both* foreigners and nationals). A better trade and tourism data collection, analysis and dissemination system would help the MTICM, MTEC and the IMTT in the pursuit of FDI promotion as trade and FDI are complementary.

11] The former MFDP has been split into the Ministry of Finance (MF) and Ministry of Development Planning (MDP) after the arrival of the newly elected government.

3.1.1 Regional and Multilateral Integration

(Action Matrix #5-17, 42)

REGIONAL INTEGRATION (HOW TO INCREASE DOMESTIC MARKET), MULTILATERAL AND BILATERAL ISSUES		
Barrier or Opportunity	**Policy Action and Timeframe (Short, Medium or Long term)**	**Status at January 2012**
1. Excessive economic borders and inconsistent regulatory frameworks within SACU	• Harmonize tax systems, licensing and Customs procedures, and regulatory frameworks (M)	Ongoing. Some progress on a Customs form (single administrative document) and discussion on a one-stop border. Harmonized VAT.
2. Tariff peaks in SACU tariff and excessive anti-dumping actions create anti-export bias	• Assert Lesotho's position in SACU Tariff Board (M) • Lobby SACU to reduce tariff peaks in CET (M) • Seek to restrain South Africa's anti-dumping actions through SACU (M)	The discussion over tariffs continues in SACU, though with less urgency as world conditions change. Outstanding (no analytical or negotiating capacity).
3. Onerous rules of origin in SADC Trade Protocol prevent development of regional supply chains	• Conduct analysis of harmful impact of restrictive rules of origin (ROO) (M) • Lobby other SACU members for relaxed rules of origin (M)	The discussion over ROO continues in SACU, although with less urgency as world conditions change. More relaxed rules may come about as a result.
4. Compliance with TRIPS attracts FDI	• Integrate with South Africa's intellectual property rights (IPRs) regime (M)	No progress on IPRs, though the increasing weight of RSA's entertainment industry may initiate a change in the future.
5. Compliance with TBT allows to integrate into external production networks	• Use South Africa's conformity assessment, certification, but review carefully its mandatory domestic technical regulations (M)	Ongoing; drafting of a new Standards Bill including a proposal for a national institute.
6. Compliance with SPS	• Use South Africa's testing, quarantine, etc. (M)	Ongoing; draft on phytosanitary being prepared.
7. Reducing transaction costs through improved Customs procedures	• Computerize Customs(S)	See #1.
8. Cutting costs through regional regulatory cooperation	• See above (L)	See # 5-10.

REGIONAL INTEGRATION (HOW TO INCREASE DOMESTIC MARKET), MULTILATERAL AND BILATERAL ISSUES		
Barrier or Opportunity	**Policy Action and Timeframe (Short, Medium or Long term)**	**Status at January 2012**
9. GATS Negotiations—improving business climate and competition	• Liberalize at least as much as South Africa (S) • Liberalize more than South Africa in key areas (e.g., tourism) (S)	Being considered. MTICM looking at policies and legislation for tourism, financial services and professional medical services.
10. WTO Government Procurement Agreement	• Study costs and benefits of implementing agreement (M) • Lobby other SACU members to sign and implement agreement as a group (M)	Not achieved (study not carried out). Some work initiated as part of the Public Expenditure and Fiduciary Assessment 2009.
11. FTA with United States	• Study options, including whether to sign alone or with other SACU members (S) • Lobby SACU members (S)	Not achieved. AGOA continues. SACU – US Trade Investment and Development Cooperative Agreement signed in July 2008
12. Cotonou Agreement	• Study options, lobby SACU members (S)	Achieved.
13. Double transformation requirement in EU and the prospect of the waiver termination in US.	• Launch lobbying effort to obtain a waiver on a double transformation requirement in EU and the extension after 2004 in the US (S)	Achieved.AGOA and IEPA provide for single transformation for Lesotho, as does the default EBA.
14. Trade liberalization reduces government revenue	• Introduce broad-based tax system to reduce reliance on border taxes • Assess impact of tax reform (no timeframe)	On-going (VAT system was brought into effect). VAT is a SACU level issue as well. SACU revenue contributes 60% of the country's total revenue. Outstanding. A detailed assessment is still not carried out.

The 2003 DTIS Action Matrix #5-17 and 42 are devoted to the issues and opportunities of trade integration – regional and multilateral integration and bilateral trade relations to access regional and global markets while developing domestic markets. This theme covers the whole gamut of trade integration and related issues in which Lesotho needs to take an active part and make necessary interventions to achieve harmonized tax systems, Customs procedures, standards, rules of origin and regulatory frameworks for FDI and intellectual property rights (IPRs) within the SACU and the Southern African Development Community (SADC), and also to secure increased access to regional and international markets for its goods and services under various trade and economic cooperation agreements. The Department of Trade (MTICM), Regional Integration Department (MF), Foreign Missions, Ministry of Law, LRA and sector level agencies like agriculture, industry and natural resources, are the key players in trade integration area. The possible participation of the non-governmental sector in regional trade integrations activities is under discussion at the SACU level.

Lesotho has made some progress in harmonizing with its SACU partners and in particular its neighbor, South Africa. One major step was harmonizing the standard rate of VAT with RSA[12]. Along with simplifying administration, this broadened Lesotho's tax base and reduced opportunities for arbitrage by individuals or firms. Lesotho is implementing the Single Administrative Document and is discussing the possibility of a one-stop border clearance with South Africa.Other attempts at harmonization and a consolidation of SACU as a negotiating body, including on tariffs, trade measures and rules of origin, are hampered by the slow pace in developing SACU's institutions. SACU's institutional capacity is evolving (see Box 4), but it still has to establish and bring into operation the Tariff Board for making decisions on tariff related matters and the Tribunal for the settlement of trade disputes. The former requires each SACU member to establish a national tariff board[13]. Only South Africa has a tariff board, while others are in the process of establishing it. It will also take some time before SACU develops a common negotiating position for third party trade deals. A related difficult issue is to get SADC rules of origin, particularly for textiles and wheat, simplified so that SACU members like Lesotho can access the SADC market.

Deeper regional integration together with the reduction of transaction costs is further delayed by the continued non-computerization of Lesotho's Customs services. A five-year discussion with the South African Revenue Service (SARS) by the LRA has not yet come up with a mutually acceptable solution to addressing the computerization issue. It continues to explore the creation of its own computerized system for its entire operations or the ASYCUDA system as adopted by some SACU members such as Swaziland, Namibia and Botswana so that the system would be in total control and management of the LRA.

Given the country's geographic and economic situation, the continued delays in Customs computerization could have serious consequences, both for its businesses and for a large section of its population who regularly commute and transact in and with South Africa. In January 2012, LRA reported that it was on track to complete its computerization by the middle of 2013.

The Action Matrix also mentions compliance with TRIPS to attract FDI, and with Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) to integrate into external production networks, which would diversify exports. To date, Lesotho and its regional partners have paid very little attention to IPRs in general and to TRIPS specifically. This is understandable while there is limited local activity based on local intellectual property and the populations are relatively poor (a common argument is that protecting intellectual property raises prices making certain products unaffordable for poorer consumers). However, this is a double-edged sword. Firstly, failing to protect intellectual property rights has been shown to deter higher value investment (such as IT or pharmaceuticals). Secondly, failing to protect IPRs can have an adverse impact on human health and safety as illegal and dangerous counterfeit products are disseminated. Within SACU the entertainment and music industry has been adversely affected by piracy. Lesotho would benefit from ensuring the TRIPS Agreement is effectively implemented. A public commitment, backed up by clear actions, would provide welcome safeguards to consumers and send a positive signal to regional and international investors.

Ensuring effective compliance with the WTO TBT and SPS Agreements are essential for promoting internationally competitive investment, production and exports. The current drafting of legislation on standards and phytosanitary measures is an important step in the right direction. It is important that consultations be held with the business community and that international best practices are adopted in framing quality assurance management. While a system must be introduced that protects consumers and the environment, it must be streamlined, made cost efficient and based on principles of risk management, voluntary compliance, mutual recognition and transparency. It may not be necessary or could be very expensive for Lesotho to

12] Although its preparation had started during pre-IF period, transfer of tax was agreed in 2003.

13]This may not necessarily have benefits to Botswana, Lesotho, Namibia and Swaziland as much as it is likely to RSA, which has numerous interested parties and access to technical resources.

BOX 4 SACU Institutional Framework

Southern African Customs Union (SACU) Council, Commission and Technical Liaison Committees

Following the 2002 agreement, SACU has a Council of Ministers which is the supreme policymaking authority for SACU matters. There is a Secretariat, Commission and five Technical Liaison Committees. The Commission consists of senior officials at the level of Permanent Secretaries, Directors-General, Principal Secretaries or other officials of equivalent rank, from each Member State and shall be responsible to and report to the Council. The Commission is also responsible for overseeing the management of the Common Revenue Pool in accordance with the policy guidelines decided by the Council. It also supervises the work of the SACU Secretariat. The five Technical Liaison Committees, which assist and advise the Commission in its work, are the following; Agricultural Liaison Committee, Customs Technical Liaison Committee, Trade and Industry Liaison Committee, Transport Liaison Committee, and Finance Liaison Committee.

SACU Tariff Board – NOT ESTABLISHED

The Tariff Board is an independent institution consisting of experts drawn from the Member States. The Tariff Board is responsible for making recommendations to the Council on the level and changes of Customs, anti-dumping, countervailing and safeguard duties on goods imported from outside the Common Customs area and rebates, refunds and duty drawbacks based on the directives given to it by the Council as provided for in Article 8 of the SACU Agreement. The terms of reference, policy mandates, procedures and regulations of the Tariff Board is determined by the Council in accordance of Article 8 of the SACU Agreement.

SACU Tribunal – NOT ESTABLISHED

The 2002 SACU Agreement makes provision for the establishment of an *ad hoc* Tribunal which reports directly to the Council. The Tribunal will be assisted by the Secretariat in its work and it will be composed of three members except as otherwise determined by the Council. Decisions will be made by a majority vote. It will adjudicate on any issue concerning the application or interpretation of the 2002 SACU Agreement or any dispute arising there under at the request of the Council. Its determination will be final and binding. The Tribunal will also, at the request of the Council, consider any issue and furnish the Council with its recommendations. In the event of any dispute or difference arising between Member States in relation to or arising out of the 2002 SACU Agreement, including its interpretation, the parties shall in the first instance meet and consult in an attempt to settle such dispute or difference before referring the matter to the Tribunal.

Source Compiled from SACU documents and www.sacu.int

set up its own testing and certifying institutions. It may also not be necessary to cover all goods. Rather Lesotho should identify and embrace international guiding principles that have been proven elsewhere. Recognizing certification from accredited bodies in other countries can be an important cost-saver to consumers and input-importing producers alike. It could also save costs for local producers to sell in the local market what they have had certified for sale in their export markets (e.g., produce sold in South Africa). General principles of risk management and assessment of processes[14], rather than focusing on the products, will also save time and resources. The MTICM is preparing a new bill for standards under which a national institute for standards may be established for ensuring standards, quality and technical requirements to facilitate exports.

The General Agreement on Trade in Services (GATS) and Government Procurement Agreement (GPA) have received almost no attention in Lesotho in recent years, and are not a listed priority. On paper, Lesotho liberalized its services sectors across the board and they are mostly unbound under its WTO commitments. Important work has been initiated by the Department of Trade this year to review the policies and legislation that apply to some of these service sectors. Tourism, financial services and professional medical services are being used as pilot sectors to review the level of liberalization. This is significant. With regulatory analysis of all its services, Lesotho could identify the bottlenecks towards increased activity and investment in these new areas. Government procurement has not come under recent scrutiny[15], and it is not clear whether this is a transparent and efficient system. While Lesotho may choose not to sign onto the GPA, the agreement contains some best practice principles that could help frame government procurement in an economy where this is a sizeable element. It is worth noting that none of the SACU members are currently discussing this actively.

There is now a consensus among decision makers that Lesotho should try to benefit by integrating its export supply with South African supply chains for regional and international markets. Lesotho's foreign missions (embassies, high commissions) are also being mobilized to help find markets and investors abroad. Negotiations for a SACU free trade agreement with the US commenced in 2002 and stalled in 2005 owing to divergent views on the scope and level of ambition of the FTA, however, all parties agreed to a trade development cooperation framework. The Trade, Investment and Development Cooperative Agreement (TIDCA)wassigned in July 2008 with the intention of putting in place the building blocks for a future FTA. The TIDCA covers four broad areas: customs and trade facilitation, technical barriers to trade, sanitary and phytosanitary measure and trade and investment promotion. Although there have been a number of meetings, to date the TIDCA has yet to materialize into any specifics. Advancing the TIDCA agenda has the potential to support Lesotho to realize the aims of the NSDP to reduce trade costs, increase competitiveness and promote economic diversification.

With the EU, an interim Economic Partnership Agreement (IEPA) was negotiated (effective from 1 January 2008), which gives trade preferences for Lesotho's products. The agreement provides in particular for single transformation for Lesotho's apparel exports to the EU. The EU recently shortened the lifetime of the IEPA, which if it should not be upgraded to a full EPA before January 1, 2014, will lapse. Should this be the case, Lesotho would revert to the *Everything but Arms* (EBA) cover the EU extends all LDCs, which also provides for single transformation of apparel and for duty free and quota free market access. Some commentators argue, erroneously, that Lesotho, as an LDC, has nothing to lose from not concluding an EPA. Such an approach is premised on a mercantilist approach to trade negotiations that focuses exclusively on market access. With the general decline in tariffs, the new generation of trade agreements focuses on, *inter alia*, services, trade facilitation, non-tariff barriers, and investment. Lesotho stands to benefit substantially from agreements that encourage more competitive service sectors, improve trade logistics, reduce red tape and increase transparency. Lastly, there are also discussions ongoing regarding a tripartite FTA in the region involving SADC, COMESA and the EAC.

4.2 Improving the Business Environment (Action Matrix #18-23, 26-35, 41)

The 2003 DTIS Action Matrix #18-35 and 41 relate to issues and opportunities for improving the business environment. The barriers or opportunities identified and the recommended actions under this theme relate to the enabling environment for trade and investment in Lesotho. They encompass business registration and licensing procedures, absence of an investment code[16], immigration, access to land, tax compliance, Customs procedures, lack of linkages of small scale to large scale industry, weak entrepreneurial and managerial skills amongst local people, and poor labor relations.

14] Hazard Analysis and Critical Control Points (HACCP) methodology, Good Agricultural Practices (GAP) certification.

15]It is understood that the government procurement was reviewed in 2007.

16] Lesotho could benefit from investor protection agreements.

BUSINESS ENVIRONMENT		
Barrier or Opportunity	**Policy Action and Timeframe (Short, Medium or Long term)**	**Status at January 2012**
1. Dispersed and unreliable information about business regulations in Lesotho	• Set up a unit that would gather (and provide) relevant information. (S) • Set up a web site and keep it updated (S)	Achieved. One Stop Business Facilitation Centre (www.obfc.org.ls)
2. Difficulties experienced by (potential) foreign investors in conducting due diligence about opportunities in Lesotho	• Either separate the LNDC into an autonomous investment promotion agency or strengthen the existing capacity. (S) • Establish a One-Stop-Shop (S)	On-going.www.lndc.org.ls Achieved. See above (18).
3. Complex business licensing procedures 4. Absence of an Investment Code	• Shifting to a registration system with areas identified as outside of private business activity (S) • Develop an Investment Code (S)	Ongoing. Ongoing. A new investment policy is being prepared.
5. Land leases for too short time	• Shifting to leases granting the right of use of 99 years (S)	Achieved through the Land Act 2010. Implementation ongoing. Further work required. www.laa.org.ls.
6. Environmental degradation	• Cost impact analysis and implementation of provisions of the 2001 Environment Act based on a principle that a polluter should pay for the damage done to natural environment (S)	New Environmental Act 2008 was brought out. Refinement to the Act is required.
7. Tax laws discriminate against services	• Equalize tax rates across all sectors except for public 'bads' (S)	Preference given to manufacturing.
8. Foreign investors have difficulties obtaining visas because of lack of Lesotho's consular services	• Accept visas granted by South Africa as valid for Lesotho for short-term business trips (S) • Sign a consular agreement with South Africa (or other country) to provide consular services across the world (S) • Revise visa regulations, making it easier for potential investors to obtain multiple entry visas (S)	Not achieved. But 72 hours visa is provided on arrival. Not achieved. As above. On-going. OBFC also assists.

BUSINESS ENVIRONMENT		
Barrier or Opportunity	**Policy Action and Timeframe (Short, Medium or Long term)**	**Status at January 2012**
9. Complex procedures to obtain land leases, site development, and land survey	• Overhauling administrative procedures and establishing a land registry (M) • Create interagency coordinating process(M) • Simplify procedures(M) • Computerize and reduce the number of fees required (M)	Land Administration Authority (LAA) was established in June 2010. Being implemented with LAA and Maseru City Council. LAA being computerized.
10. Weak entrepreneurial skills. No Basotho managers	• Work with industry groups to promote Basotho to higher-level positions and establish business-training programs (M) • Cooperate with the Chamber of Commerce and banks to establish workshops to train in writing business plans (M) • Review technical courses offered in schools to include business training (M)	Not achieved. Some efforts are underway. Not achieved. Some attempts made. Not achieved.
11. No linkages between SMMEs and large-scale industry No backward linkages.	• Work with industry groups to improve small business training (M) • Work with banks to improve SMME access to credit (M)	Not achieved. Not achieved.
12. No diversification of exports, especially in the agro industry sector	• Improve the policy and regulatory environment for exports (M) • Establishment of export oriented agro industries utilizing locally available raw materials (M)	Not achieved. Some initiatives are ongoing. Ongoing. As above.
13. Insufficient Customs facilities	• Provide full-service Customs services at more border posts (M)	Ongoing. Not yet computerized or automated business processes.

BUSINESS ENVIRONMENT		
Barrier or Opportunity	**Policy Action and Timeframe (Short, Medium or Long term)**	**Status at January 2012**
14. Low tax compliance among foreign owned firms.	• Introduce basic accounting procedures compatible with international and South Africa's standards and improve Tax Authorities (L) • Simplify tax code (equalize tax rates across various sectors, see above on discrimination against services) (L)	Major exporting companies are tax compliant to be eligible for 470.03 rebate facility
15. Worker discontent and tensions with foreign investors.	• Provide incentives to expatriates in foreign owned companies to have a command of English. (L) • Institutionalization of a dialogue involving foreign investors, government and non-government organization on industrial relations and conditions needed to promote Basotho to managerial positions (L)	Not a major problem. Not achieved as recommended. Ongoing.
16. Small size of domestic market—single SACU market as an opportunity	• See actions under multilateral and regional headings (L) • Launch lobbying effort to obtain a waiver on a double transformation requirement in EU and the extension after 2004 in the US (L)	See # 4-17.

Improving the Enabling Environment for Trade and Investment Promotion

The key actors in improving the enabling environment for trade and investment in the public sector are the MTICM, the newly created One-stop Business Facilitation Centre (OBFC), LRA, LNDC, BEDCO, Lesotho Electricity Corporation (LEC), Water and Sewerage Company (WASCO), and Lesotho Telecommunications Corporation (LTC). In the private sector, the Private Sector Foundation, Lesotho Chamber of Commerce and Industries (LCCI), Textiles Exporters' Association, and Lesotho Council of Non-Government Organizations (LCN) are the key stakeholders.

Box 5:

One-stop Business Facilitation Centre (OBFC)

The mandate of the OBFC is to bring together and deliver a streamlined and integrated suite of business services for enterprises and investors. The OBFC's mission is to support increased trade and investment in Lesotho by providing friendly and efficient business services to its customers and advocating for a more business-friendly regulatory environment in Lesotho. In 2012, the OBFC will have brought under one roof the following functions: *Company registration, Tax registration, Industrial licensing, Trade licensing, Tourism licensing, Export permits, Import rebates, Work permits, and Residence permits.*

These nine services are currently provided by personnel from the tasked agencies housed in the OBFC, which operates under a memorandum of understanding (MOU) with the MTICM and relevant government agencies. It is intended that the OBFC's own statute will be clarified in the near term, so that its relationship with its partner agencies can be institutionalized and staff can be formally seconded to the OBFC. In the meantime, the OBFC has already resulted in significant time-saving for new entrepreneurs in and near Maseru.

The OBFC staffing consists of its Director and 26 staff from different agencies. Under the current MOUs, the OBFC staffs retain their home agencies' mandate and practices. They report to their home agencies functionally and only administratively to the OBFC Director. In these circumstances, the true authority of the OBFC Director himself is unclear. The OBFC remains a department of the MTICM with a relatively small budget allocation of M1 million (2011/12) while supporting agencies only fund their personnel. Budgetary concerns already constrain the OBFC's ability to deploy modern communications techniques (e.g., full computerization, Internet use) and its ability to extend its services to businesses outside Maseru. It also needs institutionalizing with a proper legal framework.

Source: Compiled from OBFC materials. See also www.obfc.org.ls.

Business Registration and Licensing

Many of the issues relating to business registration and licensing were meant to be addressed by the establishment of a single facility at the MTICM. While the Priority Support Program supported the establishment of the OBFC where businesses can access a range of services from government ministries and agencies, the progress in its implementation has been slow (Box 5). Businesses can obtain, among others, work permits, manufacturing licenses, AGOA visas and complete many bureaucratic procedures to start a business from the OBFC, which is a significant accomplishment led by the MTICM in improving the business environment.

Lesotho has significantly reduced time and cost taken in starting a business Lesotho – from 73 to 40 days and 38 to 25 % of per capita income, but its relative ranking has not improved (see Table below).Lesotho has fewer procedures (except for South Africa) and takes less time (again, except South Africa) but the cost of starting a business (relative to income) is too high and the requirement for a minimum capital inconsistent with regional practices.

Full operation of the OBFC has already started reducing the time needed to register a business and some of the attendant costs. The OBFC has also trade officers (from MTICM) deputed to districts to help local businesses in registration and licensing matters.

Table 1: Starting a Business

Indicator	Lesotho DB2008	Lesotho DB2009	Lesotho DB2010	Lesotho DB2011	Lesotho DB2012	Botswana DB2012	Namibia DB2012	Swaziland DB2012	RSA DB2012	Best performer
Starting a business (rank)	..	..	..	140	144	90	125	161	44	
Procedures (number)	8	7	7	7	7	10	10	12	5	1
Time (days)	73	40	40	40	40	61	66	56	19	1
Cost (% of income per capita)	38	38	27	26	25	2	17	29	0	0
Minimum paid-in capital (% of income per capita)	14	15	12	12	11	0	0	1	0	0

Source: Compiled from 2012 Lesotho Doing Business

Furthermore, the Companies Act 2011 (approved in 2012) substantially revises the law concerning who can establish a company, how and under what form. Most significantly, the Act simplifies incorporation by proposing standard Articles of Incorporation, which removes the need for lawyer services; it allows for one-person companies; it removes the requirement for women to have their spouse's approval in a country where women play a significant role in smaller businesses; it scraps the minimum capital requirement which the *Doing Business 2012* had estimated at 25% of per capita income; and it permits company-originated dissolution. The Act further provides for the Company Registry to become part of the OBFC, with company names to be published on a website (removing the need to reserve a name), and a simplified application form, which compiles all the information required by the LRA and licensing bodies (saving costly duplication and errors). The Act also allows for future electronic submission of business documents. When fully implemented, the Act and the envisaged changes will dramatically streamline procedures and reduce cost of starting a business.

In recent years, particularly during 2006-2011, the Government enacted new laws on the legal capacity of married persons, companies, land administration and financial institutions. The Government, with support from the MCA[17], is also considering establishing a commercial court to address the issue of low priority being given to civil/commercial cases as opposed to criminal cases. This initiative will include procedures for case management (outside court settlement, small cases involving less than M.10,000). Under the Gender Equality and Women's Rights outreach, training programs for magistrates, traditional leaders and police at local level are under way, which are expected to help in the implementation of the 2006 Legal Capacity of Married Persons Act.

17] The Millennium Challenge Account Lesotho (MCA)-funded Private Sector Development project has six components – land administration, credit bureau, passport and identity card, gender equality and women's rights, civil legal reform and debit smart card.

Property Rights in Lesotho

The 1993 Constitution of Lesotho, the 2006 Legal Capacity of Married Persons, 2010 Land Act, and the 2011 Land Regulations, were all reviewed in the context of the country's property rights regime.Under this regime, all land in Lesotho is vested in the Basotho Nation and the power to allocate land is vested in the King in trust for Basotho Nation.[18] Title to land may be granted in the form of "land allocations" or leases in favor of: (i) The government; (ii) Citizens above the age of eighteen years; (iii)Companies incorporated or registered in Lesotho or partnerships doing business in Lesotho and all of whose shareholders or partners (as the case may be) are Basotho.[19] Leases for residential and agricultural purposes may be granted for a minimum term of ten and a maximum of ninety years, with options to renew. A fixed term of sixty years applies to leases for heavy industrial, commercial or light industrial purposes, and hotels, and thirty years for wholesale petroleum storage or retail of petroleum products. A number of restrictions to land grants exist. These include:

(i) **Size Restrictions** - The Minister for Lands may impose restrictions on the maximum area of land to be covered under allocations or leases, or on the number of grants to be obtained by a person, but may grant applications for waivers.[20] Specifically in respect of agricultural land, no lease or sublease may cover in excess of twenty hectares of land unless otherwise exempted by the Minister of Agriculture. In the case of commercial leases, a maximum of five leases or aggregate area of 2,000 square meters may be granted and for industrial leases, a maximum of three leases and 400 square miles.While such limits may have been introduced to help better regulate land use and ensure broader access for more people, they may constrain access to land for large agricultural and or industrial projects. Although the restrictions may be waived, the need for and process of obtaining Ministerial approval could subject investment decisions to political considerations as well lead to delays and more red tape for investors.

(ii) **Foreign Investors and Access to Land**- Foreign investors may not hold land allocations or leases directly. Companies or partnerships in which they have an equity interest (foreign enterprises) may hold land rights for investment purposes to the extent Basotho hold at least twenty percent of the shareholding of such enterprise. Foreign enterprises without Basotho shareholding may however hold land rights "subsidiary to a lease" such as a sub-lease or a mortgage, with the consent of the Commissioner for Lands. Considerations for deciding on such a grant to foreign enterprises include the magnitude of assets, employment generation, strategic nature of the enterprise, advancement of local businesses, and environmental protection. This regime appears to have resulted from the view that foreign investors ought not be allowed "unbridled land rights" in Lesotho It is noteworthy that the 1993 constitution allows for the enactment of laws that may discriminate against non-citizens of Lesotho.

Legally speaking, a sub-lease may be as good as a lease if it covers the same or substantially the same land area and duration as the original lease.

A sub-lease may, however, be in respect of a carved-out portion of the leased land or for duration much less than the original lease and as a result may not be attractive to an investor who requires a longer duration or larger area of land. This could therefore potentially affect the entry of new foreign investors or the expansion of existing projects. Furthermore, the requirement for the consent of the Commissioner for Lands even in the grant of subleases to foreign investors is yet another procedural hurdle for investors to deal with.Also the search for suitable Basotho to take up a 20 percent equity stake in a foreign enterprise desiring to acquire a lease could be burdensome, and could lead to shareholder conflicts in the course of time if not carefully managed.

Expropriation- Private property rights and freedom from arbitrary seizure of property are guaranteed under Lesotho's 1993 Constitution (Article 17). Expropriation is lawful under the constitution and the Land Act only if (i) it is necessary in the public interest, and(ii) with prompt payment of full compensation.[21] Under international law, the right of states to expropriate private property in the public interest is well recognized although it is equally well accepted that such action should be subject to "prompt", "adequate", and "effective" compensation. Lesotho's legal regime provides for full compensation at market value.

The constitution also lists a number of circumstances where expropriation need not necessarily be in the public interest or for compensation. These include expropriations as an incident of the terms and conditions of service of a public officer (section 17(4) iii, or in consequence of any law with respect to prescription or limitation of actions (section 17 (4) vi. It is not clear under what circumstances expropriation of private property could be permitted as incidental to the terms and conditions of a public officer, or under some law that prescribes or limits actions. It appears these provisions could be used to unduly infringe on private property rights of the individual and should either be repealed or the circumstances under which they could be enforced should be clarified in the constitution and/or the Land Act.

Lesotho is a member of InternationalCentre for the Settlement of Disputes and Multilateral Investment Guarantee Agency.

18] 1993 Constitution, Article 197, Land Act of 2010 (Act No. 8 of 2012) section 4

19] Land Act of 2010 (Act No. 8 of 2012), section 6

20]Land Act section 44 (2), (3), Land Regulations 2011 (No.20) regulation 20. The name of the applicant and the reasons for such approval are to be published in the Gazette by the Minister.

21] 1993 Constitution Article 17 (1) (c), Land Act ss. 52, 56

Property Rights of Women

The Legal Capacity of Married Persons Act of 2006 (LCMPA)[22] introduced a new legal regime under which women no longer lacked legal capacity to engage in a number of important economic activities.[23] Before this Act, customary law and other laws relating to marriage and land ownership treated women as property of men, with no independent legal rights of their own. Under the 2006 Act, restrictions on women's rights to enter a contract, to sue or be sued, to register property in her name, act as trustee of an estate, director of a company among others were removed (Section 3).

The constitution of Lesotho and the LCMPA both guarantee the right to equality before the law and the equal protection of the law (Section 18). The prohibition against discrimination under section 18 of the LCMPA however exempts personal or customary law applicable to marriage, divorce, and devolution of property on death under personal law or customary law applicable to any person and therefore, women are discriminated against in terms of legal access to the enjoyment of economic rights, under the customary law.

Under the current legal position, married persons are presumed to have joint title to property (Section 10). Under the "community of property" regime, property acquired during marriage is held jointly by the parties, and land-related transactions are required to be engaged in jointly or with the written consent of the other party.[24] While this protects especially women from certain cultural practices affecting their property rights following the death of their husbands, in certain cultures, women are still at the mercy of their husbands and may face challenges in pursuing economic advancement if they need the consent of their husbands for land-related transactions. While the court could suspend or dispense with a spouse's consent where it is unduly withheld, a wife would need to initiate such an action and satisfy the court. To avoid a situation where an amendment to the joint property regime under the Act would result in more hardship to married women, it is recommended that the Act remains the same in this respect and rather the Government should create awareness for family court judges to appreciate how this provision could affect especially women's economic rights if they do not receive the necessary support from the courts. Such empowerment of women has potential to increase their participation in trade.

22] No. 60 of 2006

23] Although the right of women to inheritance is not explicitly provided for except in the context of marriage where a surviving spouse as joint title holder takes title to the property.

24] Legal Capacity of Married Persons Act of 2006, section 7, Land Act section 10.

Absence of an Investment Code

The 2003 DTIS noted that laws and regulations governing investment were scattered. There remains no consolidated act to govern foreign and local investment. Registration and licensing, administration of entitlements, including work permits, tax concessions (where applicable), protection and settlement of disputes, might be more transparent and predictable if presented in a consistent and accountable manner under a single act. The Department of Industry at MTICM has developed an investment policy, in cooperation with the LNDC, with assistance from UNDP and UNCTAD.

The document concerns investment in manufacturing (not agriculture or tourism as these fall outside the remit of the department) and might be used as a basis for an Investment Code. Although a single consolidating document might make for easier access to information and more consistent policy for investors, the various recent initiatives of Government, including passage of the Companies Act, already have the potential to greatly improve the system. Furthermore, it is understood that following a review of the recently drafted investment policy it has been recommended to prepare a fresh draft which is currently being undertaken by UNCTAD with support from UNDP.

Nevertheless, a legal review of the Companies Act 2012, carried out as part of the DTIS Update, suggests that there is the need to strengthen the investor protection provisions (including minority shareholders protections and disclosure requirements), and corporate governance provisions including board meetings, directors' conflict of interest, shareholder meetings and resolutions, external audits, and liquidation. Lesotho could benefit from investor protection agreements as well.

Immigration

A number of initiatives by the Government in partnership with the MCA are underway to remove difficulties regarding immigration and work permits for foreign investors as well as passports and identity cards for the citizens. The latter is aimed at addressing the problem of multiple passports. Basotho passports are used to open various bank and utilities accounts, but when replaced lose all trace of the previous number, thus enabling possible fraud. The new system will use a unique ID number, also iris and fingerprints, which cannot be altered. This will ensure a single person has a single identity and protect both the person's creditors and the person's privacy. It is expected that this will have positive consequences for access to credit and to employment. This therefore means that the ID related work needs to be completed urgently. The issues of immigration and work permits are being handled by the OBFC in collaboration with the Home Affairs Ministry.

Land Administration, Leasing and Development

The enactment of the Land Law (2010) was a breakthrough in a long awaited reform in land administration, which has potential to stimulate private sector business in Lesotho. A separate and self-financing (by 2018) Land Administration Authority (LAA) was established in June 2010. The LAA, which is headed by a director general/chief executive, has started regularization of land entitlements. It is, however, not involved in land allocation, which remains the remit of local councils.

The new Land Act and LAA have made significant improvement to the procedures for registration of a property. One of the key changes is that most types of transactions in the land market no longer require consent from the Minister of Local Government. Another important change is that a legal practitioner is no longer required to carry out land registration; LAA takes over that function. LAA is now in the process of moving the deeds registrar to its premises which should further facilitate obtaining and transferring titles. In order to confirm that a deed cannot be claimed by another individual or entity, LAA undertakes advertisement campaigns. These reformed procedures are expected to simplify land registration and improve efficiency.

As per the LAA officials, the time taken to issue new leases has been 60 days (as against the statutory limit of 90 days) based on the 7 months data up to June 2012. It was further reduced to 46 days in last July. For old applications, it still takes longer as the procedure requires survey to be carried out by the applicants. Survey requirement is burdensome for small holders. There is no cadastral survey done in the country which could be useful in this regard and also help small holders.

The LAA and its effort to issue land leases in Maseru and other urban areas is expected to provide land to a large number of local microenterprises, which in aggregate are major employers in the country[25]. Until now these micro entrepreneurs had very little access to credit from the formal banking sector. This might change as a result of the new Land Act as owners of microenterprises with formal land titles can seek access to credit from the formal banking sector. The titling of land in urban areas, coupled with likely efficiency improvements in title deeds transfer, can enhance the efficiency of the land market in Lesotho and open new economic opportunities. However, some critical bottlenecks that constrain investors' access to land remain, these stem from key features of Lesotho's land management system such as customary law; zoning and land identification[26], and also by having to find a local partner for foreign investors. Furthermore, there are challenges in land transfer such as under-valuation of land to avoid transfer duty and stamp duty. Computerization is still being awaited. Rolling out of regularization of land title is another challenge. The existing laws under the Land Act, Town and Country Planning Act and Building Control Act need to be synchronized with necessary amendments.

Obtaining Construction Permits

Construction permits are obtained from city councils. To obtain such a permit, an investor should submit building plans and drawings to the relevant council and obtain approval for such plans. Once an approval is received, the investor must request a building permit. Such a permit will be provided only after an onsite pre-approval inspection is carried out. The process is quite lengthy and expensive; obtaining a construction permit can take 3-4 months and cost up to M.10,000, although authorities say they aim for no more than 28 days but they remain dependent on clearances from utilities providers over whom they have no control. There is also inadequate transparency in procedures and documentation requirements, making the applicants visit the Council several times. Maseru City Council (MCC), the largest in the country, does not have a website and cannot provide the public with basic information online such as the steps in obtaining a construction permit, the documents required, the fees involved, nor indeed advertise land identified for allocation, which multiplies the number of individual requests and visits to MCC. There is a need and also an opportunity for the LAA, MCC and OBFC to work together so that the time taken for obtaining land and construction permits for investors could be significantly reduced.

25] Recent estimates suggest that there are over 250,000 such micro-enterprises, which are often run by women and present almost everywhere in Lesotho.

26]Southern Africa Trade Hub, Investor Roadmap, October 2011. www.laa.org.ls for further details

Table 2: Obtaining Construction Permits, an Updated Description

#	Procedure	Time (Days)	Cost (Maloti)	January 2012 Update
1	Hire Environmental Specialist to prepare environmental study	1	77, 190	No change.
2	Obtain Environmental Impact Assessment (EIA) from the national Environment Secretariat	25	No Charge	No change.
3	Request and obtain land lease from the Ministry of Home Affairs	180	1,200	Significant changes due to Land Act 2010: 90 days maximum.
4	Request and obtain construction guarantee from bank	14	No Charge	No change.
5	Submit building plans and diagrams and obtain approval	30	7,000	No change.
6	Request and obtain building permit from the Maseru City Council	65	3,250	No change, though MCC says it takes 28 days maximum.
7	Receive on-site pre-approval inspection	1	No Charge	No change.
8*	Request water connection services	1	4,000	No change.
9*	Receive on-site inspection by water company	1	No Charge	No change.
10	Connect to Water Services	30	No Charge	No change. But WASCO says 30 days would be the upper limit for new sites in remote locations.
11*	Request and obtain telecommunications connection (30 days with constant follow-up, otherwise usually 180 days)	180	500 for locals; 5,000 for foreigners	Natural attrition to 30 days maximum.
12	Request and receive final inspection from Maseru City Council and obtain certificate to use the warehouse	11	No Charge	No change.
	Total	**539**	**93,140-97,640**	**Observed changes atJanuary 2012 reduce the time needed to 275 days.**

** Can take place simultaneously with another procedure.*

Source: Compiled from Doing Business 2012 and DTIS Update research.

One of the key administrative procedures which an investor must comply with in order to set up a business in Lesotho is to acquire an EIA clearance[27], which has already been discussed in Section 2.7. There is room for improving the procedures and cutting down the transaction costs to investors.

27]The Constitution of Lesotho acknowledges the tradeoffs between economic growth and conservation for sustainable development, and recognizes the importance of protecting the environment: "Lesotho shall adopt policies designed to protect and enhance the natural and cultural environment of Lesotho for the benefit of both present and future generations and shall endeavor to assure to all its citizens a sound and safe environment adequate for their health and well-being".

Tax Compliance

The establishment and operation of the LRA has addressed many of the concerns regarding tax compliance. An average firm may still expect to make up to 21 payments a year to redeem up to 16% of its profits in various taxes and contributions; the administrative burden of tax compliance is estimated at 324 hours/year. While this represents significantly more payments and time than in a high-income OECD country (13 payments and 186 hours), it amounts to many fewer payments and much less cost than the sub-Saharan average (37 payments for 57% of profits)[28].

Trade Facilitation, Customs Procedures

The *2012 Doing Business Report* indicates that some improvement in reducing time taken for both importing and exporting has been achieved in recent years in Lesotho. For example, exporting a standard container of good requires 8 documents, takes 31 days (previously 44), and costs US$1,680. Importing the same container of goods requires 8 documents, takes 35 days (previously 49), and costs US$1,665. Globally Lesotho's rank is 147 (out of 183 countries). In the SACU region, Lesotho's rank is slightly better that Swaziland (148) and Botswana (150), though slightly lower than Namibia (142) and South Africa (144). It is also interesting to note that the ranking of the SACU countries is significantly lower than the average for Sub Saharan countries (134).

28 [2012 Lesotho Doing Business]

Customs clearance can be done through clearing agents. It is also possible for an individual business or person to do their own clearance if they understand the procedure and can fill out the required Customs declaration forms properly. In order to practice as a clearing agent, one has to obtain two licenses, one from MTICM and the other from LRA Customs Department – the latter is issued only on passing a written test. However, (i) the LRA does not provide any form of training for persons interested in carrying out business as clearing agents; (ii) in the case of companies, it is not clear whether all the directors have to take the test or just some of them and the requirement is reportedly different for different companies; (iii) even for operating agents, there is no technical support either from LRA or from MTICM. Being landlocked, all traffic has to be transited through South Africa's ports of Durban, the most frequently used by traders.

Most of the country's imports are raw materials (inputs) from China and Taiwan for the garment manufacturing sector. The documents required are: (i) Bill of Lading/ Waybill; (ii) Customs Import Declaration (SAD 500); (iii) Customs Transit Declaration for South Africa (SAD 500); (iv) Commercial Invoice; (v) Packing List; (vi) Terminal Handling Receipts; (vii) Import permits (not always); (viii) Rebate Certificate (not always); and (ix) Certificate of Origin. Most of these documents come from the clients, only the import permits and rebate certificates come from governments ministries. Import permits are issued for a period of one year as well as rebate certificates, which have significantly reduced the delays that agents encountered. However, it takes seven days to obtain an import permit and sometimes 90 days to get a rebate certificate.

Table 3: Import and Export Procedures and Costs

Procedure	For Import: Duration (days)	For Import: Cost (Maloti)	For Export: Duration (days)	For Export: Cost (Maloti)
Documents preparation	14 days*	M1,000**	14 days	M1,000
Customs clearance and technical support (Lesotho) Customs clearance (Durban)	4 days 3 days	M1,500 M3,500	4 days	M1,500
Ports and terminal handling (cargo charges and shipping line charges)	3 days	M8,500	3 days	M8,500
Transportation Road transport Rail transport Inland Transportation & Handling	 2 days 7 days 2 days	 M13,500 M10,500 M 1,300	 2 days 7 days 2 days	 M13,500 M10,500 M 1,300

** Estimated based on the number of hours engaged in compiling, printing, photocopying and transport.*

***Estimated based on the cost of hours and resources engaged in printing, photocopying and transport: most of the documents are downloaded and filed at the One-Stop Business Facilitation Centre for free.*

The feedback from the users is that physical inspections at the border are not intrusive, and merely involve opening a truck and an officer quickly perusing and closing the truck; there is no offloading and no item verification is carried out. However, inbound customs inspections on both sides of the border (i.e., imports coming into Lesotho or exports coming into RSA) make up a significant portion of the 'lodge to release' delay.[29] The following documents are required for export: (i) Bill of Lading; (ii) Customs Export Declaration (SAD 500); (iii) Commercial Invoice; (iv) Packing List; (v) Certificate of Origin; (vi) Examination Certificate; and (vii) Form F178 (Foreign Exchange Control).

All of the procedures and documentation required for both exports and imports are obtained and filed manually. This exercise becomes very costly and time consuming. A procedure that can be done in 30 minutes online is currently done over two days manually. An average container can be turned around in 36 days for imports and 34 days for exports, and for betweenUS$2,875 by rail and US$3,250 by road. There is need to update the procedures so that they can be web-based. At all ports including the state warehouse and the OBFC, this situation poses a constraint as even data on export and imports as well as licenses issued cannot be easily obtained from these organizations.

Clearing agents report that Customs Officers at the border are poorly trained and that rules and services depend on individuals, time and location[30]. While clearance is normally quick (1-2 days), delays can occur for shipments from outside SACU, incurring storage fees even after duty payments have been made. Rebate certificates can also take too long as there is only one authorized signatory. A new Public Private Forum with a permanent seat for the LRA Commissioner has been set up to address issues of concern of the private sector.Firm level experience regarding trade facilitation is included in Box 6.

Efforts are under way to simplify Customs procedures and its computerization to improve efficiency in trading across borders, as has been discussed earlier. Small traders report some difficulties, at border crossing points away from Maseru Bridge, with VAT refunds and with obtaining duty-free movement of goods destined for trade fairs. The LRA needs to clarify and ease the situation in cooperation with SARS. (See also physical infrastructure for trade section.)

29] *Time Release Study*, LRA and World Bank, December 2011.

30] Examples relate to interpretations of what constitutes an original tax invoice, maximum allowable VAT rebate, and applicable EU tariffs.

It may also be noted that there are other agencies present at the border who also contribute to delays or higher cost of trading across border. The TRS study (2011) confirms the premise that customs is not the only agency at the border responsible for delays caused on clearance of cargo; other government border agencies and trading community are liable for some delays. And, there are opportunities for improvement: Pre-lodged declarations enjoy shorter clearance times than declarations, which are lodged when the goods arrive at the border.

Finally it is important to note the UNCTAD is able to provide capacity building assistance for better trade facilitation environment. More specifically, UNCTAD can assist Lesotho in the provision of several technical assistance projects, to include: (i) help the country formulate a coherent pro-poor trade strategy; (ii) help the country install a computerized customs service with ASYCUDA++.

Linkages betweenSmall and Large Scale Industries, Access to CreditLinkages:

Very little has been achieved in this area, primarily because of the lack of diversification of industries both upstream and downstream and limited new industrial ventures. The economy is still very traditional, excluding the garments, the country still relies on the export of raw materials or unprocessed goods e.g., diamond, water (but no electricity or bottled water), sandstones, raw wool and leather.

Entrepreneurial Skills:

There is also the continued problem of weak entrepreneurial and business management skills in the country. Several donors and government agencies have attempted to address the skills gap. These have been in a piecemeal fashion, and with little impact. Training has been found to be irrelevant, obsolete, subpar, or even located in the wrong areas. It is more effective to address this issue by encouraging investors to provide the training they require to their national employees, through a mix of incentives to train up and to substitute national workers for expatriates over time, rather than for the Government to try to fill the gap itself with no connection to the industry or its buy-ins. As reported earlier in Section 2.6, the Youth Employment Program had some success, and has the potential to be scaled up and rolled out more widely.

Labor Relations: It has noted that Lesotho's labor law is not particularly stringent in terms of employing and dismissing workers, nor does it provide an excessive amount of job security to its employees.

Most of the production base in the country, thus many employment opportunities, is held by highly visible foreigners. A pragmatic recognition of the national labor force's limitations has been somewhat overtaken by significant skills importation without a long-term plan to replace these foreign workers by home-grown ones, and a certain segregation of the foreign labor force which is too often seen as "not even speaking English". As a result, resentment grows and can be manipulated, especially when the Government can be perceived as too lenient with its foreign investors, in terms of subsidies, tax breaks, or indeed labor rules relaxation.

On the other hand, labor dispute resolution in Lesotho seems to adhere to international standards in the field, emphasizing a consensus-based process and prevention through early intervention. Only a small fraction of disputes actually reach the courts though if they do, the complexity of procedures can extend the process for several years. Lesotho also has well established structures for tripartite dispute resolution which includes labor unions. Overall, the dispute resolution system serves its function of providing efficient and impartial compromises and arbitration quite well. The quality of labor relations is a plus factor for Lesotho compared with its neighbor South Africa.

Access to credit continues to be a problem for businesses:

Particularly, small businesses face credit crunch or a very high borrowing cost. Recently the Government has passed regulations for credit bureaus, data protection and leasing. A new Financial Institution Act has also been brought out. In addition, the Government has launched a partial credit guarantee scheme to encourage commercial banks to lend to small businesses. Full implementation of these initiatives is likely to ease the problem of accessing credit.

Box 6:

Firm Level Trade Facilitation Challenges

Despite a relatively poor trade facilitation environment as indicated by, for example, the World Bank's Doing Business Indicators, private sector firms in Lesotho do not consider border procedures as their main constraints on exports and firms' growth. The vast majority of Lesotho's biggest exporting firms use clearing agents to facilitate overcoming border procedures in crossing the border. This increases the costs of exporting but is necessary in order to seamlessly delivery on time to the clients. Clearing agents' fees are not a significant cost in comparison to export volumes of big Lesotho exporter.

In addition, these usually large foreign owned companies have the capacity, financial resources and experience in exporting. Through repeated interaction with border procedures and officials and "learning-by-doing" these firms have managed to lower the cost of exporting. As the result Lesotho's most important exporters such Philips Lighting, Circuit Breakers or largest garment exporters do not consider the costs of exporting from Lesotho to be unduly high.

This has been confirmed in the course of meetings and interviews for the DTIS Update. The picture is somewhat different for SMEs as these companies often see to enter export markets and have no prior experience with the complexity of border procedures. As a result Lesotho's comparatively difficult trade facilitation environment is a key constraint for Lesotho's SMEs and for diversifying the country's exports from a narrow range of goods that are exported by large enterprises.

Source: Compiled by the DTIS Team based on meetings and interviews with the Lesotho firms

3.1.3 Improving Physical Infrastructure for Trade (Action Matrix #24, 25, 36-40)

This set of actions covered road, rail, industrial estates, water and utilities.

PHYSICAL INFRASTRUCTURE		
Barrier or Opportunity	Policy Action and Timeframe (Short, Medium or Long term)	Status at January 2012
1. Unpredictable Lesotho Electricity Corporation's billing practices	• Improve Lesotho Electricity Corporation's billing procedures (S)	Achieved.
2. Telecommunications: insufficient roaming arrangements in Lesotho	• Make mobile phone services fully compatible with South Africa's (S)	Achieved.
3. Deficient rail facilities	• Work with Maseru railhead stakeholders to facilitate improvements (S)	Being achieved with budget allocation in 2012/13.
4. Insufficient supplies of water to industrial estates	• Find ways to reduce consumption and link the development of factory shells to the availability of water (M) • Explore possibilities of recycling water for industrial use (M)	Being Achieved. See #23.
5. Lack of industrial sites	• Survey possible sites taking into account environmental constraints including availability of water (M)	Not achieved yet.
6. Insufficient all-weather roads, especially in rural areas	• Prioritize with a special emphasis of the impact on agricultural sector (L) • Expand private contracting for road construction and maintenance in multi-year contracts (L)	On-going. Not achieved yet.
7. Lack of access to utilities throughout rural areas and industrial sites	• (No recommendation)	On-going.

3.1.4 Transport Infrastructure and Logistics for Trade

The road network from the Maseru Border and railway station is in reasonably good condition. However, the railway station uses a very outdated crane to load and unload containers. The crane operates properly only 30% of the time but normally it is broken or not working for mechanical reasons, causing huge delays in delivering goods either to the clients' warehouses or to the port. Further, the main port of entry - Maseru Border - is very small with only one lane on the South African side, resulting in very long queues and waiting times of up to three hours.

All goods that are either imported or exported without proper documentation, or illegally imported or exported, are confiscated and stored in the state warehouse. There is little storage at the border gates. The state warehouse is very old and uses old equipment. It operates without a forklift so that it is impossible to move big consignments. The state warehouse does not have cold storage: consignments requiring this have to be stored at the clients' premises even while waiting to finish the clearing process. The warehouse is also used for the storage of vehicles imported from Japan that are awaiting completion of clearance procedures. The space is too small as it was never intended to store as many vehicles as Lesotho currently imports, in addition to withheld consignments.

The major players in the trade logistics are international and RSA based companies, which are well established and highly computerized, such that their clearing processes are very easy, they easily access updated information on tariffs and port traffic, and are able to track and trace consignments. There are small locally-owned firms that are not so well equipped and struggle to get updated information, as their offices do not have internet facilities. They rely heavily on information obtained from LRA, which is not efficient for the agents or for LRA. Most of these smaller firms deal only with importation of vehicles from Japan and Singapore. It is sometimes impossible for these smaller firms to track their consignments, as they do not have access to modern communications systems

Roads and road transport are the backbone of the transportation system in Lesotho[31]. The Ministry of Public Works and Transport has a program aimed at improving both its planning and prioritizing of roads and the quality of contracting it commissions. Within this framework, the Ministry impressed upon Cabinet the need to allow for a recurrent budget for the maintenance of existing roads to facilitate trade. This was reflected in the Budget Speech 2012-13, which also allocated funds for new construction. The Ministry will prioritize the rehabilitating of most-travelled roads and upgrading of high potential tracks, aimed at easing supply and demand chains. This should contribute to the development of new products, linkages and markets within Lesotho and towards exporting.

Only 2.5 km of rail are owned by Lesotho, with a railhead in Maseru. Rail is exclusively used for freight, though recent lapses in maintenance have decreased demand for the service. While textiles have turned to trucks, construction materials still make use of the railway, with between 100-200 containers a week[32]. Also, rail is useful for transporting heavy exportable products such as sandstones, and granites. Improving the railhead in Maseru would enable Lesotho to more effectively link with the South African railway system.

The Ministry's plans to upgrade the railhead by procuring two lifts, realigning the platforms and installing security lights were approved and funds allocated and disbursed, with procurement due by end of March 2012. This should improve the conditions of service and hopefully return some demand. However, the railhead is under private management and the Government has no capacity to monitor its activity: the Ministry is not present at the site, only the LRA. The Ministry has recommended that the management of the railhead be brought in-house for a couple of years to develop an understanding of the running of the facility (including workload) and the know-how to monitor it once it is returned to private management. A decision is pending.To facilitate tourism traffic by air, airport facilities should be improved and, it would also be useful to have a Tourism Information Office at the major ports of entry.

3.1.5 Industrial Estates

Rural-urban migration has put increasing pressure on availability of land in the capital, especially adjacent to existing industrial estates. The new Land Act seeks to address constraints related to land occupancy, ownership and leasing. The newly-created LAA is moving fast to regularize the situation according to the Act, but in the meantime the prospects for more industrial sites are tenuous. The LNDC, tasked with attracting investors and developing sites, admits to a backlog of a dozen requests minimum at any time. There are reports of investors going to other countries when they fail to find space within their timeframe. Non-availability of industrial sites therefore remains a problem, and suggests the need to reassess the existing approach. The LNDC identifies, develops, hooks up and then rent-subsidizes the industrial sites of Lesotho. Yet worldwide evidence suggests both development and management are more efficient and better market-oriented when private, while subsidized rents are needed only to compensate for subpar service or to retain footloose industries.[33]

31] Lesotho also benefits from South Africa's road network (e.g. to reach Durban port) and the international airport in Johannesburg.

32] The Ministry must rely on its private management company and LRA for traffic information.

33] "LNDC claims that they cannot profitably finance the construction of factory shells as rents are subsidized through a rent ceiling set by MTICM. The LNDC rents of M10/m2 per month are substantially lower than the commercial alternatives. This results in an implicit annual subsidy which is the equivalent of M 1,400 per worker (in the textiles subsector) and M 6,000 per worker (in other manufacturing). The cost of providing factory shells and associated transport and infrastructure is approximately M 350 million for every 10,000 jobs to be created." NSDP (2011)

Box 7:

LNDC and Industrial Estates

In the context of Lesotho's overly restrictive land legislation which deters investment in industrial property development by the private sector in general and foreign investor in particular, LNDC provides a stopgap solution by first leasing tracts of land from government for industrial purposes, before subleasing these to foreign investors.

In the past decade, LNDC has developed several industrial estates in Maseru Industrial Zone, Tsetsane, Nyenye and more recently Tikoe. This support entails not only obtaining land but also the provision of all necessary road infrastructure and utilities to the industrial estates. In most cases, LNDC also builds readymade factory shells to accommodate investors. Factory shells are rented out at a subsidized rate of USUS$1-2/m2. Investors choose to establish firms in existing LNDC estates rather than private ones because the latter charge ordinary market rents. This deters private investment in factory space and means in effect, that the number of foreign investors in Lesotho is limited by the capacity of LNDC to build serviced sites.

In order to support the private sector in constructing factory shells, LNDC introduced an Own Construction Incentive Scheme (OCIS) which supports private entrepreneurs in building their own factories for rent to investors; but OCIS uptake was low and the scheme was further hampered by the unavailability of serviced land and difficulties with water reticulation and sewage drainage systems.

In the past two decades LNDC has provided dozens of foreign investors with land subleases and factory shells. This support has been instrumental in the development of the large textiles and garment industry in Lesotho. However, this capacity has been stretched to the limit for several years now and there is a shortage of LNDC serviced land and factory shells for new investors. Prospective investors are forced to relocate outside Lesotho, taking with them a variety of sectors including food processing, printing of packaging, vehicle parts assembly and energy-saving light bulbs. The majority of them target the Southern African market implying further diversification away from the traditional export market in the US and reliance on textiles. A recent study calculated that accommodating all known prospective investors would increase economic output by M390 million, employment by 4,000 and economic growth by over 1% of GDP, with obvious positive implications for poverty alleviation.

Source: Compiled from Investor Roadmap, October 2011

3.1.6 Water, Electricity, Information and Communications Technology (ICT)

Water for Industry: On average, water consumption for Maseru is 40 mega liters per day. A total of 60% of water produced is used by industry and commercial premises, with the Maseru-based firms of Nien Hsing, C&Y, Global Garment and Lesotho Brewing Company accounting for some 40%. Domestic consumption is estimated to be about 120 liters per capita per day (l/c/d) where there is internal plumbing and a sewer connection, and 80 l/c/d where the supply is via an outside tap. On average, people obtaining water from standpipes consume 40 l/c/d. According to the Water and Sewerage Company (WASCO), non-revenue water is about 34% (as of March 2011 and the target NRW is 29% by March 2013)[34] due to technical and non-technical losses, including theft.

The capital city has a very old pipe network, while ongoing construction work in many parts of the city often damage water pipes resulting in leakages. Sourcing raw water has increasingly become a challenge and water treatment is expensive. Key work must continue on recycling, sewerage and waste disposal, especially in and near industrial areas.

In addition, WASCO has an issue with its approved tariff which is considerably below the cost of production. For example, WASCO's estimated cost of production is M9/kL whilst the tariff ranges from M3-6/kL. WASCO claims that their lead time for connection to households is 21 days; it is estimated to be shorter for units in the industrial estates.

The LNDC, the utility companies, and the users reported no serious problems with connecting to utilities at industrial sites, although there are undue connection delays outside.

Water for Agriculture: Water is required for crop as well as livestock farming; both are important from subsistence as well as export perspectives. The natural sources and rain water are being challenged by the impact of climate change. In addition, high value commercial crops need irrigation on a regular basis. Stakeholders have underscored the importance of water for agriculture during the DTIS update consultation process. They have raised the issue of the irrigation policy and land acquisition for irrigation projects on which the Government should expedite their actions without further delay.

Water for export: Lesotho exports water to South Africa. Countries, similar to Lesotho which are endowed with water resources and located next to large

34] Based on the information provided by the MTICM EIF Unit

Electricity: Lesotho Electricity Corporation (LEC) was corporatized in 2006. The LEC is a vertically integrated transmission, distribution and supply company. It buys power in bulk from Lesotho Highland Development Authority (LHDA), ESKOM (South Africa) and Electricidade de Mocambique (EDM). According to the LEC officials, there is no problem regarding billing practices or delays in connecting electricity supply. Their target connection time is 10 working days. The connection time would be even shorter in the case of factory shells in an industrial estate. It is observed that the regulator Lesotho Electricity and Water Authority (LEWA) decides tariffs based on the proposal of the LEC for electricity (as from WASCO for water supply). Currently, the LEC is of the opinion that the tariffs are significantly lower than their proposal. Usually, the tariff setting proposal is based on supply cost, typically it comprises cost of bulk purchase, transmission, distribution, technical and nontechnical losses, return on asset and 3% per unit for rural electrification fund. Theft still occurs in post-paid connection. Smart meters are being pilot tested. As to prepaid connections, a scratch card system has been introduced. Maintenance of the network is another challenge, as attention has been given on the expansion of electrification.

ICT: Lesotho's ICT sector encompasses fixed and mobile telecommunications, broadcasting, multimedia and the Internet, which in turn are linked to other vital sectors such as postal services, banking and e-commerce. In line with international trends, private sector involvement is seeing the sector become ever more liberalized and diversified, with greater competition and a wider range of products and services on the market. Thus, consumers have enjoyed a continued reduction in prices of communications services along with improved quality.

The issues raised in the DTIS action matrix are no longer a problem. The mobile telephone system is compatible with RSA. Service providers are from RSA. The country's lowland areas are provided with fibre optics and mountain areas with microwave technology. A submarine cable has been connected. According to Econet, over the last two years the retail internet price has come down by 20-30%. The internet cost in Lesotho is still higher (by 10-20%) than RSA since bandwidth suppliers are in RSA and Lesotho is a very small market which lacks economies of scale. Further cost reduction is possible through the deployment of improved technology (e.g., submarine cable) and more competitionby letting more service providers to operate in Lesotho.

In rural areas, efforts have been made at water and sanitation, as well as electricity provision. The development of cell phone technology ensures coverage for much of the country. In terms of modern economic activity that can integrate, all utilities are available. A social debate continues as to the extent to which utilities should be delivered to the most isolated population and the cost and benefits of such extension for the whole population.

3.1.7 Human Capital and Productive Capacity

Education system, as a whole, is one of the main pillars of economic development. It has the capacity to improve, within the context of sound macro-economic and political environment, to social growth and development and it does so through multiple pathways. The World Bank[35] has identified several of these pathways which include: (i) helping people to become more productive and earn more as education is an investment that strengthens their skills and abilities, (ii) improving health and nutrition (c) and (iii) promoting social development through strengthening social cohesion and giving people more opportunities.

At the macroeconomic level the impact of education is strong: just as individuals with better education tend to achieve success in the labor market, so economies with higher enrolment rates and years of schooling appear to be more dynamic, competitive in the global market, and successful in terms of income per capita. This point is strongly reinforced by economic research. In a landmark study of the impact of education on growth Barro (1999)[36] shows that an addition year of secondary and higher education would raise the average growth rates of an economy by over a half a percentage point. This means that a significant part of the differences in growth rates across countries can be attributed to differences in the human capital of the labor force. The particular importance of schooling at the secondary and higher levels supports the idea that education affects growth by facilitating the absorption of new technologies - which are likely to be complementary with labor educated to these higher levels. Primary schooling is, however, critical as a prerequisite for secondary education.

In Lesotho, free primary education (FPE) was introduced in the year 2000 as a major strategy towards achieving the Education for All (EFA) goals. This initially led to rapid increase in the net enrollment rate, which currently stands at 82% of primary school aged children (80% boys; 84% girls). In a milestone effort to advance progress towards universal primary education, the Government of Lesotho recently enacted the Education Act 2010, legalizing the right to free and compulsory education. This law will give a major boost to education; it is a critical step forward in reaching the remaining 18% of the most vulnerable children who are still out of school. In terms of tertiary education enrolment rates do not exceed 5% and hence is comparatively low by international standard. There are several government owned institutions such as the National University in Roma and the College of Education as well as several private sector tertiary institutions.

The Ministry of Education and Training is responsible for education in Lesotho. Its mission is to develop and implement policies which ensure acquisition of

functional literacy among all Basotho and development of a productive, quality human resource base through education and training. The mission of the ministry clearly highlights the importance of enhancing human capital for creating a productive base and diversifying Lesotho's exports.

3.2 Lesotho's Business Enabling Environment and Competitiveness

3.3.1 Lesotho Performance as Measured by Doing BusinessIndicators?

As reported in *2012 Lesotho Doing Business*, Lesotho's ranking of 143 went down by one position from the previous year. This suggests that an effective implementation of reforms is lagging behind in relation to other countries which have moved faster than Lesotho. In the aggregate ranking, Lesotho falls below the sub-Saharan regional average (137) and all SACU countries[37]. The most problematic areas are reported as dealing with construction permits (157), registering property (150), getting credit (150), protecting investors (147), trading across borders (147) and starting a business (144). Of the 10 *Doing Business* areas, only enforcing contracts registered a reform making it easier to do business in Lesotho in 2010/11.

Successive *Doing Business* reports have failed to record any positive changes in Lesotho for 2008-12, save for the creation of the OBFC or business registration in DB2009, and the launching of a commercial court in DB2012. This is a serious concern, whether it reflects a true picture of a stagnating Lesotho or a methodology flaw that fails to record changes on the ground. In practice, Lesotho has made some positive changes over recent years and these must have improved the situation. However, a continued low ranking in *Doing Business* is both disappointing for policymakers and not a good signal to potential investors.

Whatever the reasons, it is crucial that Lesotho fight the battle on two fronts. First, the country must deepen its reforms by constantly reviewing progress and seeking new opportunities to improve the business environment while keeping a close eye on implementation of reforms. Second, Lesotho must market itself globally, in part by making sure that the record stands correct in such globally recognised publications as *Doing Business*. The country has much to offer to potential investors, but it is barely known outside. Achieving some status as a reformer and business-friendly place in the literature (such as Georgia, Lao PDR or Rwanda has done in recent years) can go a long way to boosting a country's image and attracting inward investment

Doing Business suggests that "to ensure the coordination of efforts across agencies, economies such as Colombia and Rwanda have formed regulatory reform committees, reporting directly to the president... More than 25 other economies have formed such committees at the inter-ministerial level... [including] Botswana; Burundi; the Central African Republic; the Comoros; the Democratic Republic of Congo; Kenya; Liberia; Malawi; Mali; and Zambia" and further that "the Asia-Pacific Economic Cooperation (APEC) organization uses *Doing Business* to identify potential areas of regulatory reform, to champion economies that can help others improve, and to set measurable targets... [and] launched the Ease of Doing Business Action Plan in 2009 (DB2012, p 30)."

3.2.2 Global Competitiveness Indicators 2008-2012

Competitive economies have higher factor productivity. It is believed that the productivity of an economy sets the sustainable level and path of prosperity that a country can achieve. Productivity also implies rates of return on investments in a given country. Rates of return are drivers of economic growth rates. More competitive economies are likely to grow faster over the medium to long term; they tend to be able to produce a higher level of income for their citizens. In the context of the present globalised world, a country's trade performance and export sophistication and diversification are considered critical indicators of its competitiveness and are drivers of economic performance. The export sector creates an important feedback loop for improving productivity and reinforcing competitiveness by increasing competition in the domestic market and providing firms access to new technologies and techniques.

The Global Competitiveness Index (GCI) defines a country's competitiveness as the set of institutions, policies and factors that determine the level of productivity of the country. It is based on an opinion survey of business leaders (13,500 in 2010) and countries are ranked in terms of the responses. In 2008-09, Lesotho ranked 123rd out of the 134 countries surveyed; in 2009-10, 107th out of 133 (Uzbekistan did not provide data); in 2010-11, its rank was 128th out of 139; and in 2011-12, it came in at 135th out of 142. The country's ranking and scores reveal that Lesotho's competitiveness has not improved. The country repeatedly lands in the bottom 10%, while its scores barely move over time. Lesotho's score is below the sub-Saharan average of 3.5 for 2010-11 and much below the competing SACU countries' scores (except Swaziland) over the entire 2008-12 period.According to GCI respondents, the top five problematic factors for doing business are (i) access to financing, (ii) inadequate supply of infrastructure, (iii) corruption, (iv) inefficient government bureaucracy, and (v) poor work ethic in the national labour force.

These problem areas are similar to those identified by *Doing Business*, though the latter does not report on corruption or work ethic. The inadequate supply of infrastructure has been addressed before: utilities are improving in Lesotho though connection times can remain long depending on the location. Trade and transport infrastructure needs upgrading; trade logistics are particularly important for developing a light industry where small margins and prompt responsiveness are determinants, but the entire continent suffers from poor infrastructure. However, the South African infrastructure like roads and ports link Lesotho with the rest of the world at reasonable time and costs. Access to credit was also addressed above and it was noted that the situation is likely to improve if the newly passed legislations are fully implemented.

Inefficient bureaucracy leads to long lead times, extra costs and possible loss of investment. Many of these the Government hopes it has addressed with the creation of the OBFC and LAA, but full empowerment of these new agencies, as well as refocusing of LNDC and LRA, are necessary to maximize the gains and improve Lesotho's scores on 'red tape' and its companion, corruption. A poor work ethic is a rather subjective measure, but one which resonates with investors and must not be ignored by the country. Much can be done through education, at all ages, creating responsible individuals, workers, businesspeople and proactive citizens.

3.3.2 Travel and Tourism Competitiveness Index (T&TCI)

As the tourism sector is a priority sector of the Government of Lesotho, it is useful to look at how Lesotho's rank and score look amongst SACU countries. The GCI also includes a chapter on the Travel and Tourism Competitiveness Index (T&TCI). The T&TCI measures country performance and ranks countries in terms of: (i) regulatory framework, (ii) business environment and infrastructure, and (iii) human, culture and natural resources. The T&TCI shows Lesotho's rank and score being the lowest among SACU countries. Lesotho's score is also below

35] World Bank (1999) *'Education Sector Strategy'* www.worldbank.org

36] Barro (1999) *Education and Economic Growth*

37] 2012 Doing Business ranking in ascending order, out of 183 countries – South Africa (35), Botswana (54), Namibia (78), Swaziland (124), and Lesotho (143).

the Sub-Saharan countries average (3.3). The rank and score by the three T&TCI components show lowest score for (iii) human, culture and natural resources (2.6), followed by (ii) business environment and infrastructure (2.7), and (iii) regulatory framework (3.5). The lowest score and rank (135 out of 139 countries) certainly shows how unknown or unpublicized is Lesotho to the rest of the world and indeed not competing in the international tourism markets (see also Section 5.3). Lesotho needs to improve its ranking by addressing the constraints mentioned above, which will help in realizing the potential benefits from the promotion of the tourism industry.

3.3.4 Perception of Local Business Communities

The DTIS Update teamconducted regional consultations with the local business community in both the capital and the districts to obtain feedback on key DTIS Update findings and to gather their views on the enabling environment based on their day-to-day experience in dealing with government officials and trade matters. The consultation meetings were held in Leribe (covering Butha-Buthe), Mokhotlong, Thaba Tseka, Mohale's Hoek, and Maseru. They were coordinated by the Private Sector Foundation and the EIF Unit, MTICM. The business communities including both male and female and youth raised a number of issues.

First, there are many difficulties in *trading across borders*: e.g., Maseru Bridge is the premier crossing point with most up-to-date information and systems but almost always with long queues. Several districts do not have functioning border crossing points nearby. This makes the local business people travel long distance and incur extra cost (e.g., Sani Pass is nearer for Mokhotlong but it does not have necessary customs facility). Lesotho business people are expected to pay VAT at the border with South Africa regardless the goods are for sale or exhibitions and refund of such VAT is cumbersome. Obtaining export permit for Lesotho agro-produce works out costly for small businesses and so is the case of importing livestock (for which Lesotho importers should keep the livestock for 30 days in RSA before crossing the border). Besides, some South Africa traders and truckers operate in Lesotho without appropriate permits.

Second, *access to credit* is another big problem in the districts, bank charges are high (interest loans vary from 30%-40%), leasing finance is not available – the remoteness, small scale, and seasonality of most enterprises outside the capital act as further problems (additional costs) to the commercial banks operating in Lesotho, banks ask for business plans, whilst local business people do not have expertise in making business plans for their micro businesses and hiring a consultant to help in this regard cost at least M3000 which is unaffordable for such businesses. A related issue is the limited entrepreneurial skills of local business people in the districts, who lack the knowledge on business planning, management and marketing which might attract financiers.

Third, specific to the districts there are remaining challenges in *obtaining trade licenses and permits*, while the OBFC has already become a time-saver in Maseru, there is no such mechanism outside Maseru. Obtaining documentation (e.g., tax clearance certificates, permits, licenses) can require repeated trips meaning more time and expenses, especially where the validity period is short. In parallel, the MTICM's trade and investment promotion capacity at district level is very weak.

Fourth, *big companies do not source from small businesses at district level*; instead they would rather go to Maseru or South Africa. Small businesses have lots of deficiencies and require mentoring. There are no sheltered or designated market places with necessary minimum physical facilities, where vendors can practice trade effectively. Supermarkets have not yet started buying local produce from farmers. There is a serious lack of physical facilities to ensure quality and hygiene (e.g., no abattoirs, no cold storage and no safe market places where sale and purchase of fresh produce could take place).

Fifth, *cooperation between the business community and government departments is inadequate*. Government departments still source goods and services from South Africa rather than from local suppliers. They delay payments to local business people. The LAA does not issue lease on time as anticipated. Only the Department of Agriculture seems to be cooperating well with business community, other departments do not cooperate well at district level. District Administrators do not solve the problems of business community. While private sector wants to participate in Public Private Partnership,they aredenied the opportunity on grounds that there are no guidelines for Public Private Partnerships.

The OBFC and LAA's efforts are likely to continue to be concentrated in Maseru where the bulk of the business clients are located. However, the potential demand of the districts should not be ignored, especially when these may be more remote from Maseru than from towns in South Africa. A mobile unit system might be considered to address the needs of more distant towns based clients/service users and to improve inclusiveness in OBFC and LAA services. This in turn might facilitate investment into the districts from further afield and develop new opportunities, including regional supply chains. Also, trading licensing and business registration could be provided on line and decentralized to District authorities with the directives to follow clearly outlined. This would promote compliance.

CHAPTER 4

EXPERIENCES AND LESSONS FROM DTIS 2003, IMPLEMENTATION,IF AND EIF PROJECTS

4.0 Experiences and Lessons from DTIS 2003, Implementation, IF and EIF Projects

4.1 DTIS Implementation

The 2003 DTIS was a product of close cooperation among the six IF core agencies, the Government, the private sector and the NGOs, which represented the first stage of identifying constraints to opportunities offered by regional and global markets. It provided useful inputs to mainstream trade issues in national development and poverty reduction strategies.

Implementation of the DTIS action matrix was first undertaken with the assistance the Department for International Development (DFID) a Lead Donor. The DFID immediately developed a 3-year Lesotho Trade and Poverty Program 2003-2006 (LTPP) with the main purpose of addressing the institutional capacity. During its implementation, the LTPP identified gaps and requirements and consequently undertook various initiatives to improve and better understand the difficulties with trade data to running intensive trade policy analysis courses and undertaking review of trade legislations.

However, LTPP was short-lived as the priority shifted for addressing immediate job creation and food security, and a Priority Support Program (PSP) replaced it with a focus on job creation. The PSP continued relevant LTPP activities and achieved:

Establishment of a policy and regulatory analysis unit;

One stop business facilitation center which was officially launched in September 2007;

Review of the MTICM's strategic plan, (iv) development of an information strategy for the private sector; and

Review of a strategic plan of Basotho Enterprise Development Corporation for implementation of the White Paper on SMEs.

After the DFID funding ended, the PSP ceased its operations. OBFC is still continuing with some support from the Government and the World Bank. Some of the PSP activities were later funded through IF projects (see below).

The Private Sector Competitiveness and Economic Diversification Project (PSCP), under the Government and World Bank funding, has been addressing issues in the action matrix related to improving business environment since 2007. It has made some useful contributions, amongst others, to improving access to credit, and business registration by assisting in bringing out new legislations; and supporting skills development for the garment industry, horticulture out-grower scheme, tourism industry, business council and a private sector foundation. In addition, the Government is addressing the issue of land administration, immigration, and passport with support from the Millennium Challenge Corporation.

A key lesson from this experience is that sustaining donor supported initiatives is extremely difficult in the situation where the Government ownership and commitment are not strong. The Government and development partners should address the issue of continuity where it is needed during the program implementation. Any reforms which entail legislative changes can take a very long time to implement.

The MTICM draft Strategic Plan was released in September 2011. The plan envisages, *inter alia*, internal reorganization which is expected to address the institutional capacity strengthening for trade policy analysis, planning, and promotion (Box 8). If fully implemented, the proposed plan has the potential to improve the institutional arrangements for trade and industrial policy, planning, and promotion in the country, while also at the same time contributing to trade and export development and economic diversification.

4.2 IF and EIF Projects Implementation

The Window I funds were not utilized, hence the institutional structure was not established with the MTICM Focal Point undertaking activities as and when required with support from officers deputed from the relevant agencies. Window II funds were utilized for two projects: (i) Product and Market Development of Agro-based Products, and (ii) Strengthening Capacity for an Integrated Approach to Trade Enhancement and Wealth Creation in Lesotho. In addition under (ii) there is an ongoing project 'Strengthening Capacity for An Integrated Approach to Trade and Aid for Trade Enhancement, Job Creation, Poverty Reduction and Wealth Creation in Lesotho, July 2010 – July 2013, US$974, 400' which is a successor to the earlier (2005-2009) capacity building project.

The Product and Market Development of Agro-based Products project (May 2004-June 2006, US$440,355) focused on mushroom and peaches as they were understood to have a high potential for exports, leading to export-led poverty reduction. For the mushroom project, a Center Mother Unit (experimental station) for spawn production was established. The Unit did very well in terms of producing spawn, selling it to farmers, and also introducing mushroom (oyster) to local people. However, its operation is currently constrained by lack of adequate budgetary allocation from the Government as the Government's priority is now on grains and block farming. The Unit was operating at a very low capacity (about one-third of the installed capacity based on the interview with the project manager) but still providing demonstration on how to farm mushroom and its nutrient value to interested parties.

There is a potential for its replication (spawn) and rolling out to districts by private sector. As to peaches, there is a couple of private sector owned orchards near Leribe. They had their first harvest and the produce was sold abroad. Certainly, peaches (high quality variety) have potential for replication, and also for processing/canning of those low variety or surplus. Under the PSCP, apples and cherries are being supported. They also had their first successful harvest. Denmer Consortium, South Africa is the mentor for both farming and marketing (including certification) abroad.

Initially both schemes got substantially delayed in their implementation but the results thus far have been positive. Their continuity and relocation will, however, depend on the enabling environment, including access to finance, extension services and marketing support, and leadership and guidance by the MAFS and MTICM.

The *Strengthening Capacity for An Integrated Approach to Trade Enhancement and Wealth Creation in Lesotho* project (June 2005-May 2009, US$ 559,475) was aimed at strengthening the national capacity for formulating and implementing effective trade and investment strategies and thus support the implementation of DTIS action matrix in the related areas. The project was also to complement the implementation of the PRS and PSP. It had three components:

Capacity strengthening and awareness on the IF, through strengthening the IF Secretariat at the MTICM;

Investment promotion; and

Development and implementation of an agro-sector wide strategy for export promotion.

The tangible products of the second component (investment promotion) were: drafting of policies and strategies and conducting consultation and awareness workshop for the stakeholders. According to the MTICM, the project achieved:

Draft Investment Policy Bill, initial draft was produced in mid-2009;

Competition Policy Bill, draft completed in 2009;

Textile and Clothing Strategy, draft completed in September 2009 to be considered within the context of SACU-wide issue; and

Entrepreneurial Skills Training – conducted training for 300 business people jointly with BEDCO. The policy

Box 8:

Draft Strategic Plan Proposed MTICM Organizational Changes

The administrative level:
The office of Principal Secretary (PS) will be supported by Deputy Principal Secretary (DPS) or designated as Director of Administration / Corporate Services. The three sections that report directly to PS are Legal, Planning and Finance. The DPS position is re-designated as Director of Administration / Corporate Services with corporate services and support functions managed at this level in support of the office of PS. The sections that report to DPS are human resources, administration, new procurement/stores unit, ICT/Management Information Systems Unit and communications.

The technical/operational level:
Department of External Trade:
The core business is to facilitate external trade and market access at regional and global levels. It needs increased capacity to cover the range of multilateral (WTO/UN-LDCs), regional (SACU/SADC/COMESA/EAC) and SACU and third parties, AGOA, etc. trade policy and market access negotiations. It will need more trade policy development and analysis skills and negotiation capacity to facilitate trade and market access for Lesotho's private sector.
Department of Marketing and Trade Promotion: This department is an outcome of rationalization of the external and internal trade and marketing functions within the MTICM. Its core business is to link external and internal trade and marketing opportunities with domestic providers of products and services across all sectors. This is a product and market development capacity development function with a private sector development (PSD) role for inclusive growth. This will link external and internal trade facilitation functions to enhance Lesotho's competitiveness..
Department of Industry:
The core business is to facilitate large and medium enterprises, provision of infrastructure, implementation and monitoring of new Industrial Policy for Lesotho in synergy with LNDC's new strategic plan, with its corporate goals being; to develop and expand Lesotho's industrial and commercial base through promotion of foreign and domestic investments; also to facilitate domestic economic empowerment (DEE), with particular focus on promoting large and medium Basotho enterprises.

Department of Standards and Quality Assurance:
The core business is to support the competitiveness of Lesotho's products and services in internal and external markets through provision of quality, standardization and assessments that conform to technical requirements of these markets. It is expected to perform specific functions in support of the new Industrial Policy for Lesotho. It has three sections for laboratory services, metrology and standards and quality. The consumer welfare section should migrate from Trade to this department.

Department of Co-operatives:
The core business is to promote and improve the governance and management of cooperatives as economic empowerment entities. It facilitates access to finance by low income communities through savings and credit co-operatives. Youth enterprises are regarded as a core target group. Its sections are divided into Audit, Savings & Credit, and Entrepreneurship Development, Legal Services, and Training units. The department should prepare for the implementation of the new SME Policy and Strategy and identify business development services (BDS) and extension synergies, especially at District levels.

Department of SMEs: :
This is a new department to be established with its core business being to facilitate, coordinate and monitor impact of SME Policy and Strategy to implement the new SME Policy and Strategy that was developed within the Department of Industry. The current and future role of BEDCO will be rationalized in this context.

Chief Commercial Officer:
The role of Chief Commercial Officer and the related responsibilities of supervising district commercial officers and business extension services should be rationalized.
MTICM district level services and business extension: Rationalization of the roles and functions of trade, marketing and cooperatives officers to improve supervision and ensure efficient service delivery at district levels.

The One Stop Business Facilitation Centre (OBFC):
The OBFC reflects the commitment of the MTICM and other concerned GOL Ministries to institutional innovation to provide streamlined services comprising business licenses, import permits and export visas, issuance of residency permits, work permits and further improvements to the business registration process. Its strategic planning and institutional development are currently supported by the World Bank-GoL funded – Private Sector Competitiveness and Economic Diversification Project.

Source: Compiled from the draft final Strategic Plan, MTICM.

and strategy documents were prepared as part of the task to address the issue – absence of investment code – raised by the DTIS in its action matrix, and the conduct of the entrepreneurial skills training was to address the weak entrepreneurial skills and no linkages between small and large enterprises related issues listed in the DTIS Action Matrix. However, no evidence is available on the outcomes of the training as to how the business people applied the new skills in their businesses and how they contributed to strengthening the link between small and large enterprises.

The third component (development and implementation of an agro-sector wide strategy for export promotion) was managed by the MAFS. They formulated and implemented product and market development strategy for agro-based products with a focus on mushroom and peaches. A symposium was held in January 2009 on the role of agro-business in the economy with participation by government, media, producers, donors and traders. It was estimated that in 2009, 5000 individuals in rural communities were benefitting under mushroom and peaches project, of which 3000 were women and 684 are living with HIV/AIDS. As was noted earlier, their continuity and replication would depend on the enabling environment, including access to finance, extension services and marketing support, and leadership and guidance by the MAFS and MTICM.

The ongoing project '*Strengthening Capacity for An Integrated Approach to Trade and Aid for Trade Enhancement, Job Creation, Poverty Reduction and Wealth Creation in Lesotho*' aims to address the weaknesses identified in the previous IF program that phased out in 2009 where the program implementation experienced difficulties as there was no national implementation unit with full time staff. It focuses on supporting the National Implementation Unit (NIU) to build and strengthen capacity for coordination of activities related to trade, particularly on mainstreaming, donor coordination, productive capacity building (i.e., formulate a trade and export development strategy on the basis of the DTIS Update), and developing capacity of the private sector through inclusive consultation on DTIS update and trade and export development strategy formulation.

The project's progress so far includes: (i) NIU (for EIF) is up and running with 5 staff, including the Coordinator; (ii) trade mainstreaming during the preparation of the NSDP through active participation in the discussion; (iii) donor coordination working closely with Donor Facilitator (UNDP) facilitating and mobilizing participation; (iv) organized a regional event for sharing EIF experiences by Eastern and Southern African countries; (v) capacity building of the Government staff by hosting 2 staff on secondment from the Government; and (vi) coordinating the DTIS Update working closely with the consultants. The project also suffered from delays due to the Government administrative procedures and also in the technical area due to lack of trade related expertise as it would have to rely on one-off consultants or expatriates.

Whilst the NIU has made reasonable progress in building and maintaining momentum of DTIS implementation, there are a number of issues which have been observed. First, the NSC has developed symptoms of weak ownership of designated members and institutions, and there is the lack of consistent quality of representation in the meetings by the members and their effective participation in the discussions. It is very important to strengthen the quality of representation and also participation in NSC meetings.

Second, some of the key actors in DTIS implementation are not directly represented on the NSC – e.g. LRA, LAA, Maseru City Council, Central Bank of Lesotho. Their direct participation as a member or observers could have been useful. Third, coordination and interactions within the MTICM could be stronger and more effective to push the DTIS implementation further. The five key departments - trade, industry, standards, marketing, and cooperatives - must play a more active role, internally as well as externally, and contribute more substantially to the DTIS implementation).

Fourth, as has also been mentioned in the report by the NIU adviser[38], that there should be more effective coordination and more substantial mobilization of inter-ministerial cooperation for DTIS implementation. The key NIU products and services should be disseminated and awareness raised on the importance of implementing trade mainstreaming and trade diversification at levels of PS and above in order to win support for the implementation of the program.

Finally, the MTICM with the support from the NIU should also conduct quarterly briefs to the donor community and through a website disseminate the same materials to other stakeholders and interested parties. Periodic external evaluations and their feedback would also be helpful in improving the effectiveness of the EIF sponsored initiatives.

The DTIS Update so far has looked at the progress made and further opportunities for improving the business environment and also to strengthen institutional capacity for trade policy, negotiations and promotion to benefit from further integration with the region and beyond. This section briefly discusses

38] Solleveld L, 2011, NIU Adviser's Summary Note on Assessment and Analysis of EIF Performance Report, 14 November-16 November 2011, EIF, Geneva, internal and unpublished document.

the potential for expanding the country's capacity for increasing domestic supply of goods and services for export. It provides an overview of the key sectors with potential for value addition and expansion of production, and then moves on to present the summary of key findings of the sector review carried out as part of the Update, which focused on three sectors identified during the inception phase of the Update in consultation with the National Steering Committee. The sectors are – horticulture/commercial agriculture, textiles and garments, and tourism and they were reviewed in terms of opportunities and constraints to provide background for a comprehensive and systematic formulation of strategy for their expansion during the implementation of the next phase of the DTIS.

CHAPTER 5

SELECTED SECTOR REVIEWS

5.0 Selected Sector Reviews

5.1. Overview of Key Potential Sectors for Export Capacity Expansion

Lesotho continues to export a number of unprocessed natural resources based products to the region and beyond, of which the major ones are raw water, rough diamonds, sandstones, wool and mohair. Value addition in varying degree is possible in all these areas of natural resources, e.g., hydropower, bottled water, finished diamond and diamond jewellery, cut and polished sandstones, woollen yarn and knitted/ woven products. This list is not exhaustive but these sectors are often emphasized by the Government in its policy statements through Annual Budgets, NSDP, agriculture and industrial development strategies and plans.

Hydropower and Bottled Water: Due to its vast water resources, Lesotho is estimated to have some 450 megawatts of hydropower potential, with only about 16% of this currently being exploited. There are at least 106 water springs monitored across the country and only 18 are being used commercially. This means that there are at least 88 springs that are good for bottling and selling locally and internationally. The springs yield varies with the highest being 8.57 litres per second. Since bottled water is a food product internationally an investment in water bottling would have the benefit of creating a positive impact on public health in the region by providing safe drinking water for areas with poor water supply.

Diamond mining and exporting is an old industry, which has been recently revived. Rough diamonds are what the mining company exports. Recently, the Government is trying to establish a **jewellery manufacturing and diamond centre**in Maseru for which a feasibility study has already been carried out.

Lesotho is rich in **sandstone**, a material that is increasingly being used in the region for building and decorative purposes. It is estimated that Lesotho is endowed with over 321 million cubic meters of sandstone reserves spread out over 7.7 million square meters of land.[39] The main demand for sandstone is external, most notably from South Africa, and neighboring governments' contractors. The local economy has very limited capacity in terms of generating enough demand for value added sandstone in Lesotho. Stone extraction and product distribution are the only two value adding activities in the production process. The sandstone industry has a number of challenges, of which the most important ones are: (i) labor productivity is low; (ii) staff costs are high at 12% of total production costs; (iii) freight costs are also high at around 19% of total value added; (iv) access to finance; and (iv) competition from countries like India and China is stiff.

Most of the **wool and mohair**[40]produced is for export, primarily to the South African market, although some is also used by local producers of tapestries and knitwear. Output has increased substantially over the past decade, at an average of 6.3% per year for mohair and 7.2% per year for wool. The Lesotho National Wool and Mohair Growers' Association promotes Angora and Merino farming in the country. The wool and mohair industry currently faces the challenge of producing quality animal products that meet the required market standard. The other related sector is leather processing and leather products.

Lesotho's**agriculture and agro-processing sector** is characterized by small plots of land, poor on-farm management, absent extension services, lack of access to proper seed varieties, and a complete absence of processing facilities and market network. As a result, farmers have focused principally on low-risk, subsistence level farming which meets only about 15% of the total food consumption needs of the country. Given this, the sector suffers from economies of scale and competition from large suppliers like South Africa. However, recent study and experimentation have shown some potential for development and expansion of a variety of fruits and vegetables – peas, seed potatoes, mushroom and other fresh vegetables, fruits like peaches, apples and cherries. See more below in the next section.

Under manufacturing and assemblingthere is potential to increase range of products. For example, (i) electronicsand electrical appliances including alsocell phones, computer, and TV monitors; and

(ii) textiles and the garment sector – fabric mill, garment finishing accessories, embroidery, and household textile products.

Service Sector provides opportunities for

(i) tourism – tourism development, hotels, lodges, skiing, canoeing and high altitude facilities; and

(ii) ICT services.

39] Lesotho Growth and Employment Options Study: Activity Analysis in the Sandstone Cutting Sector, S.K. Phafane, Khalapha Development Agency, February 2002.

40] Value Chain Analysis of Selected Strategic Sectors in Lesotho, Field Study, Prepared for the World Bank byGlobal Development Solutions, LLC, June 7, 2004. It is understood there is a more recent study on wool and mohair under the auspices of UNFAO.

5.2Horticulture/Commercial Agribusiness

5.2.1 Policy Developments

The Ministry of Agriculture and Food Security (MAFS) is responsible for the overall regulation and interventions in the sector. This includes the formulation and implementation of policies and the provision of advisory and other services to farmers. Lesotho's key policy objective for agriculture is food security. To achieve this, agricultural production and marketing policies are being moved away from a highly regulated inward-looking strategy, towards a liberalized outward-oriented market environment within an integrated regional economy.[41]Maizedriven food self-sufficiency is being replaced by a policy that promotes the interest of farmers and facilitates the growth of a sustainable, efficient, and competitive sector that reflects comparative advantage, such as certain vegetables and fruits. The key elements of this policy include: development of a national land policy, intensification of agricultural production, a block farming approach for grain, horticulture, and fruit trees, and strengthening and decentralization of the extension service.

The *National Action Plan for Food Security 2007-17*, launched in October 2006, was aimed at (i) achieving food security and reducing poverty in rural areas by, among others, improving farm productivity through intensification, diversification, and commercialization of farming systems; and (ii) promoting marketable sales of agricultural produce.[42]The objective is to improve food security by, among others, increasing maize production to 140,000 ton, and wheat and sorghum output to 30,000 ton each to reduce the proportion of households with food insecurity from 36% to 32% within three years. In addition, some vegetables and fruits have been identified for diversification, such as various types of squash, green beans, broccoli, apples, paprika, asparagus, and cherries. The cost of the plan is estimated at US$435 million (FAO/WFP, 2007 estimate).

Agriculture is also a key priority in Lesotho's Vision 2020 and its Poverty Reduction Strategy (PRS). Both documents identify increased agricultural productivity and sustainable food security as one of the country's primary challenges. Lesotho's soil conservation program is one of the most advanced in Africa; it uses terracing, grass stripping, and the construction of dams and irrigation canals. Nonetheless, the vulnerability of much of the land to soil erosion and the continuing soil degradation, associated with the region-wide process of desertification, are key factors in food insecurity. Several UN agencies are involved in soil conservation programs, but there is a growing recognition that low farm productivity cannot be solved solely through soil conservation measures, improved seed, and chemical fertilizers. The MAFS sees irrigation as a key avenue for increased agricultural production and household food security, as it would enable farmers to intensify and diversify their crop production base.

High-value commercial agriculture has been identified as a potential growth sector over the medium term. This includes the cultivation of horticultural and organic crops, such as pears, apples, grapes, asparagus, peaches, apricots, sunflowers, cherries, almonds, walnuts, pecans, garlic, saffron, herbs, aromatic plants and mushrooms, primarily for the export market.

5.2.2 Agriculture Sector in the National Strategic Development Plan for 2012/13 to 2016/17 (NSDP)

The NSDP[43] envisages a commercially oriented sustainable agricultural sector in which farming enterprises will function as commercial entities that can, not only produce food, but also generate income so as to contribute to eradicating poverty. It says that the Government will create an enabling environment for the private sector for value chain development with (i) focus on its core responsibilities such as facilitate/coordinate, regulate and invest in core public goods.The Plan emphasizes that subsistence farmers need to be assisted in discovering paths for diversifying their livelihoods, for improving their nutrition from home own grown food and for moving their livelihood sources beyond traditional farming: (i) boosting the income of the

41] Until the mid1990s, the Government participated directly in producing, marketing, and processing most agricultural inputs and outputs, thereby limiting private-sector involvement in these activities. The policy measures included protection for local farmers from foreign competition, subsidies on inputs, and intervention by Government marketing output (WTO, 2003, www.wto.org).

42] The plan also aimed to enhance the nutritional and health status of the most vulnerable (particularly those living with HIV and affected by the AIDS epidemic).The UN system, under the leadership of FAO, helps the Government in resource mobilization for the plan.

43 [] Based on November 2011 version.

poor and vulnerable groups so that they can afford to buy more food and more nutritious food, and (ii) boosting the agricultural productivity of the poor and vulnerable groups so that they do not need to buy as much food.Strengthening capacities of institutions mandated to provide agricultural services delivery is another important area.

The strategic priorities for the next five years for the Government are:

Reducing vulnerability and managing risk;

Commercializing agriculture; and Strengthening institutional capacity.

The NSDP notes that the major focus of the agriculture agenda for the next five years would be on market oriented production. The recommended interventions in the NSDP are comprehensive and include:

- Finalize Irrigation Policy,
- Finalize Standards Bill;
- Implementation of Seed Policy;
- Finalize SPS Framework (policy and law);
- Review livestock policies and legislation;
- Train extension officers and farmers in agricultural marketing and business skills;
- Upgrade public market information services in MTICM e.g. SMS;
- Conduct value chain analysis for piggery, dairy, grains/pulses and fisheries;
- Setting up Competitive Grants Program (CGP) to provide grants to agriculture-related businesses and associations for new business initiatives and technological innovations;
- Develop effective and efficient debt collection scheme; and
- Setting up arrangements for commercial banks providing loans to agribusinesses. These all have potential to contribute to improvements in agriculture sector, but it is unclear how they will be implemented.

Furthermore, three more actions may be added (i) establish Market Centers for horticulture products at the local level to allow sales and purchase of locally produced fruits and vegetables in a more organized manner, (ii) foster private enterprise in engaging in processing industries through improving the enabling environment, and (iii) provide irrigation facilities.

At the policy level, as implied above by the NSDP statements, the importance and potential value of small holder commercialization is well recognized. However, it is not clear how the issues in agriculture commercialization would be addressed. The fragmented and small holdings of farm lands coupled with lack of business acumen amongst small farmers and difficulties in accessing credits and marketsimpose limitations for commercial farming. Capacity building support for producers is very limited and real commercial approaches enabling farmers to transform production and farm set ups to commercialize are lacking. And, how theyouth, who are educated but unemployed,would be mobilized to become engaged in commercial agriculture and agro-industry related support and core activities. As has already been reported in Section 3.5, the feedback from the regional consultations in Lesotho carried out by the DTIS Update team highlighted that weaknesses in the enabling environment continue to prevail.

Changing producers (farmers) mind-sets and farming practices from subsistence to commercial are essential components of sustainable commercialization. In Lesotho, the involvement of the private sectorremains low.Taking this into account,a recent World Bank report proposes a two pronged approach whereby the government and development partners' support would focus on lifting the subsistence farmers' income,and promoting commercial farmers for domestic and export markets[44].

5.2.3 Lesotho's food self-sufficiency.

Persistent food insecurity continues to be a chronic problem in Lesotho and a key obstacle in the country's development agenda. The food crisis has been amplified due to the existence of a number of interlinking issues including periodic droughts which have led to crop failures, excessive soil erosion, declining rangeland conditions, chronic poverty and the effects of HIV on the labor force. An estimated 80 per cent of the country's population is engaged in the agricultural sector, while conversely, the sector accounts for only 10 per cent of the nation's Gross Domestic Product.

Food production in Lesotho has seen a notable decrease leading the country to import 70 per cent of its food needs, while it has equally been adversely affected by rising global food and fuel prices.3 The country's geography does not lend to its dependence on subsistence farming due to the fact that its mountainous topography covers approximately 65 per cent of the total land area, which leaves only 10 per cent of arable land. This has led to insufficient arable land per rural family, poor soil fertility and poor water resource distribution. Lowered food production has also been due to climatic variances, including below normal rainfall and droughts in recent years, as well as the impact that HIV has had on weakening subsistence farming communities.

Key policies for increasing food security in Lesotho should include, among others, clarify property rights to land to enable farmer to freely purchase and sell land as well as increase access to agricultural extension services for better access to agricultural technology and know-how.

5.2.4 Market Entry Requirements and Potential

The obvious external market for Lesotho's agro-products including fresh produce is SACU – particularly South Africa. Indeed the potential is there but South African supermarkets have their own established supply chains and would rather move products long distances to their supermarkets. In fact most supermarkets in Lesotho are South African. Other countries not surrounded by South Africa are having serious problems of being kept out of supplying their fresh produce to South African outlets. What may be required is to engage the supermarkets so that they assist the local producers to meet the standards and conditions set by the supermarkets, the Freshmark approach that has been adopted in Swaziland and Namibia. Recently supermarkets in Lesotho and in the towns across the border have shown some interests in sourcing from Lesotho. More efforts from both the Government and private sector associations are required to encourage supermarkets buy fresh produce from Lesotho farmers.

Market entry also requires a number of safeguards and standards which have to be complied with and related certification obtained. The South African Fresh Produce Tractability Guidelines comprise of a collection of documents that define the minimum requirements for the traceability of fresh produce and these are in line with international standards. The aim of the guidelines it to provide a common approach to tracking and tracing of fresh produce by means of internationally accepted numbering and bar coding system. The degree to which companies implement the guidelines varies and the adoption of these standards is voluntary. The guidelines are fully consistent with commercial and intergovernmental arrangements for identification of fresh produce where the European Article Numbering and Uniform Code Council (EAN.UCC) system is adopted. Fresh produce farms that export international usually adhere to the guidelines. South African traceability standards are also, in some instances, adopted by the industry in Swaziland. For the US and European markets, producers/exporters of fresh produce are also expected to adhere to good agricultural practices and cold treatment (for the prevention of false codling moth). The US has a Phytosanitary Certificate Issuance and Tracking (PCIT) system which tracks the inspection of agricultural commodities and certifies compliance with plant health standards of importing countries. This capability provides USDA/APHIS/PPQ better security, reporting functions, and monitoring capabilities for exported commodities.

South Africa's counter-seasonality to Europe, the country's primary export market for horticultural and floricultural products, is a major competitive advantage. South Africa is the closest major southern hemisphere producer of horticultural and floricultural products to Europe, and has significantly shorter shipping times than its rivals. There is potential for Lesotho producers to export their produce to Europe by linking themselves with South Africa's export supply chains. This would also help addressing the standards compliance related challenges since Lesotho has not developed its institutional capability in handling conformity with international standards and its local marketing infrastructure (cold storage, packing, labeling) is undeveloped.

5.2.4.1 SPS as key to enhance Lesotho's Agricultural Exports

In order for Lesotho to be able to take full advantage of opportunities presented by international trade, it must improve its capacity to fulfill international SPS regulations. There are several areas were capacity improvements would enhance the Lesotho's ability to export:

- **Enact relevant SPS/TBT regulations:** Well-coordinated and rational legislation and regulations rigorously enforced by adequately trained officials are essential for a successful food quality control systems and technical regulations. The ultimate goal of acceptability of products on international markets can be achieved only when the countries involved in trade have relevant regulatory systems in place.International organizations such as FAO, WHO and WTO publish modal laws and guidelines in the area which SACU Member States may utilize to set up effective regulatory environments. The progress in this area thus far in Lesotho is somewhat below potential as other SACU Membersare already more advanced in this area. Lesotho should take advantage of the strength in the existing legal and regulatory framework of South Africa and harmonize to the "best practice" in the region. This is particularly important for Lesotho. Lesotho, for example, is yet to set up its Bureau of Standards and pass relevant legal frameworks associated with the work of the Bureau.

- **Create an Effective Enforcement System:** It is crucial for Lesotho not only to enact laws that establish regulatory authority but also to set up effective systems that enable it to promulgate and enforce standards and other regulatory requirements. The ultimate aim of increasing

44] World Bank, Lesotho: Agriculture Sector Assessment Note, and Smallholder Agriculture Development Project, Appraisal Report, 2011 available at www.worldbank.org/Lesotho.

exports will only materialize if Lesotho hasin place not only equivalent paper standards but also mechanisms to assure that the standards actually will be met. Lesothoneeds to provide for effective inspections and enforcement to ensure compliance and to establish a reliable track record of successful quality control that builds confidence and reputation. Inspection is an essential part of enforcement, particularly line inspection that follows the product through the plant assessing the controls at critical control points. Inspectors inevitably play a dual role, not only enforcing the regulations but also giving advice and education to industry on steps needed for compliance. A comprehensive risk analysis/quality assurance approach in the area of SPS should also be incorporated in all parts of the production process. To give an for example, from the fresh fruit industry citrus, ideally there would be both pre-harvest as well as post-harvest inspection activities, so that inspection resources can be distributed where they best serve the overall objective of guarding public health.

Overall this update study found that Lesotho is capable to satisfy SPS and adjust to increasingly stringent standards imposed by the northern hemisphere buyers. Compliance to these standards is costly and time consuming for both, the private sector firms and the government, but necessary to secure export market.

As highlighted earlier in the report lack of export diversification in Lesotho indicates structural bottlenecks and points towards the need to provide generic reforms that can support structural change such as improvements in investment climate and trade facilitation. These reforms might improve Lesotho's capacity to "discover" new production and exporting industries and thus capitalize on the region's comparative advantage. Setting up an efficient and effective system for SPS that cater for all sectors of the economy should form an integral part of this strategy hence enacting relevant SPS regulations and creating relevant enforcement system should be set as a priority for Lesotho.

5.2.6 Strengths and Opportunities for Horticulture/Commercial Agribusiness

There are some positive developments, e. g., the trout production has just started at dams in the country, entirely based on private sector initiative and funding. This is a good example of commercialization based on market demand and Lesotho's specific potential. Also, the involvement of private sector (in cooperation with World Bank and Denmer Consortium, South Africa) in the production and marketing of fruits and vegetables has produced good results in terms of production potential, farmer's support, and marketing.

The experience of Denmer, who has been working in cooperation with the World Bank on supporting small holder farmers in Lesotho in the fruit and vegetable area, indicates that private sector does see the potential of some export-oriented crops. The support of the Department of Crops (MAFS), World Bank and Denmer was geared to identify and nurture the out growers/producers for Denmer in fruits and vegetables. It has invested quite substantially in farmer's extension, selection of varieties and market studies. However, it confirms that the potential is for some specialized crops (in this case, fruits), and this can only be realized after some lead time and through a very effective field based extension support. It also shows that cooperation between the Government, a development project (World Bank financed) and the private sector can lead to meaningful development results. The Mushroom farming demonstration project promoted under the IF initiative is another example, although the continuity of the mother unit is currently uncertain due to a decline in budgetary allocation from the MAFS, and the project not being able to promote similar units in the private sector. The following table summarizes key strengths, opportunities, weaknesses, and threats as they relate to commercial agriculture/agribusinesses.

Table 4:Key SWOT for Commercial Agriculture

Strengths	**Opportunities**
• Soil and climatic conditions conducive for various fruits (apples, plums, cherries, berries) and vegetables (such as mushroom, broccoli, and root crops like potatoes, and carrots). • Good water resources.	• Proximity to South Africa which has abundant market opportunity. • South African companies are already present in Lesotho for marketing. • The Government willing to support further development.
Weaknesses	**Threats**
• Un-competitive production of most agricultural products due to low productivity, small volumes, mostly at subsistence level. • Inadequate extension services and weak market information systems for producers, with production not linked to market demand. • Deficient rural infrastructure (including irrigation, rural roads, warehousing, market places, and processing facilities). • Inadequate policy and regulatory environment to promote horticulture and commercial agribusinesses. • Low investment levels and limited private sector contribution. • No realistic development and funding system in place	• Low productivity and uncompetitive agriculture production will continue. • Poverty incidence will continue. • Income inequality will worsen. • Environment degradation may worsen.

Source: Compiled by the DTIS Update Team

Based on the foregoing discussion, the following table summarizes problem areas, potential interventions, likely outputs and intended impacts. These should guide the formulation of a strategy to develop horticulture and commercial agribusinesses which are mainly export market oriented and providing jobs to men, women and the youth. It should be noted that the main role of government interventions should be to create and maintain an enabling environment for the private sector participation in production activities.




Table 5: Key Problem Areas and Potential Interventions for Commercial Crops

Problem Area	Interventions	Output	Impact
Farmers knowledge	• Crop (output) oriented extension demonstrations implemented or rolled out to private sector in districts.	• Farmer's ability (technical) to produce required produce. Farmers selection	• Farmers are able to produce what market needs.
Farmers organizational set up	• Support farmer's organizations (central and decentralized) to organize farmers. • Support commodities associations.	• Farmers are grouped and become better organized to interact with private sector	• Farmers can use economy of scale and private sector can interact easier and more reliable
Market information	• Market prices, quality and quantity of produce information systems	• Market price information set up and disseminated radios, television, Internet and SMS.	• Farmers produce what is needed when it is needed
Market links (farmer to market)	• Support interaction between farmers and farmers organizations and market players (buyers including supermarkets) directly • Provide sheltered and safe market places for fresh produce sales in key towns. • Conduct trade fairs for local produces	• Farmers and farmers groups are aware of produce demands (quality, time, quantity) and can assess potential and provide	• Farmers have stable market links, procuring outputs and potentially also supporting inputs
Policy	• Revise regulations on taxes or levies for farmers and buyers. • Create of incentives for customers dealing with small holders generally, or in specific areas or specific commodities	• Clear regulations that create an enabling environment.	• Increased production from small holder farmers
Funding	• Support (commercial) credit facilities	• Credits are available on clear terms and accessible for either private sector for specific interventions or farmers	• Increases production based on private (bank) funding
Supporting actions	• Weather insurance, land tenure, credit	• Improve access to funds, have collateral and reduced risk for private sector and farmers	• Increases production, due to reduced risks

Source: Horticulture/Agribusiness Assessment Report, 2012, DTIS Update.

5.2.7 Conclusions and Recommendations

Based on the foregoing, it may be concluded that Lesotho has potentialto develop horticulture, commercial agriculture and related agribusiness as the country is endowed with favorable soil and climatic conditions and located next to large regional markets. However, exploiting these potentials will require ensuring a more conducive enabling environment for the private sector through improved business registration and licensing, access to credit and markets, adequate provision of extension services), showcasing and rolling out the piloted products and approaches, and promoting both smallholders and subsistence farmers and also those big farmers with potential for commercial orientation.

The focus of the Government in the short to medium term should be on improving the business enabling environment and facilitating private sector to lead the roll out and scaling up of recently piloted fruits and vegetable products initiatives.

5.3 Textile and Garments

5.3.1 Cotton and Textile Sector

While cotton has never been grown on a commercial basis in Lesotho it is worth pointing out that in 2005/06 cotton trials were being undertaken in the Lesotho lowlands (in the narrow strip of land adjacent to South Africa's Free State province). The second phase of these trials continued in 2006/07. They were funded by a Malaysian company which was also interested in establishing textile and apparel manufacturing operations in the country. Despite extreme weather conditions (heavy rains in the first trial season; and drought in the second phase of the trials), cotton was successfully (and surprisingly) grown. The trials and all other research ended after the death of the principal agriculturalist managing the trials. There is an opportunity to revive the research and explore possibility of cotton farming for the long run.

Box 9 presents a summary of the evolution of Lesotho's textile and apparel industry.

Box 9

Evolution of Lesotho's Textile and Apparel Industry

Lesotho's textile and apparel investment drive has until the first decade of this century generally been focused only upon soliciting investments it the garment manufacturing industry. Major garment manufacturers started investing on a more substantial scale from the mid-1980s. Many of these plants that setup in Lesotho were of South African origin and focused on supplying markets in Europe and the USA. They established themselves in Lesotho as anti-apartheid sanctions made exports of products made in a politically turbulent South Africa impossible. However, in the late 1990's margins into European markets were being eroded and EU trade regulatory requirements (which now changed to double transformation, with fabrics having to originate from Europe or the African continent) were making it increasingly difficult to export. As a result many sales were switched to the US market – where volumes also tended to be considerably bigger.
By the early 2000s, with few exceptions, Lesotho clothing manufacturers were of Taiwanese origin and garment exports were to the US market. This trade was significantly aided by the advent of the AGOA arrangement; and by the fact that the Lesotho currency (which is tied to the South African Rand at par) lost significant value vis a vis the USA Dollar (this made Lesotho production very cheap for US buyers. While the EU-Lesotho Economic Partnership Agreement (EPA – concluded in late 2007) does now allow for the use of third country fabrics very few Lesotho manufacturers have exported product to Europe. Many Taiwanese origin manufacturers are only connected to US buyers; and they have an (ill-founded) suspicion that EU unit orders are significantly smaller than USA destined orders.
Until 2003 Lesotho, apart from its wool and mohair activities, did not have any upstream textile processing. This changed with the development of an integrated (spin and weave) denim mill (called Formosa Textiles) by the Nien Hsing Textile company which is headquartered in Taiwan. The phase out of the WTO's Multi-Fiber-Arrangement in December 2004 put a brake on Lesotho's US orders. Many US retailers and brands moved their production to Asia whichwas generally no longer MFA quota constrained. This, together with a strengthening in the value of the Lesotho currency, saw some factory closures and job losses. However, with effect from 2006 onwards the character of the Lesotho clothing manufacturing industry again changed to the extent that many more South African origin garment manufacturing firms began the process of establishing operations in Lesotho. These firms produced garments almost entirely for the South African retail market. The product portfolio being produced by Lesotho firms has, as a result, also expanded. Traditional exports to the USA were jeans and knit garments (mainly t-shirts, polo shirts, tracksuits, hoodies, pyjamas, etc.). South African buyers wanted these products, but in addition they also had other products manufactured for them –men's and ladies wear (trousers/pants, skirts, shirts/blouses, jackets, etc.) and work wear. The EU market is also, once again, being tentatively being explored.

Source: Compiled from Textile and Garment Sector Review, DTIS Update.

Lesotho's textile industry has one vertically integrated mill. There are however significant opportunities for investments in fabric knitting plants, and dye houses, if certain critical supporting industrial infrastructure is developed. Lesotho lacks market diversification in terms of fabric and yarn sales; as a result (with internationally weak demand) its company utilization rates are lower than what they could be. There is a distinct weakness and threat to the downstream (garment) industry in terms of the lack of fabric knitting and dyeing operations in Lesotho and it is a pre-requisite going forward that such facilities should be developed as this will increase the international competitiveness of the clothing/apparel producers. Should fabric knitting operations develop, yarn production would also increase. This will, however, require considerable capital expenditure on (perhaps) water reservoirs, and (almost certainly) industrial waste water treatment/recycling plants.

Table 6 below documents the summary of the SWOT analysis.

Table 6:Textile Sector –SWOT Analysis

Strengths	**Opportunities**
• Formosa Textiles is a global company (with textile manufacturing operations in Taiwan, Mexico and Nicaragua) that is strong in yarn and fabric development. The fact that they are a vertical operation adds to their strengths. Formosa Textiles is well known among international textile buyers, and through their garment manufacturing operations, (which also includes Cambodia) they supply major apparel brands and retailers.	• For Formosa's related garment operations (and other jeans manufacturers) it is the ability to source denim fabrics on their doorstep, saving transit time versus those importing as well as saving logistics costs. Significant opportunities exist for Formosa to supply denim to jeans manufacturing plants in Kenya. • There are better business opportunities for Formosa Textiles, in terms of higher yarn sales rates, should fabric knitting mill investments occur. • Should the import duty issue be resolved rag tearing / non-woven manufacturing can take place as significant quantities of fabric waste already exist in Lesotho.
Weaknesses	**Threats**
• Formosa's lack of market diversification in terms of fabric sales in the region and in particular lack of sales into the EU market, is keeping their utilization rates low. They could potentially also install dye-house equipment (bulk fabric dyeing equipment and a stenter), that would allow them to produce work wear fabrics (although the demand for 100% cotton work wear fabrics in the region is small relative to the demand for work wear made from poly-cottons) or cotton twill type fabrics which could be used to make chino-type garments (again for sale in the region). • At the Industry level, the lack of a fabric knitting mill(s) and dye house is limiting the expansion of the garment industry to the in that USA (and EU) apparel buyers are demanding shorter lead times that cannot be met by way of importing into Lesotho fabrics from China.	• The Mauritian denim textile mills continuing to supply the RSA market (as well as finished jeans), and this could negatively impact on Formosa Textiles' denim fabric sales. • Labor issues relating to demands for higher wages not matched by productivity advances. • Electricity/power cuts are for any textile plant extremely costly. Lesotho has been plagued by these problems. Although improvements appear to have taken place over the last six to eight months, even one or two power cuts straight to the bottom line of a textile mill.

In addition to country wide strategies and policies most of which include the textile and garment industry as the key sector of the economy in 2009 MTICM in cooperation with TRALAC has developed the Lesotho Textile and Clothing Strategy. It outlines various broad policy considerations regarding Lesotho's least developed country status (under WTO law and the SACU Agreement), the sector's heavy export orientation, preferential access to key international markets and issues around the DCCS/TCIDP. Based on these considerations, global sector-specific dynamics and consultations with industry stakeholders based in Lesotho, three priority support measures were identified. These involve:

I. Direct production value-added linked financial support measures to compensate exporters for the declining value and planned phasing-out of DCCs;

II. Working capital support through highly concessionary interest rates; and

III. Providing export credit insurance guarantees, thereby reducing the risk premium charged by specialist finance agencies.

However, likely costs and benefits to the economy from these fiscal incentives should be carefully analyzed and the incentives should also be made WTO-compliance.

5.3.2 Woven and Knit Garments

This sector of the value chain has some 40 companies producing jeans, work wear, ladies and men's trousers/pants, shirts and blouses and jackets as well as on the knit side virtually every product from t-shirts to fleece hoodies and sportswear. The fact that they are supported by fairly sophisticated wet and dry finishing operations, printing and embroidery services is a major advantage. Further, the as yet small but discernible move to higher priced end products and some fashionwear is encouraging. Rising cost structures (electricity, water, wages, cargo and transport) and unlawful strikes are worrying many of the companies, but with the facilitation of the ILO and Better Work program and a perceived realistic Department of Labor wages are not expected to get out of line relative to international competitors.

Long lead times for the knit garment manufacturers is a problem as buyers are demanding shorter lead times. If the Government were able to source the requisite funds from development partners, the industry would benefit from spending on infrastructure improvements (road maintenance and water treatment/recycling plants at each of its industrial sites). With the potential expiryof the AGOA benefits on December 31, 2015, infrastructure-spending, as indicated, is a priority. Ideally the LNDC should be looking at a Ha Nyenye type II industrial area as well.

Higher level skills training with business skills could see a greater number of Basotho people employed at lower and middle management, displacing ever more expensive expatriates. This could be run at one of the two training/skills centers. It appears an expression of interest in the training/skills centers has as yet not been published but should possibly be slanted to aforementioned higher level skills with business/management skills. There is also an unmet demand for the training of Basotho sewing machine mechanics.

Overall, Lesotho knit garment exporters, the main clothing export product from Lesotho, falls behind in terms of competitiveness in comparison to Asian exporter as is clearly indicated by high dependence on trade preference on exports. Overall, Lesotho only exports to two markets – US and South Africa. Both of these markets provide significant tariff preference for Lesotho manufacturers. The dependence on these preferences can be clearly observed given sharp supply responses following any changes in these preferences. To give an example since the expiry of Multi-Fiber Agreement in 2005 which imposed quotas on exports of garments from Asia to US, Lesotho's exports to the US decreased by more than 20% and have not recovered since.The expiry of AGOA currently extended only to 2015, is therefore likely to have significant effect on Lesotho textile and garment industry but on the contrary to, some speculations, it will not destroy the industry altogether. Lesotho has already established a small but viable garment manufacturing cluster has a limited but viable ability to diversify its export base. A key example of this is the resent sharp increase in Lesotho knit garment exports to South Africa which now accounts to around 20% of the industry's exports. The increase in exports to South Africa is the result of a high preferential margin for exporting to that market as SACU Common External Tariff rose recently from 40% to 45% and Lesotho exports to South Africa duty-free. In the short to medium term it is unlikely that this preference margin will diminish nevertheless it is crucial for Lesotho to finalize internal procedures for setting up SACU's Tariff Board. This will enable Lesotho to influence SACU's and hence its own tariff rates that could benefit the garment industry.

5.3.3 Non-Woven & Technical / Industrial Textiles

There are no rag-tearing and non-woven factories in Lesotho, although based on the number of textile and garment companies operating in Lesotho, there should by facilities that transform manufacturing off-cuts into recycled soft-fiber and cleaning rags. A major impediment to these sales is the stance taken by the LRA. The LRA contends that as the bulk of fabrics used by the woven and knit garment industry in Lesotho are sourced from the East, that duties should be paid on the offcuts as these will be beneficiated within SACU for end use in SACU.The position of the Lesotho customs' administration on this issue appears to be out of kilter with the approach adopted by customs' bodies in Swaziland and South Africa (where reprocessing of fabric wastes without the payment of duties is permitted)[45]. The fact that almost all Lesotho factories are unable to reprocess their industrial wastes results in them having to burn and/or dump these textiles wastes – much to the ire of many of the apparel brands/retailers that they make garments for[46]. There are no technical/ Industrial fabric producers in Lesotho, although some fabrics are being used by an umbrella manufacturer located in the Maputsoe industrial estate.

5.3.4 Market Entry Requirements

The imports of textiles and garments to the US and elsewhere are regulated by a set of product standards, which include labeling, and technical specifications. Lesotho's garment industry to a large extent is owned by large multinational firms with headquarters in South East Asia. They are well adept to meet US Standards in the industry as they often have been exporting to this market for decades.

Lesotho has a rather favorable access to foreign markets for its textile and apparel exports related to its membership in several preferential agreements. As part of AGOA and EPA Agreements it benefits from tariff-free duty-free access to the world's two biggest markets for t including a favorable "single transformation" Rules of Origin (ROO). Also as a Member of SACU it benefits from no tariffs to enter Africa's biggest importer of Textiles and Apparel – South Africa. Only with regard to SADC, Lesotho's access to export garment to countries such as Tanzania or Zambia is somewhat restricted. SADC's ROO in textiles and apparel require for a "double transformation" rule. This means that only fabric made in SADC Member States then manufactured into garments qualifies for preferential treatment under the REC.

Despite the fact that Lesotho is a relatively small player in the global trade for textiles and apparel the industry amounts to around 10% of GDP and is the biggest private sector employer in the country. Lesotho's share in the global exports of textiles and apparel is only 0.1% and raises to 0.3% regarding an equivalent share for US market – Lesotho's biggest export market. The top five competitors for exporting to the US are China, Vietnam, India, Indonesia, and Bangladesh, which had increased their share of US market for textile and apparel since the expiry of MFA in 2005. Particularly robust is the rise of China as the key supplier of textile and garments to the US as it has increased its share of US imports from 22% in 2004 to 43% in 2009.

Textile and Garment industry in SACU and elsewhere is increasing required to provide decent work conditions and work towards minimizing the negative impact of HIV/AIDS on employed and the industry. Hence setting relevant domestic government and industry standards in the area is crucial from the point of strengthening the industry. The SACU region has strong testing facilities that are able assess textiles and garments in this field. The testing facilities are often based in South Africa with firms from Lesotho being able to use these facilities. The key institutions involved in testing for the industry are South African Bureau of Standards (SABS), Wool Testing Bureau, and Intertek Testing Services. The testing are usually done for export markets such as the US and EU. Large garments retailers such as GAP or Levi Strauss have their own testing requirements and SACU garment manufacturers may need to undertake additional test for a specific brand.

Textile and Garment industry in Lesotho and elsewhere is increasingly required to provide decent work conditions and work towards minimizing the negative impact of HIV/AIDS on employed and the industry. Although these issues are not a direct export requirement for exports as such if not addressed it may increasingly become a constraint in sustaining global competitiveness of the garments industry in the region. Hence setting relevant domestic government and industry standards strengthen the industry. Over the past five years, there have been substantial improvements in workplace conditions of key exporters of garments to US. Governments' attention to labor conditions has increased, as has the attention of international buyers to social compliance in the country. Key buyers have clearly communicated their codes of conduct to suppliers in Lesotho; monitoring of conditions at supplier facilities is more frequent and intensive; and in some instances buyers have worked with suppliers through training and capacity building programs. In addition the industry is working toward HIV/AIDS Management Standards which can provide organizations with rules that guide them in setting up specific on HIV/AIDS and the implementation thereof. One notable industry driven organization working in the area is Apparel Lesotho Alliance to fight AIDS (ALAFA). Based in Maseru, ALAFA is an industry-wide program providing education and prevention, voluntary testing and counseling, and management of AIDS through the roll-out of care and treatment for HIV-positive workers. ALAFA is also working with factory management on policy. This includes training factory HIV coordinators, supervisors, shop stewards and production managers; developing generic documents and standard; helping develop the factory's HIV policy; and ongoing program monitoring.

As noted by a World Bank (2006) report entitled: *"Competitiveness and Corporate Social Responsibility in Lesotho's Apparel Industry"* development patterns are working with the MTICM to reform the labor laws and this initiative will be used as a stepping stone to establish Lesotho as international center for decent work. This initiative should not only improve industrial relations it should also be part of a unique branding strategy for Lesotho that can be used to attract the attention of new international buyers. HIV/AIDS program (ALAFA) should be an integrated part of this branding strategy. In terms of setting up such a strategy the following actions are proposed:

Scaling up the ALAFA initiative;

Setting up a brand/certification scheme; and

Establishing strategic alliances with key players (including global apparel brands) in targeted export markets.

5.3.2 Conclusion and Recommendations

Lesotho has the basis of a vibrant textile and garment industry. It now needs greater depth and increased competitiveness to expand. As one industrialist/ investor stated "As long as wages remain competitive, Lesotho can attract at least an additional 30 South African garment manufacturers he knows of and if Lesotho can get the infrastructure right he sees no reason some textile mills will not also relocate".

There is an urgent need to diversify the textile sector by commissioning a fabric knitting mill and dye-house. Ideally there should be more than one (a typical sized large mill would have the capacity to make produce about 500 tons of finished knitted fabric per month). Such a mill would also have the propensity to increase spinning utilization rates at Formosa Textiles; and may even result in additional spinning capacity being installed. It would anchor many knit garment factories to Lesotho. It is imperative that the Government /LNDC secures funding to build additional water reservoirs, industrial waste water recycling plants in select industrial areas as without these (as a minimum) a knit fabric mill cannot be established. The most urgent needs are in the Ha Nyenye industrial area (water reservoir, and industrial waste water treatment plant); and in Ha Tikoe (industrial waste water treatment facility). The water treatment plant could be managed by a private sector company with specialist skills in running such facilities – users of the facility would be expected to pay for the costs of the treatment[47].

There is also potential to invest in a common steam generation plant that would service (for a fee) the knit fabric investment. It would also be an incentive for encouraging investment in additional processing factories (e.g. dye houses plants that could import un-dyed knit fabrics and dye these stock fabrics according to customer specifications). The facility would also be able to provide a value added service to the garment manufacturers who need steam for ironing/ pressing operations, and laundry[48].

There are certain wastes that remain as a result of textile and garment washing/dyeing manufacturing processes. While this waste generally has zero/low levels of toxicity, it still needs to be disposed of in a suitable manner.

There is a need to re-assess how a rag tearing/non-woven operations (plant) development, using waste fabrics, could be facilitated by the LRA. Such a plant would further diversify the textile sector (and create jobs), while also addressing a host of environmental issues of concern to the international brands/retailers that place orders in Lesotho factories and who have a competitive interest in reducing the environmental footprint of their garments.

A considerable range of value-added service providers (embroidery, printing, hangers, packaging) to the textile and garment industry, have located in Lesotho and SACU. Apparel producers are already benefiting from economies of agglomeration through reduced costs and speed to market. The dearth of local lower to middle management staff remains a negative cost factor for the industry and needs to be addressed to enhance cost competitiveness. There is also a need to explore the potential for producing household textile products (for bedroom, bathroom and kitchen).

Finally, Lesotho should develop a unique branding strategy for Lesotho based on "ethical trade" that can be used to attract the attention of new international buyers. HIV/AIDS program (ALAFA) should be an integrated part of this branding strategy.

5.4 Tourism

5.4.1 Tourism Potential

Lesotho is regarded as having attractive leisure tourism potential, focused particularly around its mountain scenery and activities - placed within a well identified and defended culture that defines part of the tourist visitors' experience of the country. This is

45] The position of the LRA on this issue is somewhat illogical as there exists a SACU rebate (which is regularly used by RSA firms) which permits the importation, free of customs duties, of textile products into SACU which can be reprocessed into cleaning rags and textiles fibers.

46] Many apparel brands / retailers have environmental policies that stress minimizing wastes and recycling – they are thus concerned that textiles wastes (which can be easily recycled) are disposed of in the way that they are in Lesotho.

47] The facility could be built using public funds – user charges would be set at a rate that the plant could be run (by a private sector company) and that the treatment plant's development costs would be recovered over a 15 to 20 year period.

48] This facility would also have the potential to attract other processing industries outside of the textile/apparel value chain – e.g. chemical; painting, etc.

a unique selling point to potential tourists and tour operators. To Lesotho's disadvantage from a tourism perspective, South Africa offers such a broad menu of tourist experiences to international visitors and its domestic tourism market that there are few products in which Lesotho can compete.

Nonetheless, it has around 300,000 – 330,000 South African visitors annually. About 70 - 80% of these visitors are categorized as 'Visiting Friends and Relatives' (VFR) or 'Holiday' and not much is known about their consumption patterns or destinations within Lesotho. A glance at 'bed nights sold' statistics, indicate that most business and leisure travelers stay overnight in the urban areas. Just two district towns (Maseru and Leribe), account for nearly two thirds of the bed nights sold countrywide.

Against this physical and cultural backdrop, there is consensus that Lesotho has not yet been successful in making the most of its potential tourism assets. Key indicators such as visitor arrivals (particularly non-South African) have stagnated and underperformed global growth averages. Accommodation occupancy levels are low enough to be sub-economic for many enterprises. Accommodation product is undiversified and low cost, particularly in the mountainous areas with high leisure tourism potential. For this reason, Lesotho is regarded as a good value-for-money destination once a visitor is in the country, which gives it a slight competitive advantage over similar South African destinations.

5.4.2 Policy Developments

In 2007, the Ministry of Tourism, Environment and Culture (MTEC) prepared a strategy for the development of tourism activities - *Tourism Strategy 2020*[49]. The strategy paper identified the following as key challenges:

Market demand, including the need to distinguish Lesotho from competitor destinations;

Product development and diversification, including the need to diversify the product base to increase the length of stay and retain a higher spend per visitor;
An enabling environment for rapid tourism growth, including improved visitor access to and within Lesotho; and
Management, including establishing appropriate policy, planning, and legal frameworks.

The chief goals set were:

Improving the packaging and presentation of existing attractions;

Supporting and promoting tourism investment and facilitating small medium and macro enterprises (SMMEs) and communitybased tourism; and

Ensuring that the infrastructure is adequate and is further developed.

Furthermore, the strategy proposed four tourism development zones:
The highlands circuit, covering the north and north-western part of Lesotho, and including the national parks and the Katse and Mohale dams;
The heritage circuit, covering southern Lesotho;
The roof of Africa circuit, covering the central part of Lesotho; and
The Maseru business circuit.

The key tourism targets for 2020 are to:
Increase overall international tourism arrivals to 914,000;
Raise international leisure tourism arrivals to 450,000; and
Increase international tourism earnings to M1.1billion; and create some 60,000 additional tourismrelated jobs.[50]

5.4.3 Lesotho's Tourism Competitiveness

As has been reported in Section 3.4, Lesotho's global tourism competitiveness was recently ranked 135th out of 139 countries surveyed by the World Economic Forum (WEF) in 2010. In sub-Saharan Africa, Lesotho is ranked 26th out of 30 countries surveyed in the 2011 WEF Tourism and Travel Competitiveness Report (Ranked 27th to 30th are Mauritania, Burundi, Angola and Chad which are last also in the global rankings.)

The above implies that there the Tourism Strategy 2010 has not yet made any substantial difference in improving the country's competitiveness and attracting more tourists as planned. This can be attributed to a number of factors such as lack of operational plan to implement the strategy, limited financial human resources for marketing, low private sector investment, and also lack of a corporate strategy at the LTDC.

Lesotho's budgets for the MTEC are predictably small at M66 million for the 2012/13 fiscal year (around US$8 million), but they are 20% up on the 2011/12 budget of M55 million. Most of the budget has historically been spent on human resources and subsidy of loss-making hotel investments leaving a negligible budget for tourism marketing expenditure. As a consequence, Lesotho's presence at trade shows, on the Internet, in public relations and in general marketing are below par.

49] Ministry of Tourism, Environment, and Culture (2007). Also cited in IMF Country Report 2012.

50] Ministry of Tourism, Environment, and Culture (2007)

The Government's relationship with the private sector in tourism is likewise below par. The Lesotho Tourism Council, a private sector chamber formed in 2008 under a donor initiative, collapsed two years later and has disaggregated into small private chambers with significantly reduced memberships. Communication between the Government and the private sector is poor.

Globally, tourism is a highly networked business that transcends geography, politics and institutions. Without partnerships, it (the industry) rarely prospers, and the Lesotho Government's approach needs to recognize the necessity of strengthening partnerships across government and with the private sector. Even the inter-ministerial collaboration that is vital to tourism development has been largely absent in Lesotho. This explains (partly) why it is so difficult to start businesses in rural areas. There are many government agencies that can find reasons to delay enterprise proposals or licenses on one or another premise, thereby frustrating potential private sector investors – both domestic and foreign.

Capital investment in the industry has been low with only two hotels built in Lesotho in the previous five years. The other accommodation created in the same period has consisted mainly of small survivalist establishments, mostly in the urban areas of the country. The Government owns nine establishments out of a total of 138 in the country, a legacy of the top-down approach to the industry. It would like to sell these, but investors cannot be found.

Infrastructure constraints (particularly roads that can be negotiated by 2 wheel drive vehicles) have historically limited the scope and scale of tourism in the mountains but it is this rustic quality that also draws leisure travelers who love the destination for this reason. Lesotho has not captured enough of this business because potential investors (mostly South African) are fed up with trying to set up operations within Lesotho and have defaulted to South Africa, offering only day or short trips into Lesotho. South Africa (in particular the mountainous Drakensberg region of KZN province which has 238 accommodation providers) has captured a significant share of the value chain that Lesotho should have capitalized on.

A selected number of tour operators in South Africa, UK and Europe were interviewed to gather their feedback on Lesotho tourism to inform the tourism sector assessment. The summary results are documented in Table 7 below.

Table 7:Feedback from the Interviews with Tour Operators

International Tour Operators	South African Tour Operators
• Lesotho was so unknown that people seldom requested information • Very few were actively selling it or advertising it (passive vs. active promotion) • Most operators sent only a fraction of visitors to Lesotho and on request only • The operators nonetheless all carried at least one tour package that included Lesotho • Few of the agents in Europe and the USA had ever visited Lesotho • Kuoni (One of the biggest operators internationally) on account of their size send several thousand tourists to Lesotho but they use a South Africa based ground handler (SA operator) who reported that 99% of their clients only took a day trip up Sani Pass, returning in the afternoon. At one point the SA operator accounted for nearly one quarter of all international (European) visitors to Lesotho but value capture was minimal (a drink/lunch at Sani Lodge) • Many Europe based niche tour operators rely on, or use South African operators to organise or run their Lesotho component of their tours • One UK operator with a staff of over nearly 200 relied on internet, word of mouth marketing and repeat customers. They do not have high street retail premises • Ten of the operators run international or .com websites and refer telephonic enquiries to South African contact numbers and are thus virtual businesses in those countries for South African businesses. • One UK operator uses voice over internet protocol (VOIP) and every available internet and telecommunications tools to run the entire business from South Africa. It is a virtual UK business • Not one European operator had a Lesotho domiciled tour operator partner (no value capture in tour operator commissions and revenues) • Lesotho Travel agents deal mainly with outbound tourism and occasionally refer work to local driver/guides • Tour operators reported that the majority of their clients were in the 45 to 70 age group. Younger clients were likely to be honeymooning couples and adventure travellers in the 20 to 30 age group. • A large number of packaged tours bypass Lesotho but do allow a day trip up Sani Pass (scenery, day hike, adventure, village visit, stamp the passport) • Several of the international websites reviewed are information portals to other tour operator sites • The lack of any pricing/grading information on Lesotho official sites was a deterrent to further enquiry • 'Viator', a USA based discount tour operator, offers over 30 tours to South Africa, none of which include Lesotho • The website 'Trip Advisor' contains some useful feedback information on Lesotho experiences and accommodation	• Their client bases were 90%+ international • Only one operator had a physical tourism investment (lodge) in Lesotho • The most active operators in Lesotho were physically based in the Drakensberg area (eastern border of Lesotho) and accessed Lesotho via Sani Pass. • The majority of the international leisure visitors who book through tours appear to be accessing Lesotho through Sani Pass for the same reason • The self-drive tourists enter Lesotho in the south having driven through the 'Garden Route' in SA or, the northwest and Maseru having driven from Johannesburg • No operators reported hiring 4x4 overland vehicles for their clients in South Africa. Those that took clients into Lesotho used their own 4x4 vehicles and driver/guides • Several SA tour operators had tried to set up operations in Lesotho but found that the red tape made it impossible • All of the SA operators active in Lesotho loved the country and in particular the wildness compared to SA • They reported that clients who overnighted in Lesotho rated it generically for; wildness & beauty, cultural interaction (village stayovers etc.), adventure, general friendliness and specifically as activities - hiking and pony trekking • The major 'tick' on the travel list (as a marker) is Sani Pass, the highest in southern Africa and a drink at the highest pub (reputedly) in Africa and of course a stamp in the passport for 'collectors'. Hence the large number of day trips up Sani Pass to tick all three. • Operators reported that in the past, booking campsites in Lesotho's national parks was disorganised (and sometimes the LTDC owned lodges too), phones were not answered & the system was not coordinated. • Operators seldom used Lesotho driver/operators as they were not trained guides, did not carry insurance, had vehicle reliability problems and no backup systems for breakdowns or other crises • The outdoor/adventure activities base in Lesotho needs to be expanded • The relationship with Lesotho Tourism at institutional level is generally poor

Source: Compiled from the Tourism Sector Assessment prepared for the DTIS Update 2012.

Table 8 below summarizes SWOT analysis of Lesotho tourism.

Table 8:SWOT Analysis - Lesotho as a Leisure Destination

Strengths	Weaknesses
• Relatively central in South Africa with access from several provinces • Only mountain culture in southern Africa with pony trekking • Rustic experiences that are not available in South Africa • Good value for money (budget accommodation) •	• Inadequate policy and regulatory environment to attract private sector investment in tourism sector. Infrastructure and access challenges getting to and within Lesotho • Lack of product diversity compared to South Africa • Insufficient country and destination information • Undiversified accommodation segment • Poorly marketed • Unstandardized quality of service & low service ethic • Shortage of conserved/protected area space • Long waits at some border posts • Lack of tourist information desks at major ports of entry.
Opportunities	**Threats**
• Untapped adventure activities • Dams that are virtually unused for leisure purposes • Untapped trails and bridle paths that could be extended countrywide • Large SA market in Gauteng, KwaZulu Natal (KZN) and Free State provinces • New paved roads will expand 2x4 wheel drive tourism potential • Possibility for expanded winter activities • Possibility of paving Sani pass which will open up a larger market from KZN province in South Africa	• Attracting high negative impact, low value tourists • Exclusion of rural communities from tourism benefits • Failure of government/LTDC to remove obstacles/ red tape to support enterprise development and product expansion in rural areas • Continued development of competing (& non-demand driven) state owned accommodation

Source: Compiled from the Tourism Sector Assessment prepared for the DTIS Update 2012.

5.4.3 Conclusion and Recommendations

Notwithstanding the constraints mentioned above, there are signs that tourism might be on the cusp of a new era. Currently, the NSDP has highlighted tourism development as a government policy objective. Donor programs directed at trade liberalization, improvement of infrastructure, and reform of the business environment all have the potential to exert a positive impact on tourism development as well. The MTEC has had an unprecedented 20% increase in its annual operating budget. The Government needs to create jobs for the unemployed men, women and youth, and tourism development has the potential to create a significant number of jobs.

There is an urgent need to assist the MTEC and LTDC aimed at reforming the way the way they operate and implement changes for advancing the tourism sector. This will empower them to engage productively with the private sector, enter successful partnerships, support community development and employment and manage the impacts of tourism on the physical and cultural space.

There is a need for MTEC and LTEC to jointly formulate and implement a corporate strategy and business plan that will address systemic issues in the enabling environment for tourism development. This process could include:

A corporate review of MTEC and LTDC attitudes and behavior to identify the roles and outputs required to transform them into accountable, enabling and business oriented institutions;

A legal review to advise and execute the consolidation of all tourism enterprises, leases and assets part or fully owned by the government, allowing centralized management, jurisdiction and executive control over the assets, with a view to ultimately selling them;

An environmental review to identify (and remove) contractual clauses bureaucratic procedures or monopolistic control that are obstructing Lesotho's use of its dams for a wide range of environmentally acceptable/ manageable water-based tourism activities;

Aquarterly meeting between private sector tourism business owners, the Minister of MTEC and CEO of LTDC to compile and address a specific list of bureaucratic or legal mechanisms/ constraints (based on private sector experience) which are impeding tourism enterprise development;

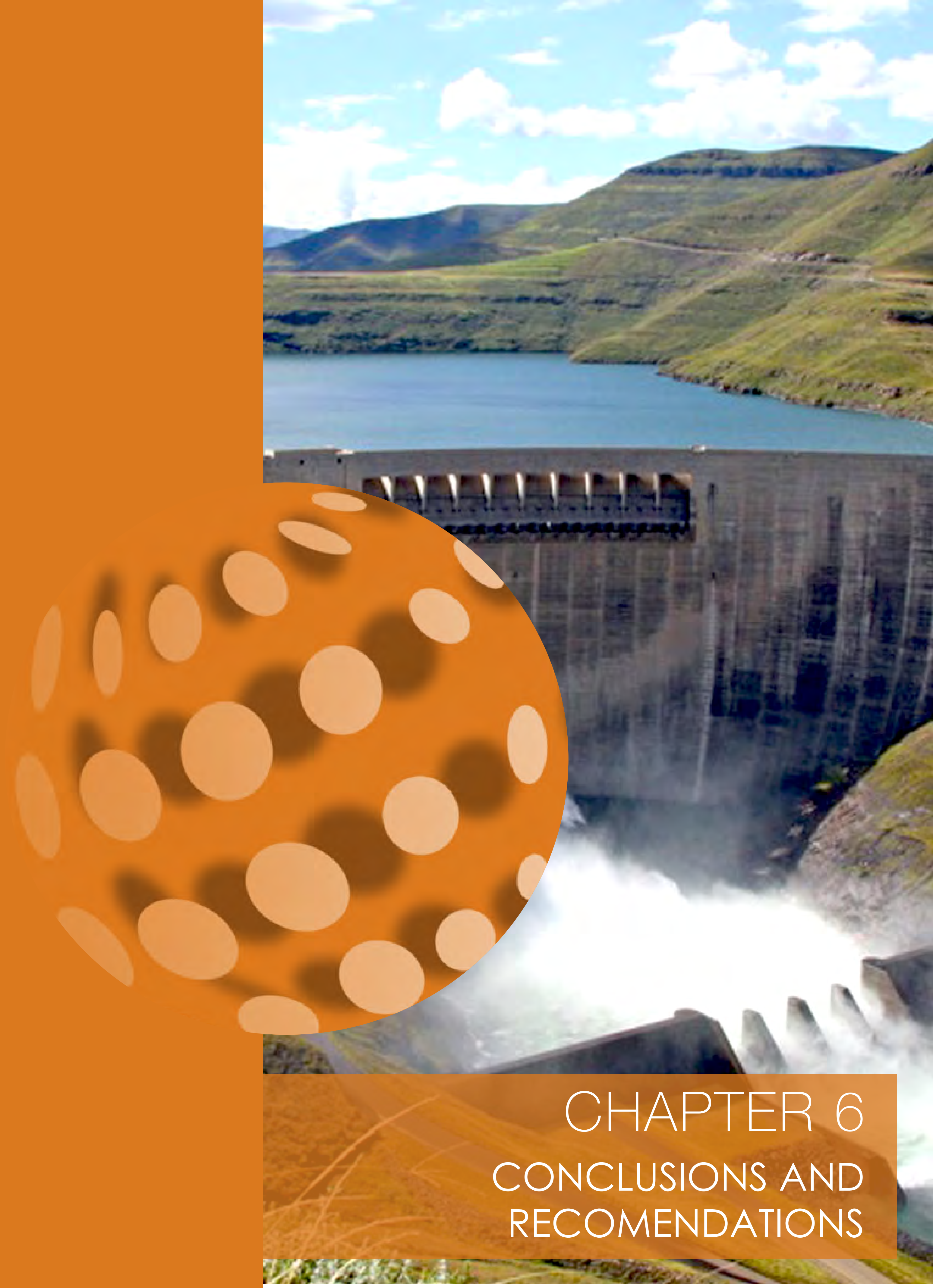
A workshop to review the 2007 Tourism Strategy and the UNDP and WTO 2006 reports focusing specifically on interventions that are cost effective and how they can be incorporated into the short to medium term development framework for Lesotho;

Development of a national framework and plan for utilizing Lesotho's extensive national trail networks for hiking and pony trekking along the lines of best practice in mountain tourism destinations (A product unique to Lesotho in southern Africa);

Dissemination of the strategy and business plan to all stakeholders; and

Marketing of tourism as a unique tourist destination.

There are also areas where interim actions could be taken to show immediate results. They are (i) assistance with implementation of tourism levy system and the creation of a mechanism where these funds are ring-fenced and used only for national marketing purposes or possibly to fund some of the costs of running private sector tourism chambers; (ii) develop a bespoke marketing strategy for South Africa, Lesotho's major tourism market with specific focus on the targeted tourist segments; (iii) design and publication of a printed and Internet tourism map of Lesotho with properly specified information and cartographic detail for the two media formats; (iv) complete overhaul of Tourism/Visit Lesotho presence and brand on the Internet; and (v) a report on how the extensive market research conducted by South African Tourism (both domestically and internationally) can be used to Lesotho's maximum advantage in research, reporting and strategic marketing.



CHAPTER 6
CONCLUSIONS AND RECOMENDATIONS

6.0 Conclusions and Recomendations

6.1 Summary Conclusions and Implications

Over the last decade Lesotho achieved a relatively robust rate of economic growth (in terms of GDP), but this was not sufficient enough to reduce income inequality. Income distribution worsened (Gini coefficient reaching 0.66) instead of improving due to weak inclusiveness in the economic growth process. Lesotho performs relatively well with an index score of 0.685 and a rank of 102 by Gender Inequality Index. Women can be found holding higher civil service and political positions. However, women, particularly in rural areas, have long been disadvantaged by cultural traditions even though they play a vital role in the economy (35% of households are female-headed). The Legal Capacity of Married Persons Act 2006, Land Act and Companies Act 2011 have strengthened women's legal rights in property and business related matters. On the other hand, there are unemployed mine workers and rising youth population seeking for jobs. The macroeconomic outlook for the medium term is good but the economy needs to promote inclusive economic growth and poverty reduction through more value adding industrial and service activities in the country, which will create jobs for men, women and the youth. To achieve this, the country needs to further improve the enabling environment for trade, investment and export expansion.

Achieving export competitiveness and export-led growth is crucial for Lesotho's future welfare. With a small domestic market, Lesotho needs to leverage its economic proximity to South Africa, SACU and SADC, as well as to the EU and US through advantageous trade arrangements and the rest of the world. The type of investment Lesotho has attracted to date has limited local and regional supply linkages and continues to be dependent on preferential market access.

The Africa Competitiveness Report (2011) observes:

"The continent has made genuine progress in first-generation reforms. But to further boost competitiveness and increase volume and sophistication of exports, Africa must tackle much tougher second-generation reforms. Two strategies can help the continent achieve this goal: diversifying its product and market base, and capitalizing on its own underutilized resources: managerial skills, female entrepreneurship, and natural and cultural resources... The major cross-cutting policy areas that constrain Africa's competitiveness across all main industry groups include those that increase indirect costs – trade logistics and infrastructure; and those that relate to poor business environments – access to land, availability of skills, and ability to absorb technology."

These observations are especially pertinent to Lesotho, which has embarked on some good initiatives, but it must deepen the reform actions, complete them and sustain their impacts. Only by attracting investment for increasing sophistication will the country diversify its export sector, which it must do to weather market upsets and changes in trade preferences.

Table9 below summarizes key SWOT related to trade sector development and mainstreaming in Lesotho.

Table 9: Illustrative SWOT Summary for Further Trade Integration and Export Expansion

Strengths	Opportunities
• Political stability and commitment for long term sustainable economic and social development as stated in National Vision 2020. • Located next to South Africa which has large domestic market and good physical infrastructure. • Lesotho's membership of SACU and SADC. • Natural resources – e.g., minerals, water, and tourism resources, e.g., scenic highlands, winter sports, rich Basotho history and culture, and clean environment. • Educated labor.	• Market access opportunities from regional and multilateral trade integration and bilateral economic partnership agreements. • Locational advantages for integrating with value chains in South Africa and making use of efficient physical infrastructure. • Stable labor market and relatively low cost labor compared to South Africa (with large labor force with high proportion of youth). • Export diversification potentials through developing small businesses and commercial farming clusters and textiles. • Potential for tourism promotion by linking with tour operators in UK, US, Europe and South Africa and branding and marketing through regional and international media.
Weaknesses	**Threats**
• High cost of doing business arising mainly from cumbersome and inefficient bureaucratic procedures and incomplete reform processes. • Weak institutional capacities for trade policy research, policy making, negotiations at national level and trade promotion activities at district level. • Insufficient physical infrastructure for trade in the country. • Limited domestic market. • Less developed small and medium enterprises, due to mainly weak entrepreneurial and business management, lack of access to credit, and difficulty in linking with supply chains and export markets.	• Unsustainable fiscal deficits. • Impending loss of trade preferences. • More trade imbalances. • Deterioration in social welfare (primary heath, and education, social security) and income inequality • Increased unemployment • Environmental degradation.

Source: Compiled by the DTIS Update team.

National planning documents have consistently recognized the substantial economic benefits that would result from the expansion of Lesotho's international trade. The NSDP envisages export product and market diversification through the exploitation of opportunities provided by Lesotho's location, labor and access to regional and international markets. Furthermore, such export development and diversification should be inclusive so that the large proportion of the population (men, women and youth) benefits. Much has already been said in the NSDP about trade mainstreaming, its outcome will depend on how those stated policies for trade and export diversification will be developed and implemented. The implementation of the proposed policy and procedural reform and development actions presented in this report will lead to achieving many of the NSDP trade objectives.

There are multiple stakeholders in the trade and industrial policy related areas in the country, comprising the government ministries, private sector associations and nongovernment organizations. Ensuring adequate coordination among them is very important and at the same time challenging. There is more coordination required across government ministries, their departments and agencies, as the existing arrangements are not adequate. The general feedback from the private sector is that there is not enough consultation with the private sector in trade and investment promotion related policy discussions

6.2 Recommendations

As highlighted in preceding sections, given Lesotho's small domestic market size, trade integration and export diversification will be central to its socioeconomic development. Recent upsets in the world markets and Lesotho's vulnerability to these have highlighted the need for the country to develop a strategy based on diversification of products and markets, and not on at-will preferential schemes. Improving the overall operating environment will attract more stable and diverse investment that will foster local skills development and linkages while providing new employment opportunities for men, women and youth and revenues to the Government.

A commitment to continuing to improve the trade environment runs in parallel with the commitment to continue improving the business environment for promoting investment. Positioning Lesotho as the investment location of choice for a wider range of economic opportunities encompassing services and manufacturing and including agro-processing will require further strengthening of the legislation and institutions relating to investment, business registration, access to land and credit, industrial infrastructure, border administration, linkages, and international marketing.

It is crucial that Lesotho continues to streamline, make more transparent and automate processes and procedures, and that it develops in its Government a business-friendly attitude. Improving trade integration, promoting investment, expanding exports, and increasing economic diversification require the Government of Lesotho to commit to implementing the new Action Matrix for promoting trade, investment and export expansion.

The guiding principles for framing the new action matrix include:

(i) Make sure the already achieved reform actions under the 2003 DTIS are sustained to continue their impacts;

(ii) The on-going and remaining actions are completed;

(iii) New actions are fully implemented;

(iv) Stakeholders are adequately engaged in the implementation of the reform measures and development of export oriented and tourism activities;

(v) A high level inter-ministerial body will coordinate, oversee, and provide guidance to the implementation; and

(vi) Make use of existing institutional structure for (a) inter-ministerial coordination, and (b) facilitation of trade policy analysis.

There are several areas in the action matrix that require technical assistance for their implementation. A sector wide programmatic approach would be useful for Lesotho in implementing the program by mobilizing resources from the Government and development partners. Sector Investment Programs (SIPs) or Sector Budget Support (SBS) and Sector Wide Approaches (SWAs) were conceived to overcome weaknesses in the traditional project approach identified by donors and recipient governments in Africa during the 1990's. The underlying problem was the fragmented and uncoordinated activity by many donors in the same sector, often duplicating effort or providing competing policy advice, often with high administration costs. Sector or subsector based programs were designed to improve coordination, reduce transaction costs, and improve aid effectiveness.

6.3 Program for Promoting Trade, Investment and Export Expansion: New Action Matrix (2012)

The overall goal/long term impact of the program will be to contribute to achieving Lesotho's National Vision and NSDP objectives through trade and investment promotion that will facilitate export diversification and expansion and create jobs for Basotho people. The intermediate outcome will be more enabling environment for trade and investment that will attract and foster private sector investments and lead to export expansion.

The key pillars or expected outputs are:

(i) Strengthened institutional capacity for trade and investment policy analysis and implementation;

(ii) Increased trade integration;

(iii) Improved business environment; and

(iv) Improved trade infrastructure and logistics.

The key activities and interventions to achieve them will include 20 actions listed in the action matrix for the next phase of the DTIS process. Of them, 19 actions are under four focal areas: institutional capacity for policymaking and trade enhancement, regional and multilateral integration, the business environment, and physical infrastructure, and one for export oriented productive capacity expansion. The Action Matrix provides an indicative timeline for each action, and indicators to facilitate monitoring and evaluation. More precise timelines and monitoring indicators should be specified by the designated implementing agencies. The implementing agencies should include the relevant actions and program for their implementation in their respective annual work programs and budgets. (See the Program Framework and Action Matrix at the end of this chapter).

6.3.1 Strengthening Institutional Capacity for Trade

There has been no measurable progress in building the capacity in trade policy analysis of the MTICM and its specialized departments and supporting agencies. The lack of data, limited analytical capacity and the fragmented policymaking represent obstacles to more effective public-private debate within Lesotho and more effective participation in multilateral negotiations and trade. There is no consolidated strategic framework for trade and industry and no overarching body to focus attention on trade as the engine of growth for the country that would help outline strategies for regional and multinational negotiations, improving the business environment, marketing Lesotho as a desirable investment and tourism location, and applying scarce resources to developing the skills of the population.

To develop a successful trade policy for export expansion and diversification, the Government must cooperate with the private sector and civil society. Indeed, it must cooperate across ministries and agencies, in particular in exchanging information that will feed the discussions. The trade policy debate must be widened; it must consult across both industry and national policy interests, with a broad range of stakeholders that extends beyond large-scale traditional producers. It must be informed by evidence, provided by the best experts within and outside the Government. International experience and best practices must feature strongly in this evidence.

To address the above, three key areas for action are presented in the action matrix – trade data, analytical capacity, and consolidated strategic framework for trade policy and mainstreaming. Computerization and timely collection, processing and publishing of trade data would facilitate trade and revenue related analysis and discussions. However, LRA must ensure that it computerizes with all diligence, as this will have significant positive consequences for both policymaking and trade facilitation. Computerization of Customs must be a priority since it will reduce administrative costs, shrink leakages, improve performance, support compliance, and yield invaluable data for policymaking, all increasing revenues. It is also important that LRA develop a body of technical Customs officers who can always more efficiently facilitate the trade across border.

A trade policy analysis facility should be developed and integrated into MTICM under the direct supervision of the Department of Trade and or Department of Planning, but with strong ties to BOS, MF, MDP, LRA and MAFS. This facility will ensure continued quality trade policy analysis, regulatory impact assessments, and also research support to trade negotiations. Alternatively, inter-ministerial technical task teams could be appointed as and when necessary. This should be coupled with deeper and extensive public-private debate on trade policy and promotion issues. While each action identifies a government agency as its lead, the need for cross-agency cooperation and for the active inclusion and participation of business and civil society for the success of these recommendations cannot be overstressed.

In the new Action Matrix under institutional capacity, the MTICM takes the lead in addressing weak analytical capacity and fragmented policymaking. The newly developed MTICM Strategic Plan contains several recommendations that if implemented are likely to significantly improve the Ministry's capacity to formulate and implement a consolidated trade policy document. Drafting of such policy document may provide important sense of direction to enhancing Lesotho's exports. A framework trade policy would guide all negotiations and inform other policies through inter-agency cooperation and trade mainstreaming.

This component will require substantial technical assistance from development partners.

6.3.2 Regional and Multilateral Trade Integration

In terms of regional and multilateral integration, Lesotho needs to deepen efforts to harmonize Customs procedures, standards, rules of origin, and regulatory frameworks with SACU and SADC. TBT and SPS compliance will be useful to developing investment, production and exports. Current draft legislations on Standards and SPS measures are important steps. Further, there is a need and also opportunity for Lesotho to try to integrate its export supply with South African supply chains for both regional and international markets.

Under regional and multilateral integration, six actions are recommended, all with the MTICM taking the lead. Action 4 is to catalogue and prioritize the different trading agreements Lesotho is party to, in order to adopt a consistent approach across the board. This would aid in Actions 5 and 6, which aim to reduce economic and trading borders and increase harmonization within the SACU. Recommended action 7 is the implementation of a light and efficient quality management system to facilitate integration into regional and international supply chains. The last two actions concern international agreements; Action 8 with a view to preserving (at least temporarily) Lesotho's preferential advantage, Action 9 to reviewing the value of various WTO agreements for Lesotho.

Technical assistance will be required to assist the MTICM in the areas of TRIPS, SPS and other areas of WTO rules and related compliance.

6.3.3 Improving Business Environment

The country used the DTIS process in improving the business environment, private sector development and piloting some new crops. The areas that experienced substantial shortfall in achieving the reform targets fall under business registration, licensing, investor protection, obtaining construction permits, land leases, access to credit, trade facilitation/trading across border, and promoting industrial linkages. The implementation process has been arduous and slow. Several relevant legislative changes and new laws have been brought out, which were time consuming. Their full implementation will indeed lead to further improving business environment. Advancing the reform process will present Lesotho with further opportunity to attract additional investment for trade and export development and promote economic diversification.

It is also very important to improve business perception on the country, both externally and internally, in the pursuit of promotion trade and investment for expanding exports. Lesotho's external perception has not improved as evidenced by the trend in the relevant *Doing Business* indicators, competitiveness ranking, and the travel and tourism competitiveness indicators. These indicators imply that Lesotho's comparators have moved faster than Lesotho in improving their enabling environment and external perception regarding trade, investment and tourism.

The feedback from local business communities also underscores the fact that business environment, particularly in the areas of trading across border, access to finance, business registration and licenses, and cooperation between the Government and the private sector, has not improved. Ensuring faster implementation of the reform programs should be a priority.

The reform efforts thus far have not yet significantly influenced the respective performance indicators this may be largely because the newly brought out laws, and the stated policies and strategies of the Government have not been fully and effectively implemented.Many of the issues relating to business registration and licensing were meant to be addressed by the establishment of the OBFC, yet its ability to effectively achieve its full objectives is hindered by lack of institutionalization and adequate provision of human and financial resources.

Protecting investors is especially important for a country that needs to build and diversify its skills and production bases. There remains no consolidated policy or act to govern investment. It is understood that a new investment policy is being prepared.

Access to credit at a reasonable cost and time is very important to investors. Lesotho's credit market is unsophisticated and not geared to the needs of its Lesotho borrowers, which are largely small. Commercial banks find small businesses too risky. Microfinance institutions and leasing industry are not developed. In this area, the country is far behind its SACU partners. Providing citizens with a single legal identity, and the implementation of land titles, credit information and partial credit guarantee scheme should improve access to credit for small to medium size businesses.

New procedures in land registration are likely to simplify land registration, though a review of the legislation suggests restrictions on land holdings by foreigners may increase the cost of access to land for large projects. Efforts to streamline the processes and develop a functioning land market should continue, in particular through necessary amendments to land and building related laws, removal of stamp duty, computerization of land administration, and cadastral surveys.

Obtaining construction permits remains cumbersome and expensive, especially relative to the rest of SACU. Maseru City Council needs to simplify and provide the public with basic information such as the steps in obtaining a construction permit, the documents required, the fees involved, and other related matters through printed as well as electronic media. Moreover, urban migration has put increasing pressure on availability of land adjacent to existing industrial estates, and prospects for more LNDC sites are tenuous. Yet worldwide evidence suggests both industrial estate development and management are more efficient and better market-oriented when private.

A further six broad action areas are included in the matrix for improving the business environment, most under the leadership of the MTICM. Action 10 and 12 recommend the computerization of most Government-to-business services to obtain quality data for policymaking and improve delivery. Computerization will increase performance, save costs, and protect against manual errors and undue discretion. In part, the OBFC can act as a focal point for this, which already has a website (www.obfc.org.ls). The establishment of a plan of action to ease business in Lesotho is the aim of Action 11, perhaps the most politically and technically complex, but also a key tool in boosting Lesotho's prospects. By identifying bottlenecks, drafting solutions and pushing e-government, Lesotho can aim at becoming a top business destination. Actions 13 and 14 do not have the MTICM as the lead, as they refer to difficulties with land and the Environmental Impact Assessment. These are important as they can constrain investment, in particular for larger (often FDI) projects. The last area concerns labor, though the MTICM retains the lead: these recommendations aim to increase local skills, to create managers and entrepreneurs, a professional public service, and good governance.

This component will require technical assistance from development partners in all the key areas to further implement the ongoing reform actions and implement the new ones.

6.3.4 Improving Physical Infrastructure for Trade

The final section of the Action Matrix focuses on improving physical infrastructure for facilitating trade and promoting investment. The four actions recommended address the lack of industrial sites, water resources, and trading across border and trade logistics and ICT for improving trade facilitation.

Reviewing the role of LNDC in providing industrial sites and factory shells, role of private sector in site development and management, review of rents, provision of industrial zoning, and improvement of the supply of utilities are the key actions and interventions included in the matrix. Improving further water supply and sewerage facility for industry is another area that needs attention Also, considering the importance of commercial agriculture; the issue of water for agriculture (through irrigation) must be addressed. Indeed, there is an increased demand for agriculture water from the perspectives of food security and addressing the impact of climate change as rainfalls are more difficult to predict and rely upon for crops and livestock farming.

The other relates to logistics and ICT for trade facilitation. Computerization, capacity building, border administration for health and safety, tourist information desks, in addition to Customs all represent key areas for improvement. ICT infrastructure and related services need strengthening to operate automated and computerize systems for customs clearance and data processing in addition to communications. Key border crossing points may also need cold storage facilities for perishable goods. The work on the rail terminal and warehouse need to be expedited.

6.3.5 Export-Oriented Productive Capacity Development

Very little has been achieved in creating industrial linkages and broadening the industrial base which could supply products and services for export. This in large part results from the 'self-sufficiency through their network' of larger companies which does not necessarily encourage local supply development. The related problem of weak entrepreneurial and business management skills is another constrain in the country which may be better addressed by encouraging foreign investors to provide appropriate training to their national employees, through a mix of incentives and obligation and by mobilizing the existing academic and training centers to conduct training activities which are linked to the demand in the market

Lesotho has also benefited from the product and institution level interventions under the IF and EIF programs. Some new crops have been successfully piloted. The MTCIM's capacity regarding DTIS implementation is being enhanced through the EIF unit. This process also contributed to trade mainstreaming in the NSDP. The challenge as well as opportunity now is to ensure the trade related component in the NSDP are effectively implemented, and the piloted products and schemes are replicated and rolled out to private sector in the other districts. Furthermore, the three sector reviews confirm that there are numerous opportunities to build on the success or progress so far but their findings underscore the need for improving the policy environment first to attract private sector investments in horticulture/ commercial agribusinesses, textile and garments, and tourism.

In addition, to pursue the DTIS approach further, it is recommended that the MTICM working closely with the MAFS, MF, MDP and private sector representatives, develop and implement a strategy and implementation program for export-oriented productive capacity development (action 20). This would include: identification of key products, key actors and mentors, results-oriented entrepreneurial skill development training for small businesses in districts, access to finance, extension services, and marketing support. Further work will be required to ensure effective sequencing and coordination and monitoring. A draft outline for export-oriented strategy and program formulation is given in Annex 3[51].

This component of the action matrix will require technical assistance from development partners in two phases: (i) to assist the sector ministries in developing strategy for expanding export supply capacity in horticulture, textile and garments, and tourism development in a systematic and detailed manner; and then (ii) to implement the strategies and related action plans.

6.4 Implementation Arrangements

A high level inter-ministerial body is necessary to oversee, and guide the implementation process. It is expedient that already existing and well-functioning government initiatives should be used with some extension or fine tuning as may be necessary, rather than creating whole new structures. The existing institutional structures are namely the IMTT and SACU National Committees and sub-committees discussed above. These structures should become the anchors for inclusive trade policy formulation. Under the IMTT a special sub-task team or working group could be formed to deal exclusively and effectively with trade policy issues and business environment improvement. The sector level issues such as customs and agriculture could be dealt with through the existing SACU structures. These new and additional sub-task teams should extend their participation to a much wider set of stakeholders including the private sector and much wider array of trade policy issues. The capacity to understand trade issues should be built up across Government, business and civil society in order to develop a sustainable reform effort and joint commitment to future prospects. The above task team should be supported by a group of technical experts selected from each participating ministries, departments and government agencies (e.g., LAA, LRA, LNDC, OBFC).

The MTICM has played a very important lead role and has garnered useful lessons that have the potential to enhance the effectiveness and advance the reform process aimed at improve the enabling environment for trade and investment. The creation and operation of the OBFC is a good example of how a concerted effort and coordination among the key stakeholders under the leadership of the MTICM could make the business registration and licensing easier and improve the delivery of related services to the private sector through a 'one stop' facility.

The EIF Unit, MTICM, should continue to play the key coordinating role in the new DTIS action matrix implementation. At the MTICM level, there is the NSC for the EIF, which could be mobilized to guide and oversee the implementation under the MTICM's leadership. The NSC, as envisaged, can trouble-shoot, provide guidance and coordination in related fields as it comprises government agencies, private sector, NGOs and donor coordinator. The NSC and EIF Unit should also regularly brief the IMTT or the National Committees on the progress and constraints in implementing the new action matrix and export capacity expansion programs. The NSC could be strengthened with participation of the newly created Ministry of Development Planning and heads of specialized agencies such as LRA, LAA, OBFC and heads of the key departments like Industry, Standards and Trade.

Technical Assistance Requirement

The implementation of the proposed actions and the development of sector/subsector level strategies and their implementation will require additional technical expertise and financial resources from international cooperating partners and development agencies.

A sector wide programmatic approach may be considered for pooling government and development partners' assistance to implement the program in a coordinated and efficient manner.

51] This is meant to facilitate development of a detailed scope of work for preparing the recommended export strategy, this outline itself is not an export strategy outline.

Promoting Trade, Investment and Export Expansion: Program Framework and Action Matrix

LEVEL	STATEMENTS		MONITORING INDICATORS
Goal/Impact	• Contribute to achieving Lesotho's National Vision and NSDP objectives through trade and investment promotion that will facilitate export diversification and expansion and create jobs for Basotho people.(L)		GDP growth rate Per capita Income Gini coefficient
Intermediate Outcome	• More enabling environment for trade and investment that will attract and foster private sector investments and lead to export expansion. (M)		Increase in private sector investment Increase in exports New exported products New export markets
Key Pillars/ Outputs	• Strengthened institutional capacity for trade and investment policy analysis and implementation (M)		Quality issues papers, position papers for negotiations, regulatory impact assessments,
	• Increased trade integration (M)		Increased volume of export within and outside the region
	• Improved business environment (M)		Reduced time and cost for starting business, licensing, and investor services
	• Improved trade infrastructure and logistics.(M)		Reduced cost and improved efficiency in trade facilitation, and supply of utilities for industry and agriculture.

INSTITUTIONAL CAPACITY: NATIONAL POLICY MAKING AND TRADE ENHANCEMENT			
Barrier or Opportunity	**Policy Action and Timeframe (Short, Medium or Long term)[3]**	**Responsible parties**	**Monitoring indicators**
1. Insufficient trade data for policy analysis	• Computerize trade data collection, compilation and analysis (S) • Integrate data reporting with SACU (M) • Publish trade data in a timely manner (S)	LRA, BOS, MF, MDP, MAFS LRA, BOS, MTICM, MF, MDP LRA, BOS	More efficient Customs operations (reduced time and cost for customs clearance) S tandardized, up-to-date, and reliable trade and revenue data
2. Weak analytical capacity in support of trade and investment policy and negotiations	• Develop trade policy analysis facility in MTICM, and establish clear lines of communication (see also Policy Action #3) with the MF, MDP and other relevant ministries. (S) • Expand and train staff in trade policy analysis, planning, promotion and negotiations (M). • Deepen public-private dialogue.	MTICM, MF, MDP, MAFS MTICM	Staffed trade policy analysis unit Exchange of information Policy papers Joint training, joint reports
3. Fragmented trade policy making	• Implement an inter-ministerial coordinating body with specific work program and timeline for trade policy related discussions and decision making (S) • Set up technical working groups to support the committee by undertaking analytical work. • Prepare a single consolidated Trade Policy • Framework document and publicize it(M)	MTICM, MF, MDP MTICM, MF, MDP MTICM MTICM	Inclusive committee set up Itemized agenda, realistic timelines Consolidated trade policy document

REGIONAL AND MULTILATERAL INTEGRATION			
Barrier or Opportunity	**Policy Action and Timeframe (Short, Medium or Long term)**	**Responsible parties**	**Monitoring indicators**
4. Multiplicity of trade arrangements	• Catalogue trade arrangements,, prioritize in light of overarching trade policy and related preferences (S) • Develop negotiating positions for each (M)	MTICM, LRA	SWOT analysis for each arrangement Clear list of advantages to preserve Consistent position briefs
5. Excessive economic borders and inconsistent regulatory frameworks within SACU	• Establish national priorities within SACU (S) • Actively pursue opportunities for positive harmonisation and cost-saving (taxation, certification, and information.) (M)	MTICM	Review of best regional practices Proposals to leverage, match or better these Greater administrative integration
6. SACU tariffs, SADC rules of origin, use of de facto joint trade measures	• Identify SACU, SADC and tripartite free trade negotiation bottlenecks and set position for each (S) • Lobby SACU and SADC for trade liberalization (M)	MTICM MAFS, LRA MF, MTICM	Lower barriers on international imports More access to regional supply chains Increased regional exports
7. Integrating into regional and international production networks	• Implement business-friendly, national infrastructure and efficient quality management system (S) • Leverage RSA capacity (physical facilities and training) on SPS and TBT (S)	MTICM MTICM/MAFS	More consumer protection More export opportunities Lower administrative costs
8. International preferences	• Develop negotiating position to preserve needed preferences in light of RSA-led bilateral negotiations (M)	MTICM	Clear position on double-transformation, duty- and quota-free access, reciprocity. Increased access to global markets
9. International (WTO) agreements	• Review TRIPS, GATS, GPA for potential opportunities for the country and domesticate /internalize relevant provisions(M).	MTICM	Improved FDI attractiveness Economic diversification

IMPROVING THE BUSINESS ENVIRONMENT			
Barrier or Opportunity	**Policy Action and Timeframe (Short, Medium or Long term)**	**Responsible parties**	**Monitoring indicators**
10. Dispersed and unreliable data on business regulations	• Computerize and improve the data compilation and dissemination systems of OBFC, LAA, LNDC, LTDC, LRA and other business service and utility providers (S)	OBFC, MTICM, MF, MDP, MTEC, LAA, LRA, LNDC, LTDC	Up-to-date and reliable data and information regularly published and made available online.
11. Poor regulatory and investment environment	• Implement an inter-ministerial coordinating body with specific work programme and timeline for improving business environment (See 3 above) (S) • Strengthen investment promotion and investor protection systems (M) • Expand and train staff in applied economic analysis and regulatory impact assessment(M) • Formulate and implement an Ease of Business Action Plan and an electronic filing across government (S) • Strengthen corporate governance by fine tuning the Companies Act 2011 (S).	PM Office, MTICM MTICM, MF, MDP MTICM, MF, MDP MTICM, MJHC	Inclusive committee set up Itemized agenda, realistic timelines High quality technical analyses undertaken and policy papers produced. *Ease of Business* Action Plan prepared and implemented E-government functions, cost savings realized. Improved corporate governance.
12. Difficulties in conducting due diligence about opportunities in Lesotho	• Refocus LNDC and LTDC to attract investors (S) • Institutionalize OBFC (S) and bring its services online (S) • Create and run a fully-fledged credit information system by implementing the new legislations on credit bureau and data protection and creating financial market legislation(M)	MTICM. MTEC MTICM NBL	Single point of information Options for electronic forms, e-filing. More investor interest realized

IMPROVING THE BUSINESS ENVIRONMENT			
Barrier or Opportunity	**Policy Action and Timeframe (Short, Medium or Long term)**	**Responsible parties**	**Monitoring indicators**
13. Remaining rigidities in land market	• Deepen operations of LAA (S) • Provide LAA services to districts outside Maseru (S) • Fully computerize and bring land services online (M) • Review and streamline the role of local governments/authorities in land allocation for industrial use (S) • Review construction (building) permit rules and streamline procedures (S) • Remove stamp duty on property transfers • Simplify further and publicize (through printed and electronic media) the procedures and requirements for obtaining land and construction (building) permits from local councils/governments (S)	LAA, MLGC, MCC, MF	More land titling More land transfers More access to credit
14. Cumbersome Environmental Impact Assessment	• Review the 2008 Environment Act and implement changes to improve environmental governance. (S) • Introduce a list of activities which are subject to: (i) full EIA; (ii) partial EIA; and (iii) no EIA in relation to their nature and potential environmental effects. (S) • Streamline process for low-risk activities (S) • Expand responsible staff compliment (S) • Set clear assessor qualification criteria (M)	DOE/MTEC	Better targeted resources Quicker decisions More environmental protection More investment New profession

IMPROVING THE BUSINESS ENVIRONMENT			
Barrier or Opportunity	**Policy Action and Timeframe (Short, Medium or Long term)**	**Responsible parties**	**Monitoring indicators**
15. Inadequate labor skills, access to credit, poor work ethic, low entrepreneurship, and worker discontent	• Work with industry and investors to commit to on-the-job training and to promoting Basotho to higher positions (S) • Work with industry, banks, educational facilities, civil society to adapt the curriculum to market needs(M) • Work with banks to improve SMME access to credit using the credit bureau and data protection provisions under the new legislations. (S) • Work with banks on leasing under the new regulation. (S) • Encourage expatriate entrepreneurs to impart technical and managerial skills to national labor in the country (M) • Work with industry, educational facilities, civil society to develop the professional ethics of public service (L) and an active citizenry for good governance (L) • Address market constraints facing micro and small enterprises (MSEs), particularly rural women's enterprises: • Mobilize and pool officers from different Ministries/Departments that would gather (and deliver) relevant information (S); • Work with public and private institutions to improve MSEs access to credit, extension services, quality assurance/certification schemes, marketing channels (M).	MTICM, LNDC MTICM, MOET, MGYS MTICM, MOET,MGYS, MOLE MTICM, MF, MDP MTICM MTICM, MOET, MGYS MTICM, MGYS	More Basotho managers More Basotho projects More skilled workers, managers, businesspeople More Basotho entrepreneurs More formal SMMEs Improved work ethic (productivity) Skilled employment increased Corruption reduced Better service Ownership and empowerment

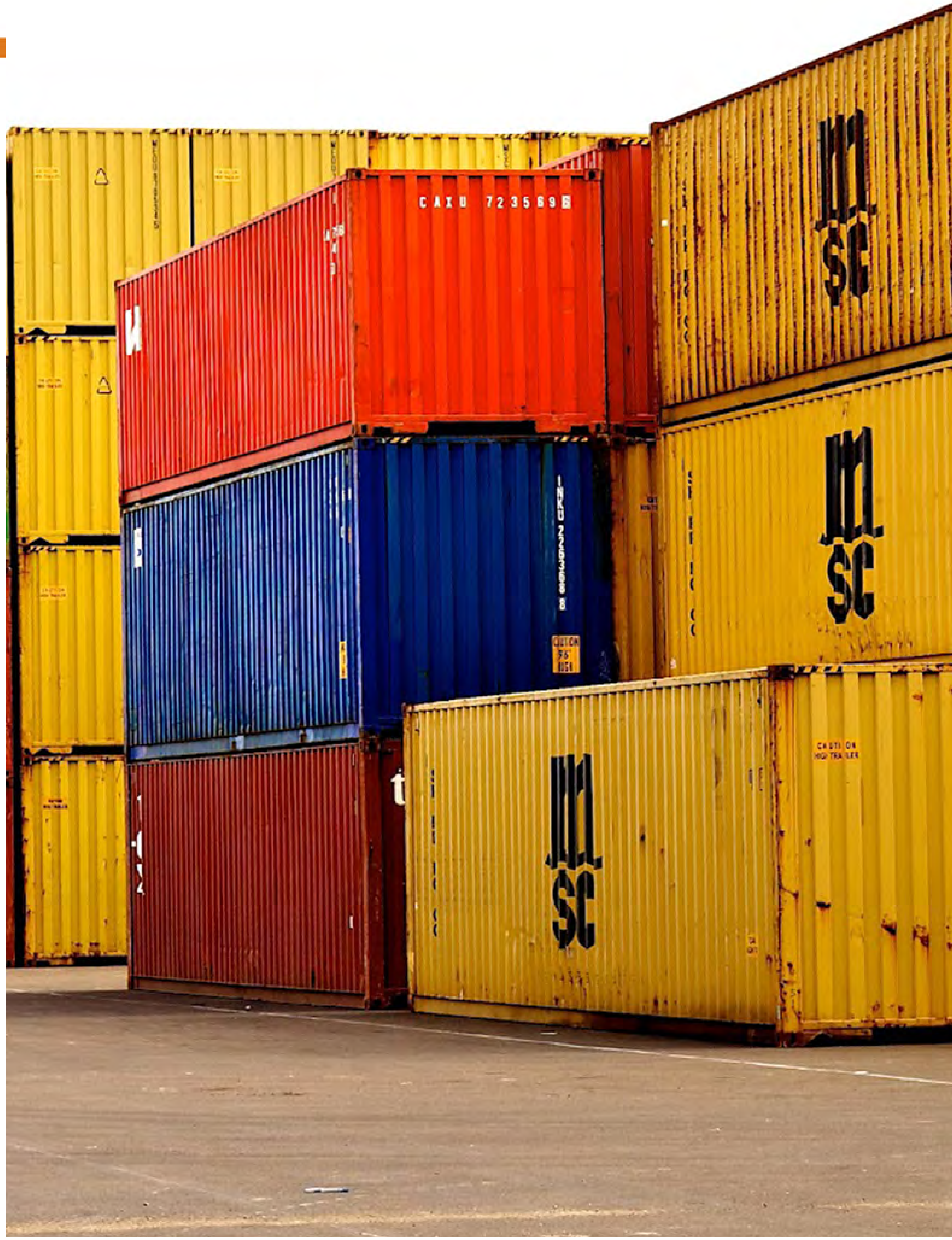
IMPROVING PHYSICAL INFRASTRUCTURE FOR TRADE			
Barrier or Opportunity	**Policy Action and Timeframe (Short, Medium or Long term)**	**Responsible parties**	**Monitoring indicators**
16. Lack of industrial sites	• Review the role of LNDC in providing industrial site development and management including sub-leasing of industrial plots to private sector(S) • Review industrial site rent subsidies (S) • Develop careful industrial zoning plan4 (S) • Work with utilities suppliers on improved, cheaper services (M) • Foster private enterprise in site building and maintenance (L)	MTICM	More industrial sites Better-suited, private sites Sensible development of industrial sites Government cost savings
17. Water Resources	• Deepen efforts to save, clean and recycle water, especially from industry (M) • Reduce non-revenue water (M) • Develop water supply for commercial agriculture (by implementing an irrigation policy)	WASCO MAFS, MEMWA	Increased coverage and reserves Irrigation Policy document.

IMPROVING PHYSICAL INFRASTRUCTURE FOR TRADE			
Barrier or Opportunity	**Policy Action and Timeframe (Short, Medium or Long term)**	**Responsible parties**	**Monitoring indicators**
18. Trading Across Borders (Weak Trade Facilitation)	• Improve customs procedures, move towards a single window system and strengthen capacity: • Computerise Customs procedures to reduce documentation, delays and discretions (S) • Build capacity of Customs officials at border posts (S) • Pursue risk-based management (S) • Lobby RSA for joint border crossing points and more commercial border control points (M) • Improve physical facilities at main border control points including road widening (M) • Set up National Plant Protection Offices at Border Posts to check incoming consignments for purposes of SPS (S) • Build capacity of the Plant Protection Unit of MAFS (S) • Put up Tourist Information desks at key border crossing points.	LRA MTICM MPWT/LRA MAFS, MF, MDP MAFS	Time and cost savings (also for LRA) Standardized procedures Professional Customs service Administrative cost savings Increased trade opportunities Improved trade facilitation. Improved plant protection. Plant Protection Units are up and running. Tourist information at key border points desks are up and running.

IMPROVING PHYSICAL INFRASTRUCTURE FOR TRADE			
Barrier or Opportunity	**Policy Action and Timeframe (Short, Medium or Long term)**	**Responsible parties**	**Monitoring indicators**
19. Trade and transport logistics for better trade facilitation	• Computerise Customs to standardise and streamline procedures (see also above in 18) (S) • Work with SARS to ensure compatibility (S) • Lobby RSA for better transportation rights (for Lesotho taxi, freight) (M) • Strengthen logistics capacity by professionalising the industry (L) • Strengthen ICT infrastructure and related services.	LRA MTICM, MPWT MST	Users and LRA save time and money Administrative cost savings, better data New profession New business opportunities Cost savings Improvement in services and reduction in costs for users.

EXPORT ORIENTED PRODUCTIVE CAPACITY EXPANSION			
Barrier or Opportunity	**Policy Action and Timeframe (Short, Medium or Long term)**	**Responsible parties**	**Monitoring indicators**
20. Strategy and implementation program for export oriented productive capacity expansion	• Formulate a strategy and specific action plan to develop horticulture, textiles and tourism drawing on the experience of the pilot projects; the sector reviews and additional analysis as may be necessary (see Annex3 for a draft outline) (S). • Mobilize and pool technical and financial resources from the Government, development partners and the private sector for the implementation (S) • Implement the above in a properly sequenced and timely manner with result indicators and regular monitoring (M)	MTICM, MAFS, MTEC, MF, MDP	Diversified exports More job opportunities for men, women and youth across the country Sustained natural resources and protected environment Increased contribution of exports to national income

Note: Please see the List of Abbreviations for the acronyms



List of Key
Stakeholders Consulted

ANNEX 1

Annex 1: List of Key Stakeholders Consulted

Name	Position and Institution	Email Address	Telephone
Mr Lekonatsa Lichaba	Chief Executive, Ministry of Finance and Development Planning (MFDP), Private Sector Development Division	llichaba@finane.gov.ls	+26659147979
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Mr. Ramatlali Edward Nkhahlee	Chief Executive, Lesotho Tourism Development Corporation (LTDC)	r.nkhahle@ltdc.org.ls	26663008834
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Mr. Mohau Tsilo	Gender Officer, Ministry of Gender and Youth Sports and Recreation (MGYSR)	adv.tsilo@ymail.com	+26622314763, +26658011226
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Mr. Hlopho Mpeta	Acting Principal Secretary, MTICM	hmpeta@gmial.com,	+26622313533
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Mr. T.S.L. Mokhosi	Chief Executive, a.i. Basotho Enterprises Development Corporation	, ceo@bedco.org.ls	+26622312094, +26658745905
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Name	Position and Institution	Email Address	Telephone
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Mr. Ghabo S Thobei	Head, Economics Division, Bureau of Statistics		
Ms. Matlhaku Mokhethi	Senior Statistician, Bureau of Statistics		
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Note: *The above list does not include the (i) list of 200 + members of the local business communities and aspiring young entrepreneurs who participated in the regional consultations carried out in Maseru, Leribe, Mokhotlong, Theba Tseka and Mohale's Hoek; (ii) list of participants in the working session of the DTIS Update team with the National Steering Committee members and their representatives; and (iii) list of the MTICM management team to whom a debrief presentation was conducted at the end of the of the main mission at the MTICM conference room.*

List of EIF National Steering Committee Members

ANNEX2

Annex 2: List of EIF National Steering Committee Members

Name	Position	Institution	Address	Email	Telephone
Mr. Hlopho Mpeta	Acting Principal Secretary-EIF Focal Point	Ministry of Trade and Industry, Cooperatives and Marketing (MTICM)	P.O. Box 747 3rd Floor, Phase II, LNDC Centre, Kingsway Road Maseru 100	hmpeta@gmial.com	+26622313533
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Name	Position	Institution	Address	Email	Telephone
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Source: National Implementation Unit, EIF, MTICM

Draft Outline For An Export-Oriented Productive Capacity Development Strategy And Program Formulation

ANNEX3

Annex3: Draft Outline For An Export-Oriented Productive Capacity Development Strategy And Program Formulation

Context

1. **Context**
    - Lesotho's trade in goods and services
    - Trade and Export Development in National Strategic Development PlanIssues, opportunities and challenges
2. **Trade and Export Development and Diversification**
    - Strategic Vision
    - Strategic Objectives
3. **Strengthen Trade Policy and Promotion Institutions**
4. **Effective Engagement in Regional and International Trade Integration**
5. **Improve Business Environment for Promoting Investment in Export Oriented Production**
6. **Improve Trade Facilitation, including Customs Procedures, and Trade Logistics**
7. **Develop Productive Capacity in the Selected Priority Sectors - Horticulture/Commercial Agribusinesses, Textile and Garments and Tourism**
    - Sector Level Policy and institutional strengthening
    - Sector Specific Business Enabling Environment
    - Sector Specific Business Management Skill Development Training, Credit, Extension and Marketing Support
    - Gender mainstreaming and social inclusiveness
8. **Stakeholder Consultations**
    - Stakeholders' Views
    - List of Stakeholders Consulted
9. **Implementation Plan and Institutional Framework**
10. **Resource Implications:**
    - Human Resource Required
    - Financial Resource Required
    - Government Resources
    - Development Partner Resources
    - Private Sector Resources
11. **Monitoring and Evaluation**
    - Monitoring Data
    - Key Indicators for Monitoring
    - Evaluation of Outcomes and Impacts
12. **Dissemination of the Strategy and Program**

Diagnostic Trade Integration Study Update for Lesotho: List of References

ANNEX4

Annex4: Diagnostic Trade Integration Study Update for Lesotho: List of References

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1. Short term indicate immediate and or up to 3 years, Medium term = 3 to 5 years, and Long term = beyond 5 years,
2. See the Maseru Urban Planning and Transport study by the World Bank.
3. Short term indicate immediate and or up to 3 years, Medium term = 3 to 5 years, and Long term = beyond 5 years,
4. See the Maseru Urban Planning and Transport study by the World Bank.

Enhanced integrated Framework

for trade–related technical assistance for least developed countries