



Kingdom of Lesotho

Lesotho

National Trade Strategy

2021-2025



Export development is at the heart of the Government of Lesotho's vision of poverty alleviation and employment generation. As a small, enclaved, low-income country vying with structural challenges, Lesotho prioritises exports as sources of job creation and improved income in the long term through economic diversification and enhanced business competitiveness.

The Lesotho National Trade Strategy (LNTS) acts as a blueprint for the government, private sector and development partners in their joint efforts to expand the productive capacities of the country's Micro, Small and Medium Enterprises (MSMEs) in strategic export potential sectors. It identifies challenges that influence the long-term competitiveness of local businesses, provides responses to key factors and adopts a total competitive approach to help them succeed in the trade environment. The LNTS focuses on three priority sectors with high potential for export growth – Horticulture, Textiles and Apparel, and Light Industry. For each of them, it sets out strategic objectives to tackle obstacles that are preventing Lesotho MSMEs from realizing their full export potential.

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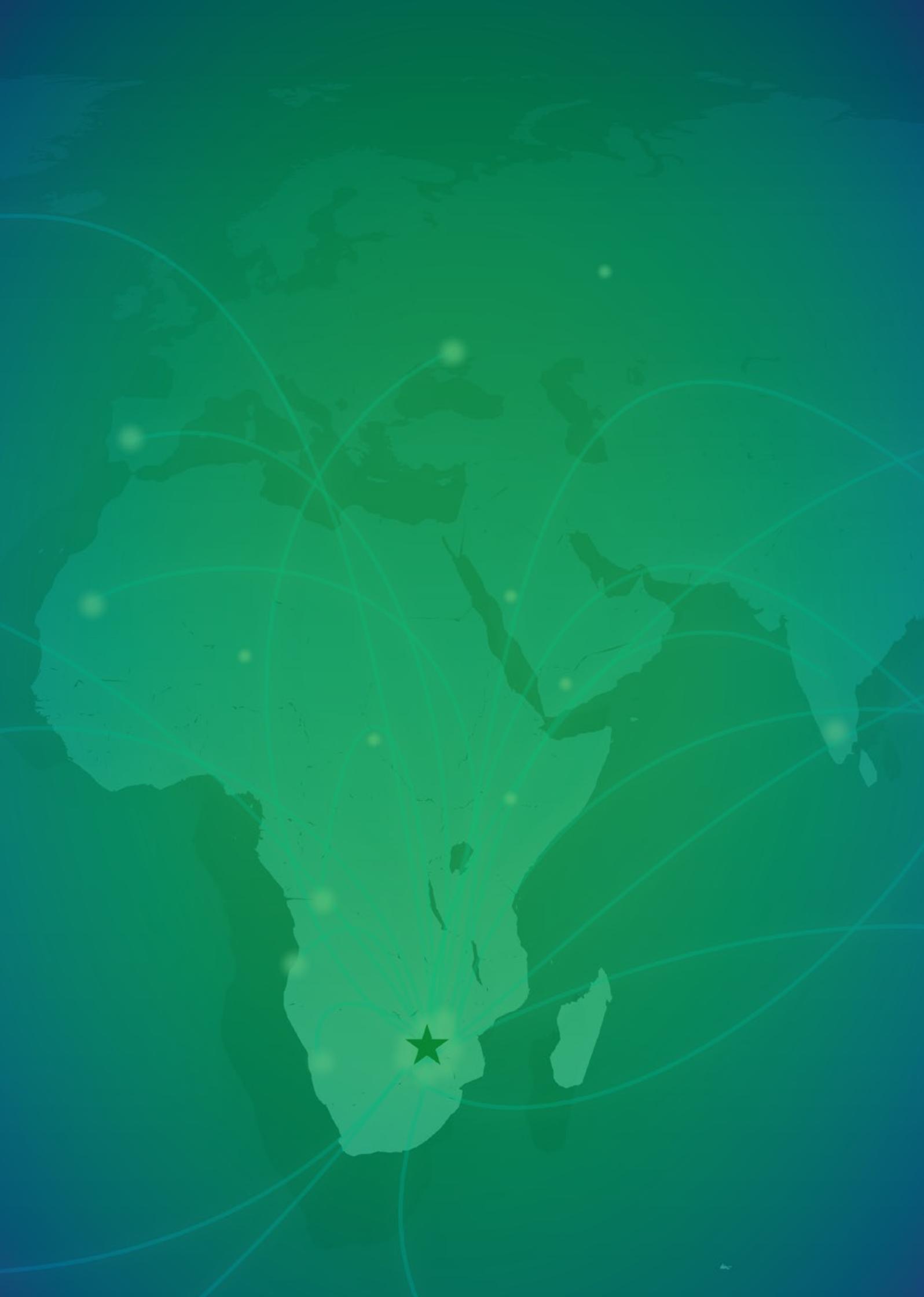


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FOREWORD BY THE MINISTRY OF TRADE AND INDUSTRY



The National Export Strategy (NES) was developed under the leadership of the Ministry of Trade and Industry, in close collaboration with trade-related ministries, parastatals, private sector, civil society and academia. This became a reality with the financial and technical assistance from the Enhanced Integrated Framework and International Trade Centre respectively. The NES is an integral part of the National Trade Policy Framework and it is aimed at strengthening Lesotho's export performance by enhancing trade and business environment as well as improving the competitiveness at the sector and enterprise levels.

The Strategy has been aligned to the national goals as articulated in the National Strategic Development Plan 11 for economic diversification to attain socio-economic and private sector development as well as effective trade and investment promotion. It provides strategic guidance in terms of where Lesotho is as an exporting country and where she needs to be in order to achieve the aforementioned milestones.

The Strategy is intended to stimulate private sector growth, taking cognisance of the potential impact that trade has as an engine of growth for countries with small domestic markets like Lesotho. It comes at an opportune time with much appreciation, particularly with the scourge of the Covid-19 pandemic whose effects are likely to change the Lesotho's economic landscape.

The development of this strategy was participatory and inclusive, hence the stakeholder engagement process that was followed was instrumental in identifying the priority areas for enhancing Lesotho's capacity to participate meaningfully in trade at

domestic, regional and international levels. I therefore strongly believe that the spirit in which this strategy was developed will be the same spirit in which it will be implemented.

As we embark on the implementation process of the NES, we will be working towards fulfilment of the following key outputs: (i) enabling business environment and competitiveness; (ii) product and market diversification; (iii) exporter development; and (iv) strategic export promotion. I therefore urge all stakeholders: government; private sector and other non-state actors: as well as resident and non-resident development partners to fully support the implementation of this strategy. The private sector should make the best use of the strategy as they can contribute positively towards economic growth, job creation, poverty reduction and sustainable development leading to the prosperous nation at large.

On behalf of the government of Lesotho, wish to express my sincere gratitude to the Enhanced Integrated Framework and International Trade Centre for their unwavering support towards development of this strategy.

Last but not least, I commend all the stakeholders for their time and knowledge they dedicated and contributed during the consultative process for the fruition of this strategy.

Honourable Dr. Thabiso Molapo
Minister of Trade and Industry

A handwritten signature in black ink, appearing to read 'Thabiso Molapo', written over a horizontal line.



FOREWORD

BY THE EXECUTIVE SECRETARIAT FOR THE ENHANCED INTEGRATED FRAMEWORK (EIF)



As I write this foreword, all countries are confronting a profound economic impact as the COVID-19 pandemic disrupts the global economy. From demand shocks to supply chain disruptions to significantly reduced income from exports, tourism and remittances, the situation is indeed grim for a small, landlocked, least developed economy with a high poverty rate and informal employment like Lesotho.

However, as desperate as the current situation is, the crisis also presents important opportunities. Lesotho can strategically advance its economic recovery agenda by undertaking much-needed planning and investment prioritization and implementing the reforms necessary in line with the National Export Strategy (NES) vision “Export Competitiveness for Sustainable Growth”. As such, this timely Government of Lesotho NES, developed with the technical assistance of ITC and the support of the EIF, and drawing on extensive public and private sector consultations, is expected to support Lesotho to address challenges and be agile in recognizing and taking advantage of new opportunities.

The EIF has learned many lessons from the COVID-19 pandemic, and I am pleased to see many of these lessons covered in detail in the NES’s analysis. This year, we have learned directly from the least developed countries (LDCs) the increasing importance of e-commerce, the need for better regional cooperation and the challenge of attracting limited foreign direct investment. Strengthening productive capacity and business ecosystems, as well as improving market connection and trade facilitation are needed to diversify exports – both at the intensive and the extensive margin – reduce trade costs, particularly for small- and medium-sized enterprises and improve competitiveness to make economies more resilient to shocks.

At the time of writing, world trade is showing signs of bouncing back from a deep, COVID-19 induced slump, although it can yet deepen based on how governments respond to subsequent waves of the pandemic and put in place measures that restrict economic activities. The WTO now forecasts a 9.2% decline in the volume of world merchandise trade for 2020, followed by a 7.2% rise in 2021, and yet even this modest cause for hope hangs in the balance. We are deeply concerned that, following historical patterns, the impact will be more severe on the LDCs, guiding economic and trade policy for the years ahead. This, alongside Lesotho’s struggle with the climate crisis, which directly impacts food security, trade and livelihoods, makes it critical to support recovery and resilience.

The analysis in this NES was completed prior to the onset of this global pandemic, but it is telling that the findings are more relevant now than ever. The findings on the importance of export diversification in the prioritized sectors of horticulture, textiles and apparel and the need to develop light industry with a view to building export capacity to be of particular importance is especially noteworthy.

The COVID-19 pandemic continues to challenge our societies and our economies, how we live and trade, presenting an unprecedented test of our ability to cooperate and build back better, together. I believe this timely NES offers Lesotho and its development partners a powerful tool to help prioritize the pathways to navigate through these challenging, changeable times.

Mr Ratnakar Adhikari
Executive Director of the Exec. Secretariat
for the Enhanced Integrated Framework



FOREWORD BY THE INTERNATIONAL TRADE CENTRE



Africa is at a turning point. While the rest of the world has been dealing with the consequences of mounting regional trade tensions, the continent's policymakers have been piecing together the foundations for the world's largest free-trade zone: the African Continental Free Trade Area (AfCFTA). This historic trade agreement is expected to boost intra-African trade, economic diversification, and inward investment. This is likely to have a transformative effect on the continent.

Meanwhile, the unfolding Covid-19 pandemic is likely to change the world in ways that are not entirely predictable. On the one hand, it is having a devastating impact on personal lives, economic activity and international trade. On the other, it has accelerated trends on digitalization, telework, and environmental protection. Social and professional interactions have also been transformed. When the dust settles, our world will be deeply transformed.

Lesotho's trade strategy is materializing at the crossroads of the AfCFTA, multilateral trade tensions, and the Covid-19 pandemic. During the implementation phase of the strategy, Lesotho is going to have to deal with these challenges and seize the opportunities that will in no doubt arise from them. Thanks to the trade strategy, the country is better prepared to adapt and can approach this new situation from a position of strength.

The pandemic has intensified the need for a strategic approach towards trade and investment. The scarcer the resources are, the more it matters how they are deployed. Trade and investment success hinges on being able to collectively make smart choices among alternative courses of action. The strategy does precisely this by providing a detailed roadmap for the public and private sectors

of Lesotho to work together on tailor-made actions towards a common vision for export competitiveness. Achieving its strategic objectives is intended to place Lesotho on a new economic growth trajectory that can support a more inclusive, sustainable, and resilient future.

The country's well-established textile and apparel industry constitutes a solid landing platform for more value enhancing investments in the sector. Meanwhile, existing agrobusinesses have considerable potential to boost productivity and to become relevant regional players. Lesotho's light industry can act as a catalyst for the local smart industries and technology-driven sectors. The emphasis of the strategy on small- and medium-sized enterprises aims to ensure that growth opportunities are broadly shared.

The International Trade Centre (ITC) wishes to acknowledge with gratitude the leadership of the Ministry of Trade and Industry of the Kingdom of Lesotho, and to welcome the enthusiastic involvement of the private sector in the design of this strategy. ITC also wishes to thank the Enhanced Integrated Framework for its support to this initiative.

ITC stands ready to continue to partner with the country to ensure the seamless implementation of the strategy and the attainment of its objectives.

Pamela Coke-Hamilton
Executive Director of the International Trade Centre

A handwritten signature in black ink, appearing to read 'P. Coke-Hamilton'.

ACKNOWLEDGMENTS AND DISCLAIMER

The Lesotho National Trade Strategy (LNTS) was developed under the aegis of the Government of Lesotho and in particular under the leadership of the Ministry of Trade and Industry. The Enhanced Integrated Framework (EIF) provided financial support and the International Trade Centre (ITC) the technical assistance.

The document benefited particularly from the inputs and guidance provided by the members of the Lesotho core team that steered the formulation of the LNTS, namely:

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The International Trade Centre wishes to acknowledge with deep gratitude the financial support provided by the Enhanced Integrated Framework, as well as the dedication of Zylfi HUSENAJ and Jesús ALÉS for general assistance and inputs for this document.



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This National Trade Strategy was developed following the process, methodology and technical assistance of the International Trade Centre (ITC) within the framework of its Trade Development Strategy programme.

ITC is the joint agency of the World Trade Organization and the United Nations. As part of the ITC mandate of fostering sustainable development through increased trade opportunities, the Export Strategy section offers a suite of trade-related strategy solutions to maximize the development payoffs from trade. ITC-facilitated trade development strategies and roadmaps are oriented to the trade objectives of a country or region and can be tailored to high-level economic goals, specific development targets or particular sectors, allowing policymakers to choose their preferred level of engagement.

The views expressed herein do not reflect the official opinion of ITC. Mention of enterprises, products and product brands does not imply the endorsement of ITC. This document has not been formally edited by ITC.

ACRONYMS AND ABBREVIATIONS

Unless otherwise specified, all references to dollars (\$) are to United States dollars.

AfCFTA	African Continental Free Trade Agreement	GNI	Gross national income
AGOA	African Growth and Opportunity Act	GSP	Generalized Scheme of Preference
ALEB	Association of Lesotho Employers and Business	GVC	Global value chain
ASYCUDA	Automated System for Customs Data	ICT	Information and communication technology
BEDCO	Basotho Enterprises Development Corporation	IMF	International Monetary Fund
CBL	Central Bank of Lesotho	IP	Intellectual Property
CFC	Common Facility Centre	IT	Information Technology
CMA	Common Monetary Area	ITC	International Trade Centre
COMESA	Common Market for Eastern and Southern Africa	LDC	Least Developed Country
CSA	Climate Smart Agriculture	LEC	Lesotho Electricity Company
DTIS	Diagnostic Trade Integration Study	LHDA	Lesotho Highlands Development Authority
EFTA	European Free Trade Association	LHPP	Lesotho Highlands Power Project
EIF	Enhanced Integrated Framework	LNDC	Lesotho National Development Corporation
EU	European Union	LNTS	Lesotho National Trade Strategy
FAO	Food and Agriculture Organization	LPI	Logistics Performance Index
FDI	Foreign direct investment	LRA	Lesotho Revenue Authority
FDI	Foreign direct investment	LSI	Lesotho Standards Institution
FTA	Free trade agreement	LSO	Lesotho
GAP	Good Agricultural Practice	MMF	Manmade fibre
GDP	Gross domestic product	MNC	Multinational corporation
		MSMEs	Micro, small and medium-sized enterprise
		NES	National Export Strategy

NGO	Non-governmental organization	TBT	Technical Barriers to Trade
NSDP	National Strategic Development Plan	TISI	Trade and investment support institutions
NUL	National University of Lesotho	TSN	Trade support network
ODA	Official development assistance	TVET	Technical and Vocational Education and Training
OECD	Organization for Economic Co-operation and Development	UMAL	United Manufacturer's Association Lesotho
PoA	Plan of action	UN	United Nations
R&D	Research and development	UNCTAD	United Nations Conference on Trade and Development
SABS	South Africa Bureau of Standards	UNDP	United Nations Development Programme
SACU	Southern African Customs Union	UNWTO	United Nations World Tourism Organization
SADC	Southern African Development Community	WDI	World Development Indicators
SEZ	Special Economic Zone	WEF	World Economic Forum
SMEs	Small and medium-sized enterprises	WIPO	World Intellectual Property Organization
SOP	Standard Operating Procedure	WTO	World Trade Organization
SPS	Sanitary and phytosanitary measures	WTTC	World Travel and Tourism Council
STDR	Strategic Trade Development Roadmap		
T&A	Textiles and apparel		

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EXECUTIVE SUMMARY

The Kingdom of Lesotho is a small, mountainous, landlocked country surrounded by the Republic of South Africa. As such, the economy is closely interlinked with South Africa through trade, finance, labour migration etc. Historically focused on exports and attracting inward investment, the country has relatively strong light manufacturing industry, export potential in horticulture and tariff-free access to several international markets. Micro, small and medium-sized enterprises (MSMEs) form the majority of businesses. Lesotho has ample opportunities to increase trade in a number of products and countries given the right policy environment.

This National Export Strategy (NES) is a joint response to orient Lesotho's trade development, to tackle constraints, and to embrace strengths and opportunities for export development in a tangible manner.

To realize the vision of "Export competitiveness for sustainable growth" over the following five years, this document identifies three strategic objectives:

1. Strengthening the competitiveness of the business ecosystem and improving trade facilitation

To successfully implement an export promotion strategy, diversification in terms of products and market cannot occur in a vacuum. Being a small, landlocked country, the size of Lesotho's market restricts the opportunities for firms to grow and exploit economies of scale. This restriction makes the quality of the business ecosystem central to the development of domestic companies, particularly SMEs.

This strategic objective focuses on improving the infrastructure, simplifying and streamlining customs procedures as well as optimising SACU's trade framework. A well-functioning business ecosystem eases the effort for entrepreneurs and investors to operate their business, boosts firms' competitiveness, and lowers the cost of doing business in the country. In short, strengthening the business ecosystem mitigates some of the costs linked to a small domestic market.

2. Intensifying existing trade relationships and diversifying the range of export destinations

Lesotho exporters rely on a small number of export markets, in particular South Africa and the US. This creates a risk in terms of the sustainability of exports and interruptions in demand from these markets. In order to increase exports, it is crucial for Lesotho firms to reach new clients and access new markets.

This strategic objective focuses on supporting Basotho companies in expanding to new markets by increasing awareness of opportunities, educating exporters about regulatory requirements in other markets and ensuring Lesotho is well represented in SACU's trade agenda, in particular negotiations. There is low awareness of Lesotho's various trade agreements and related opportunities. Educating exporters about standards and certification also plays a key role in the export strategy. A national branding initiative supports this objective.

3. Expanding the national productive capacity and diversifying the export basket

Lesotho's export basket is highly concentrated on a few relatively low value-added products and services. The country exports a small number of products in a small number of industries, mainly apparel and textiles, diamonds, water and agricultural products. As a result, the country's exports overly rely on a couple of products, with some of them being highly susceptible to weather and seasonal changes.

Expanding the national productive capacity requires strengthening SMEs by supporting their development and increasing their profitability. A combination of internal enhancements, boosting innovation, increasing access to vocational training and attracting selective knowledge-enhancing foreign investments as well as developing backward and forward linkages is proposed as the way forward. The emphasis of this objective is placed on the internal factors that affect the competitiveness of the firms.



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This export strategy has been formulated and agreed through extensive stakeholder consultations to guide the implementation of the NES in the next five years. It analyses key aspects of Lesotho's trade competitiveness constraints and offers ways forward and concrete action plans to overcome them. To maximize its impact on trade competitiveness, it combines actions that are expected to influence the wider economy with initiatives that target specific sectors of strategic importance. It focuses on the following three priority sectors to lead the country's trade development process: horticulture, textiles and apparel, and light industry.

The strategy includes an analysis of the trade and macroeconomic environment as well as the institutional landscape both at the national and sectoral levels. It adopts ITC's analytical framework to understand where competitiveness lies and how to improve them. The framework is built around three pillars – compete, connect, change – that drive the capacity to be competitive across three levels of the economy. Under the “way forward”, the key strategic framework of the NES comprising the strategic and operational objectives are conveyed. The strategy then offers detailed action plans for export development with a series of activities to implement in the short to long-term.

It is imperative that implementation follows these activities immediately to achieve the NES vision. The successful implementation of the strategy hinges on the ability of all public and private stakeholders to coordinate their activities, monitor progress and mobilise resources. Although this strategy is the first step to give the strategic orientation of Lesotho's trade development, the implementation of priorities and maintaining of public-private dialogue are crucial to gain momentum from the design process to the implementation of activities to have a positive impact and tangible results from the strategy.

PRIORITY SECTORS

This document aims to improve the capacity of Lesotho's private sector to compete in international markets, enhance the business ecosystem and strengthen the country's ability to use trade as an engine for growth. The following are the priority sectors identified to set this process in motion:

Horticulture

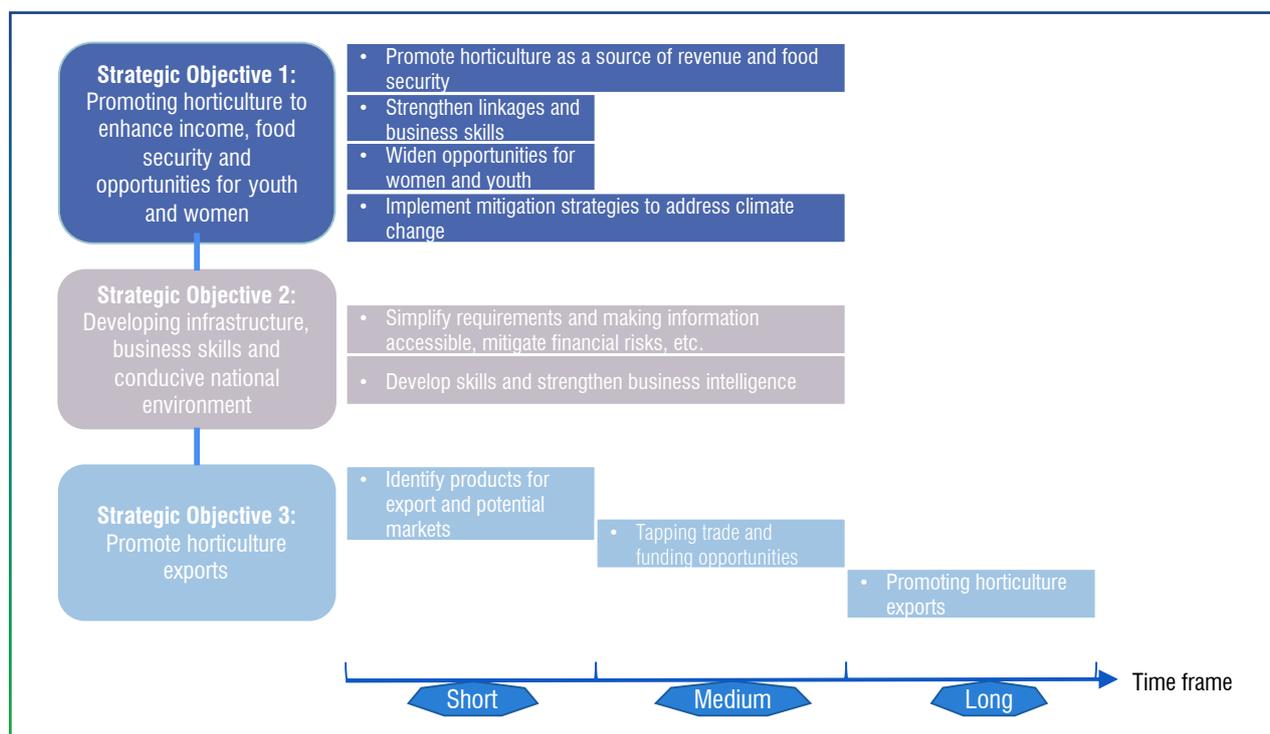
Horticulture has been identified as a promising sector for export development. Lesotho has the advantages of geographical location, climate, labour availability as well as free trade agreements/arrangements to allow competitive production and exports. Indeed, these attributes have enabled many developing countries to thrive in the horticulture export business over the years. However, a clear development strategy for the sector is needed in Lesotho.

Horticulture is also suitable for smallholder farmers, who constitute the majority of Lesotho's farmers. Recent studies have shown that demand for fresh fruits, vegetables, herbs and flowers in Lesotho is strong, and that, albeit with some challenges, even smallholder farmers can produce profitably.

The Government of Lesotho supports investment and development of the sector and takes steps in this respect. However, better integration of the different segments/authorities involved is needed to increase efficiency and create a significant impact. Capacity building, access to key inputs and information, and update of technical training are also important.

The horticulture strategy provides strategic directions to help the country attain its potential. The sector strategy sets out to achieve three interrelated strategic objectives, as elaborated and summarized below.

Strategic and operational objectives of the horticulture sector



Source: ITC and stakeholders' consultations

1. Developing and/or improving horticulture production as a source of income and a path towards enhancing food security and increasing job opportunities for women and youth

Understanding the potential improvements arising from intensive production systems, which can prove profitable in smallholdings, and generating jobs and income both from exports and import substitution will help drive policies, regulations and strategies in the public and private sectors. This is essential in achieving a regulatory framework and developing the necessary support for development in this field.

The strategy proposes improving information exchange among relevant stakeholders across the public and private spheres to improve the business environment and efficiency of the sector. Strengthening education and training geared at increasing the competitiveness of the horticulture sector is also proposed. Currently, there is little or no formal training in horticulture available to persons interested and a mismatch between the schooling offered at various levels and particular needs of the industry. An opportunity to address climate change and mitigation options was also identified.

The unemployment rate is very high in Lesotho, particularly among the young population. Cultural, economic and political barriers still hamper the devel-

opment of enterprises run by women, even if the law presently allows women to be independent and to even inherit and own land. Through greater awareness, better training and policies, horticulture has the potential to generate income, jobs and opportunities for Lesotho's women and youth.

2. Achieving appropriate infrastructure, business skills and a national environment conducive to development in horticulture

Commercialising horticulture produce is subject to various requirements related to food safety and quality, phytosanitary issues, sometimes certification and others. Complying with requirements involved can be cumbersome and often confusing. Technical production skills and a clear understanding of the market for horticulture products are essential to successfully comply with such requirements while ensuring sector development.

Some initiatives have already been set forth to develop this sector and these no doubt offer valuable information and experience. However, more work is necessary to achieve this objective. This strategy proposes simplifying compliance with the variety of regulatory requirements, creating finance and insurance lines to support horticulture projects, reviewing current duties and taxes applied to the sector and improving related



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infrastructure and inputs to ensure good quality production. Most of these activities are to be implemented in the short to medium-term.

3. To promote horticulture exports from Lesotho

Horticulture is an extremely large sector, comprising hundreds of different products. It is important to focus on production and work towards markets offering the best potential for Lesotho. In addition, horticulture is very different from traditional agriculture; it requires more precise planning, record-keeping and good knowledge of markets, seasonality, consumer market windows, varieties – where colour, shape and size of products are often very relevant but also other factors such as pest and disease resistance. These can be very specific for each crop, so producing a wide array of products can become inefficient at best, probably impossible. Whilst depending on one or two products poses risk, specialising in a range of products with good potential is advisable, at least as a start.

Lesotho is a beneficiary of various free trade agreements, incentives and exemptions, both regionally and globally. However, these are highly underutilized for horticulture products. The best options for horticulture products need to be more fully explored and later when export capacity has been developed, used to their fullest. Similarly, as an LDC, Lesotho has access to a variety of funds or financial aid options that can be used to develop horticulture production initiatives more fully.

Textiles and apparel

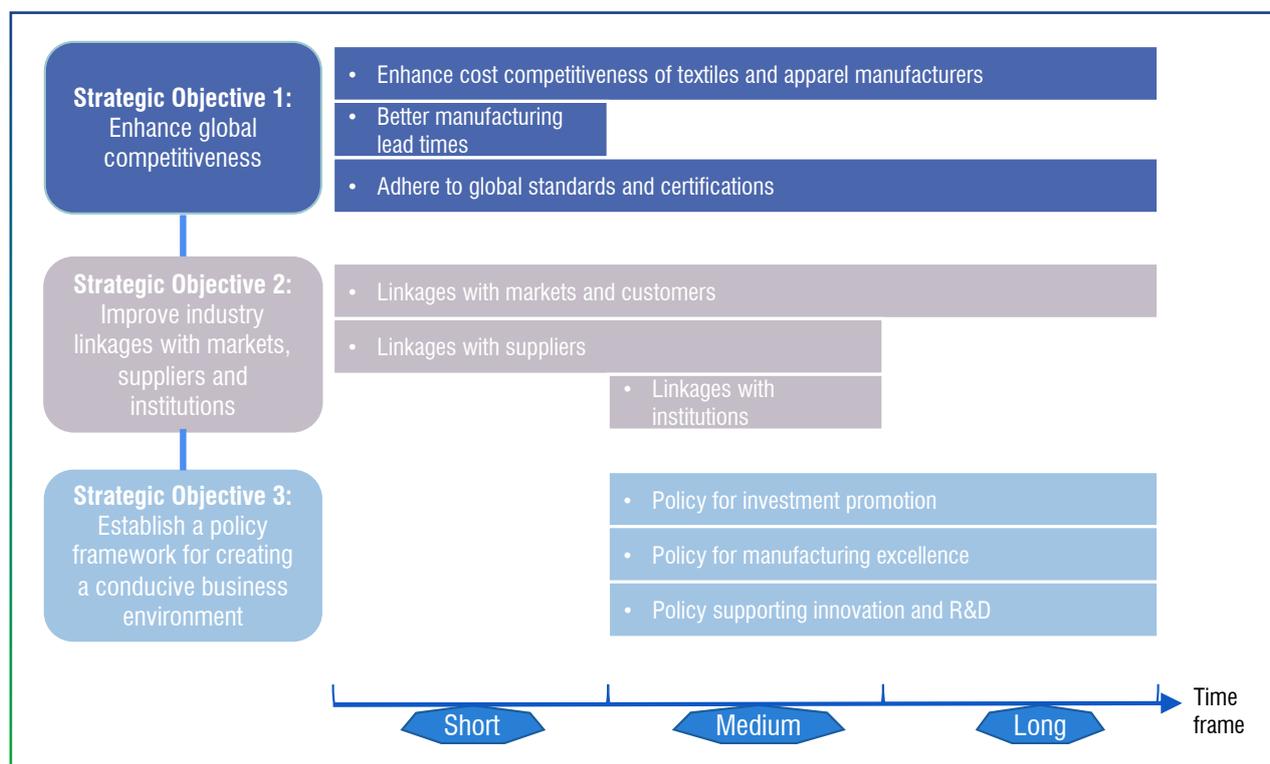
Lesotho's textiles and apparel industry has demonstrated strong performance over the past decade. It can be considered one of its strongest industries with a sound trade surplus and low dependence on import. Apparel manufacturing accounts for 85% of the total exports of the country and is the biggest private-sector employer in the manufacturing sector, employing primarily women. The major export markets are the U.S. and South Africa where approximately 92% of the exports are destined. Exports to both of these markets are duty-free under AGOA and SADC, respectively.

One of the key characteristics of Lesotho's textiles and apparel industry is negligible upstream capacities. There is only one company engaged in yarn and fabric manufacturing which is for internal consumption. As such, the entire yarn and fabric demand is met through imports from South Africa, Taiwan, China, India, etc.

Moreover, looking at the key export and import destinations indicates a very strong dependence on two markets: USA (63%) for exports and South Africa (94%) for imports. This is particularly volatile given that the American system of preferences for developing countries, which Lesotho heavily depends on (AGOA), is only guaranteed until 2025. Greater product and market diversification and improving private sector capacities are becoming increasingly essential.

The textile and apparel sector strategy identifies the competitiveness constraints faced by the sector and outlines three strategic objectives to tackle them. These objectives are summarized below.

Strategic and operational objectives of the textiles and apparel sector



Source: ITC and stakeholders' consultations

1. To enhance the textiles and apparel industry's global competitiveness

In order to increase textile and apparel exports, Lesotho needs to enhance the global competitiveness of its firms, particularly amid growing competition from low-cost Asian producers. The industry's competitiveness is influenced by constraints both at the firm and business ecosystem levels. In order to pursue progress in this area, this objective focuses on reducing the costs of production, testing and certification for companies, easing access to finance, developing capacity building activities and support infrastructure, and creating awareness about standards and certification.

2. To improve industry linkages with markets, suppliers and institutes

Strong linkages across buyers, suppliers and institutions are critical for firms' growth. Lesotho's textiles and apparel sector is mainly driven by global exports. Therefore, companies need to keep informed about changes in the competitive environment (suppliers, markets, technologies and government policies) and actively reach out to provide information about the firm or its products. Under this objective, creating awareness about market development and marketing strategy, facilitating businesses for efficient sourcing of inputs

and cooperation with institutions for training and knowledge transfer are pursued.

3. To establish a policy framework for creating a conducive business environment

Many of the challenges faced by firms in the sector do not stem from their own capabilities but are linked to the local and sectoral business environment. To ensure a friendly business environment, this strategic objective focuses on investment promotion in the sector, increasing productivity and inculcating best practices by engaging industry experts, providing high-quality training programmes for both employees and employers, supporting innovation and facilitating the establishment of incubation centre for start-ups, creating a legal framework for intellectual property and license management among others.

Light industry

Being a springboard for industrialization, new light manufacturing businesses can be realistically launched by extending on Lesotho's existing capacities and experience in the textile and apparel sector, to diversify the economy in other promising light manufacturing segments for which there is a competitive advantage (apparent or latent). This is a promising low hanging fruit

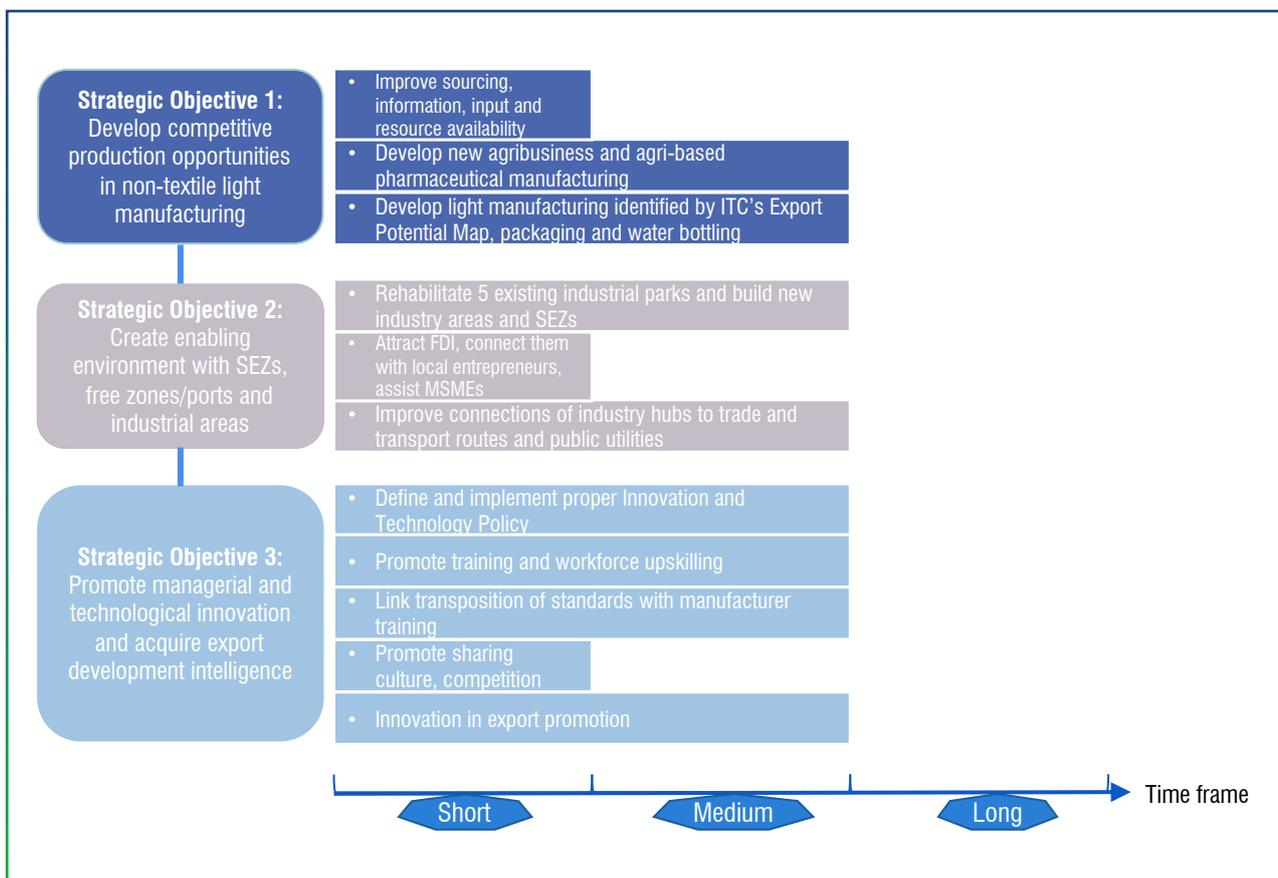
with the aim to tap Lesotho's pool of low wage labour and its potentially abundant and inexpensive utilities (water and electricity) – conditional to the current restructuring and expansion of the power sector – to produce items of relatively high value per unit weight.

New activities in light industries can drive structural transformation in Lesotho by producing tradeable goods that can move across borders easily and may be connected to and complementary with existing agricultural input production, etc. A major challenge to structural transformation lies in the fact that the sector

“is characterized by a few formal medium-size firms providing products to niche or protected markets and by a vast number of small, informal, low-productivity firms providing low-quality products to the domestic market”. Moreover, foreign competition, use of outdated technology and lack of IT skills, market information and information sharing are hindering light manufacturing businesses from competing in international markets.

Given the challenges and opportunities found in the sector, the light manufacturing sector strategy is structured around three strategic objectives described below.

Strategic and operational objectives of the light industry sector



Source: ITC and stakeholders' consultations

1. To develop competitive production opportunities in non-textile light manufacturing

The light manufacturing sector in Lesotho, dominated by textiles and apparel, needs a more diversified manufacturing base. Activities in the sector are currently concentrated in the low-tier and low-value segment of the industry supply chain. As conditions for sourcing inputs for new product categories are still very costly or information on availability lacking, a priority is improving pricing of and access to foreign inputs and to consider

those that are already produced but not transformed in Lesotho (crops, livestock, minerals and water (freshwater and hydro-electricity).

- Moreover, Lesotho should consider import substitution, not only for improving its negative current account balance, but also for creating a learning arena for local entrepreneurs to compete first at home to catch up in terms of prices and quality with imports from Asia, USA, South Africa and other African states, and to prepare to break through to export markets.



(CC BY-NC-ND 2.0) International Labour Organization ILO, lesotho-37.

2. To create an industrial enabling environment with Special Economic Zones (SEZs), free zones/ports and industrial areas

Designing industrial and economic zones so that the whole set of vital conditions for company foundation and build up are provided will not only save on production cost but also encourage knowledge transfer for building up competitive light (and later on advanced) manufacturers. For the design of industry hubs and parks, the integration of companies into international supply chains merits equal consideration as the promotion of local supply chains and industry clusters.

This strategy focuses on extending existing industrial parks and offering new ones, as well as SEZs and developing incentives to attract FDI. Moreover, it is important to foster the growth and participation of local entrepreneurs via new business joint ventures with foreign entrepreneurs. Transport routes need to be upgraded and transport and logistics services need to be improved and adapted to light industry needs. It is equally vital to improve the availability of utilities (electricity and water) in industrial parks and tap into the country's still unexploited energy sources.

3. To promote managerial and technological innovation in light (and later on in advanced) industry sectors and acquire export development intelligence

Managerial and technological backwardness of businesses (in the use of equipment/machinery, digital solutions and ICT) is a major obstacle on the road to industry development. The challenge is twofold in the light industry sector that requires the design of measures that are at the same time low-cost and promoting best practice procedures and the use of high standard equipment, with the objective to enable local industries to close the current gap to international competitors.

This strategy proposes promotion of innovation and technology adoption "on the job" in existing and new businesses by introducing up-to-date managerial practices, ICT use and new machinery via industry incubation centres. This should be undertaken in coordination with other government agencies and by involving new technology champions in the private sector (a proper Technology and Innovation sector is foreseen by the government). Equally important is the application of international industry and product standards and addressing the current lack in compliance with them by Lesotho based manufacturers. This is a key issue when prioritising cost-efficient new technology and their application in light industries.

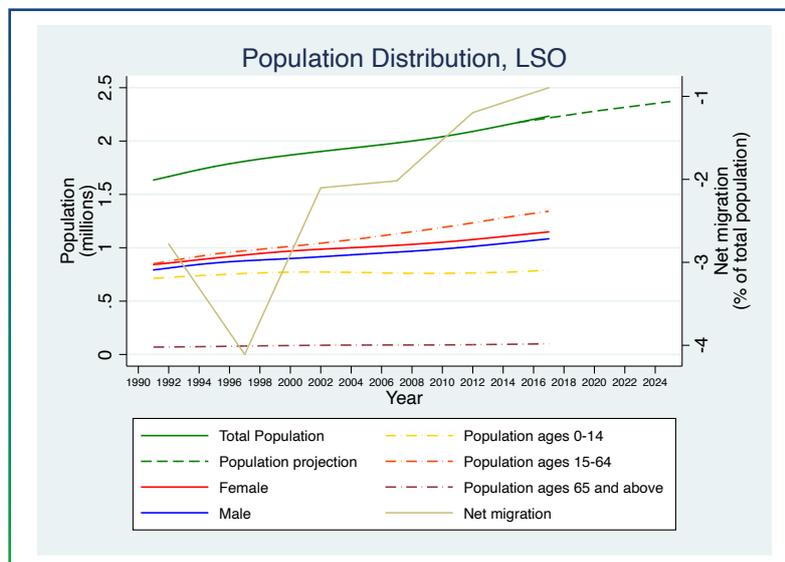
TRADE AND ECONOMIC ENVIRONMENT

As is the case for any country, Lesotho's international trade and economic environment is set within the wider context of geopolitical factors that form a unique framework. This framework may have a constraining and restricting effect on Lesotho's trade policy. Reviewing the current situation and an in-depth understanding of how these constraints impact trade performance will help to identify opportunities that could be harnessed.

Geographical factors are of considerable importance for Lesotho: a landlocked country surrounded by the Republic of South Africa. Lesotho does not have direct access to any ports and all goods not transported by air need to transit through South Africa. It is also a mountainous country which means transport can occur only via certain routes. Access to some parts of the country and the rural population is difficult and often cannot be done by car.

Lesotho is also closely linked to South Africa in terms of economic factors. Lesotho is a member of the South African Customs Union (SACU). Together with other members it applies a common external tariff and participates in joint negotiation of trade agreements with non-SACU members. It is also a member of the Common Monetary Area (CMA) – a monetary union with South Africa, Namibia and Eswatini. The Lesotho Loti is fixed to the common currency of the union – the South African rand. As such, Lesotho's economy is closely interlinked with that of South Africa through trade, finance, labour migration etc. Due to this economic interlinkage, its currency can be affected by the volatility of the rand.

Figure 1: Population distribution of Lesotho

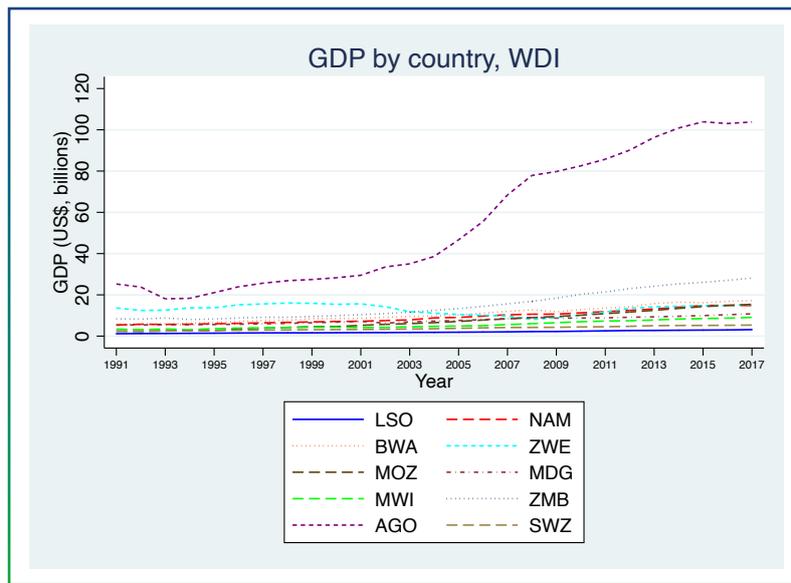


Source: World Bank's World Development Indicators database

The high percentage living in rural areas means that increasing employment would need to involve connecting of these areas with the more prosperous areas of the country to avoid mass displacement. In 2017, Lesotho's GDP was \$2.578 billion (Figure 2), while the GDP per capita amounted to \$1,232, making it among the lowest

in the region. According to the World Bank classification, Lesotho is a lower-middle-income country. Even with steady GDP growth averaging 3.4% from 2010 to 2017, poverty remains widespread with around 57.1% of the total population living in poverty.¹

Figure 2: Gross domestic product of some African countries over the years

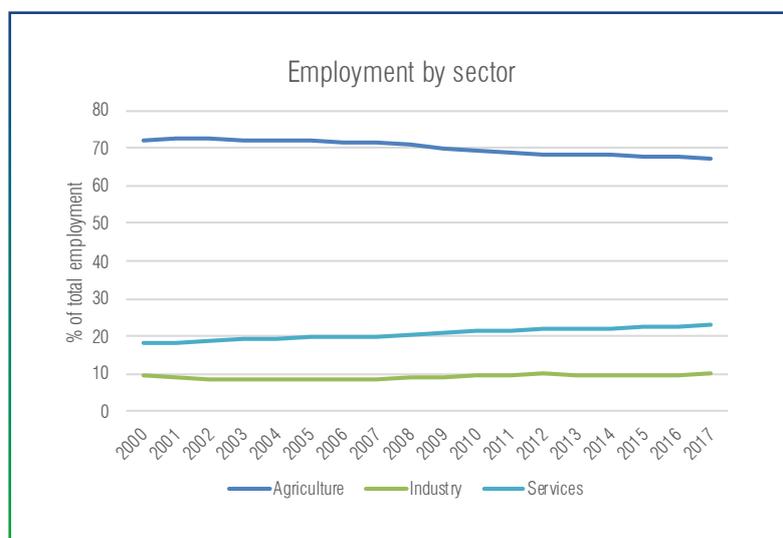


Source: World Bank's World Development Indicators database

Lesotho's domestic economy has historically been focused on exports and attracting inward investment. It is also primarily based on subsistence agriculture, emerging diamond mining industry, labour-intensive manufacturing, and a large services sector. Micro, small

and medium-sized enterprises (MSMEs) form the majority of businesses in Lesotho. In terms of employment breakdown by sector, about 67.1% of employment is in the agriculture sector, 9.9% in industry and 22.9% in services as shown in Figure 3.

Figure 3: Employment by sector in Lesotho



Source: World Bank's World Development Indicators database

1.- WDI, Poverty headcount ratio at national poverty lines (% of population), 2010



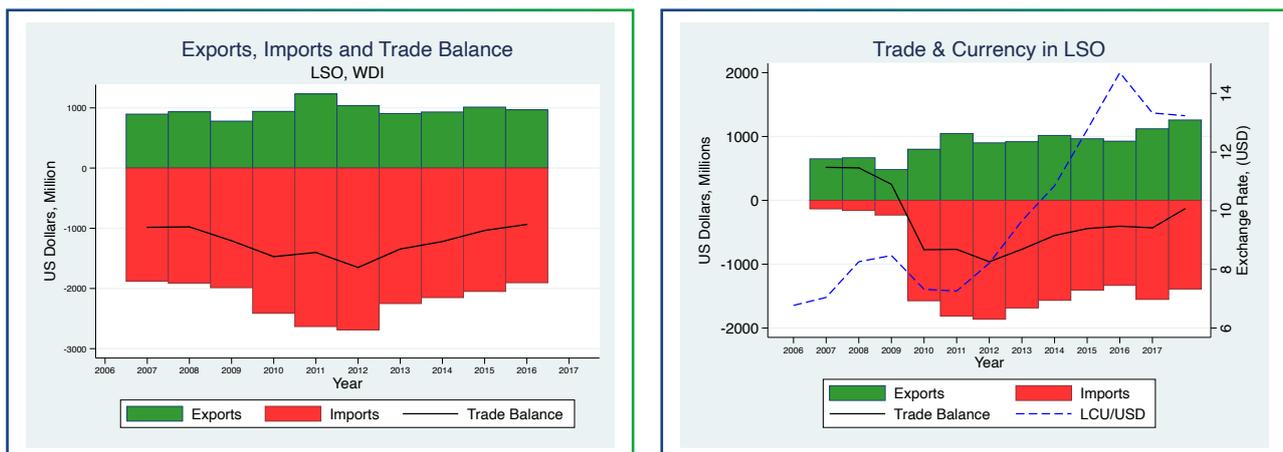
(CC BY-NC-ND 2.0) World Bank Photo Collection, Maseru Maqalika Water Intake System.

This makes Lesotho's economy highly dependent on agriculture –an industry highly susceptible to seasonal and climate changes (mountains, dry winters, wet summers). This, coupled with the fact that 99% of imports in the horticulture sector come from one regional market – South Africa, makes the entire agricultural sector incredibly volatile. In addition, Lesotho currently produces less than 20% of the nation's demand for food.

The Government is the country's largest employer –providing jobs for civil servants, teachers, daily paid workers and the armed forces. In the manufacturing sector, the textiles and apparel industry employs the highest number of people. It is estimated that over 40,000 Basotho, mainly women, work in garment-producing factories.

Macroeconomic environment

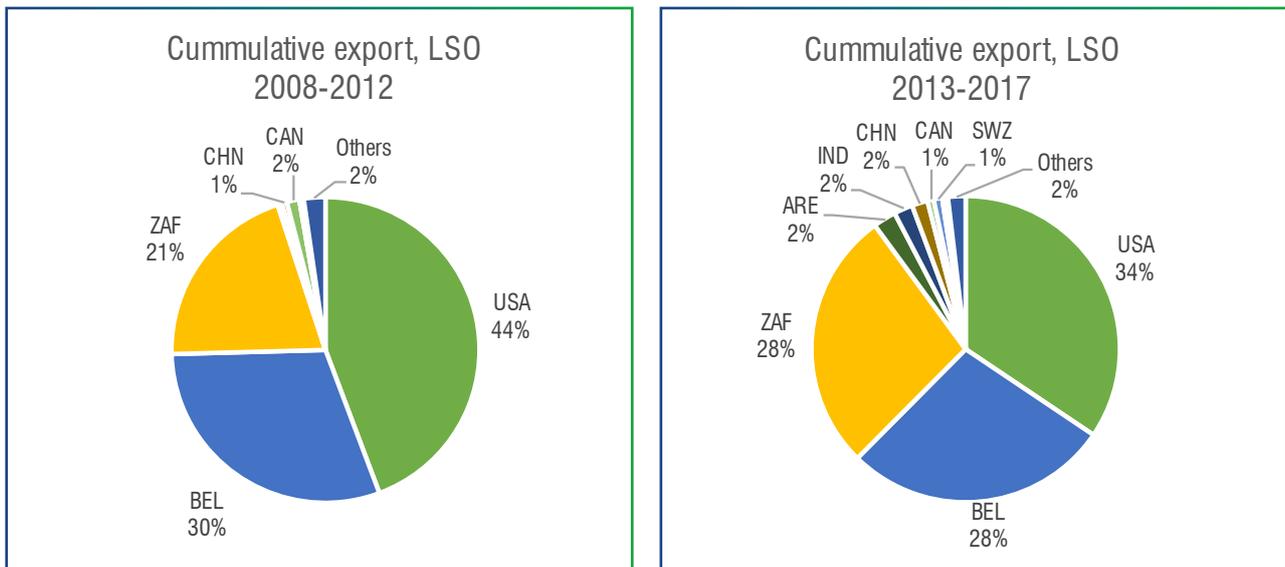
Figure 4: Exports, imports and trade balance



Source: World Bank's World Integrated Trade Solution (WITS) database

What makes the situation even more complex is the fact that the country relies on a small number of export markets. These markets have not changed in the last decade as shown in Figure 5: the key export destinations are South Africa, the U.S. and Belgium. There have been some small changes in terms of smaller

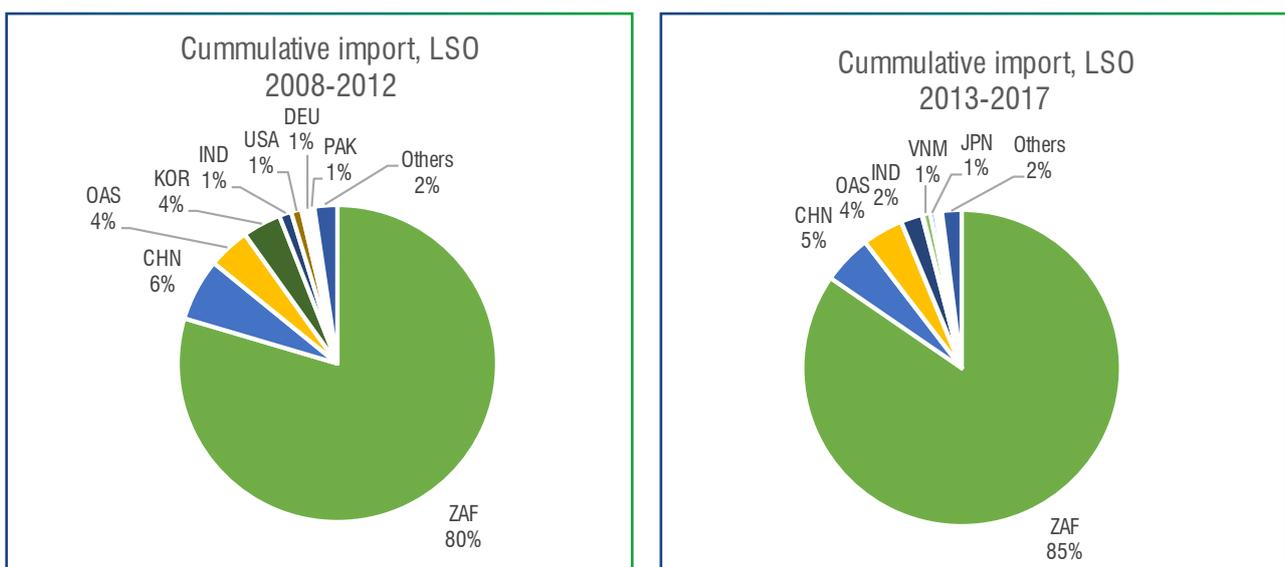
trading partners with Switzerland, India and UAE entering the landscape. Another point worth mentioning is that intra-SACU trade the distribution is not equal. Lesotho trades with South Africa but the trade links amongst the other members are not so well developed making it a hub and spoke model.

Figure 5: Cumulative exports over the past decade

Source: World Bank's World Integrated Trade Solution (WITS) database

A similar lack of diversification is also visible in terms of import markets as shown in Figure 6. The origin of imports over the last decade demonstrates the scale of dependence on the South African market. The cumulative value of imports from South Africa increased from

80% in 2008-2012 to 85% in 2013-2017. Such high dependence on one source of imports makes the Lesotho economy strongly susceptible to any shifts in supply in South Africa.

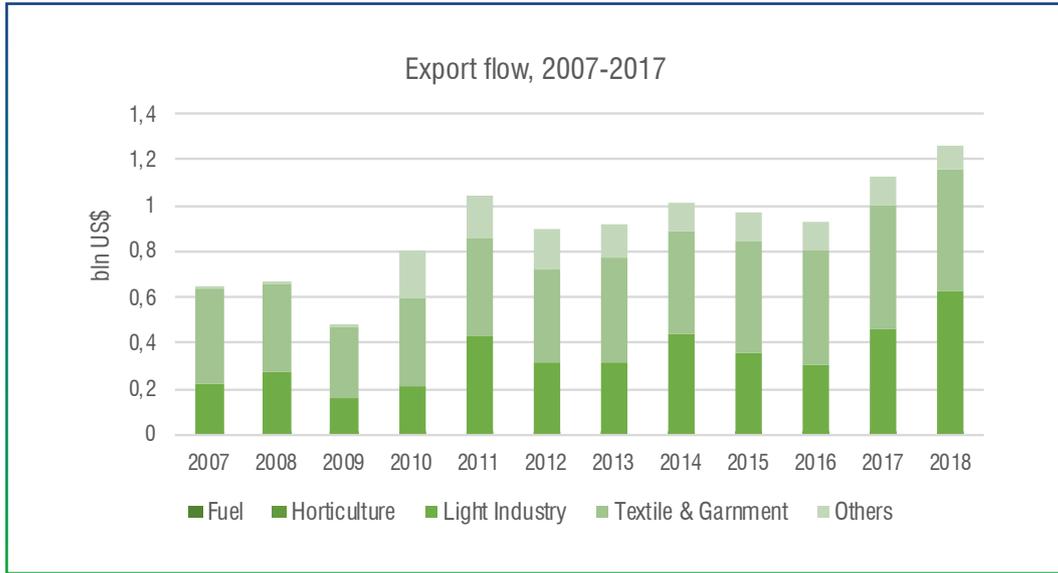
Figure 6: Cumulative imports over the past decade

Source: World Bank's World Integrated Trade Solution (WITS) database

In terms of the key domestic industries that perform well on international markets, Lesotho's main exports include light industry products (\$62 million in 2018) and textile and garments (\$54 million in 2018). These

sectors, as shown in Figure 7, have been dominant over the past years. In particular, the share of textile and garment exports remains quite stable whereas the share of light industry exports fluctuates to a degree.

Figure 7: Export flows

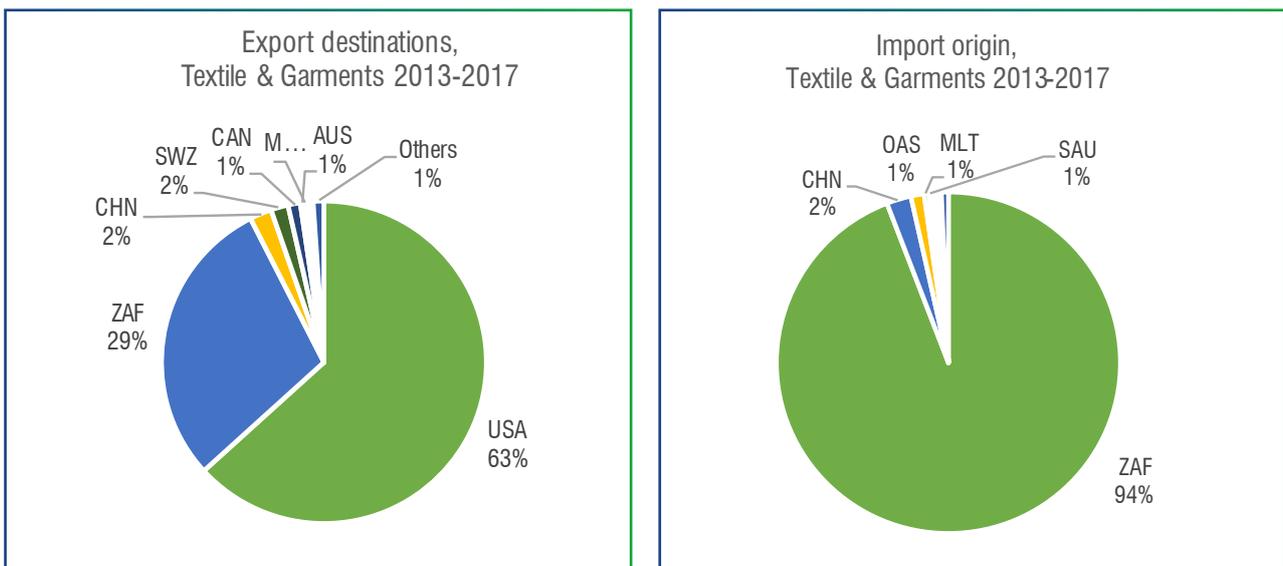


Source: World Bank's World Integrated Trade Solution (WITS) database

The textiles and apparel industry has demonstrated strong performance over the past decade. It can be considered to be one of Lesotho's strongest industries with a sound trade surplus and low dependence on import. However, as shown in Figure 8 looking at the key export and import destinations indicates a very strong dependence on two markets: USA (63%) for exports

and South Africa (94%) for imports. This is particularly volatile given that the American system of preferences for developing countries which Lesotho heavily depends on (AGOA) is only guaranteed until 2025. Under this system, goods from Lesotho (including goods in this sector) can enter American market duty-free or under reduced rates of tariffs.

Figure 8: Trade in textiles and garments



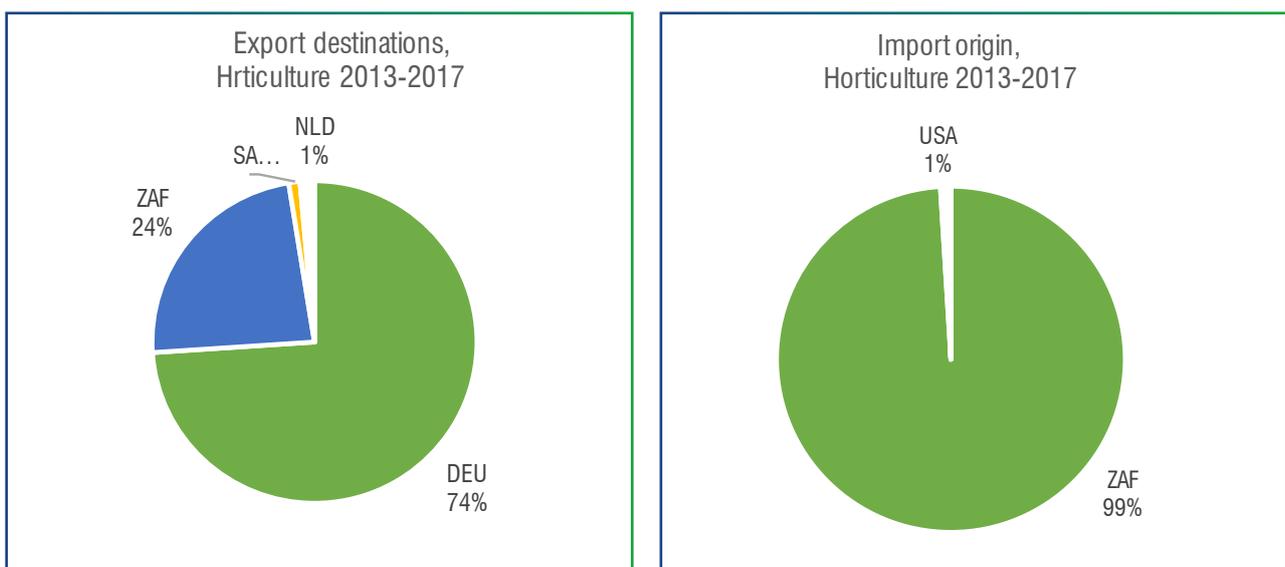


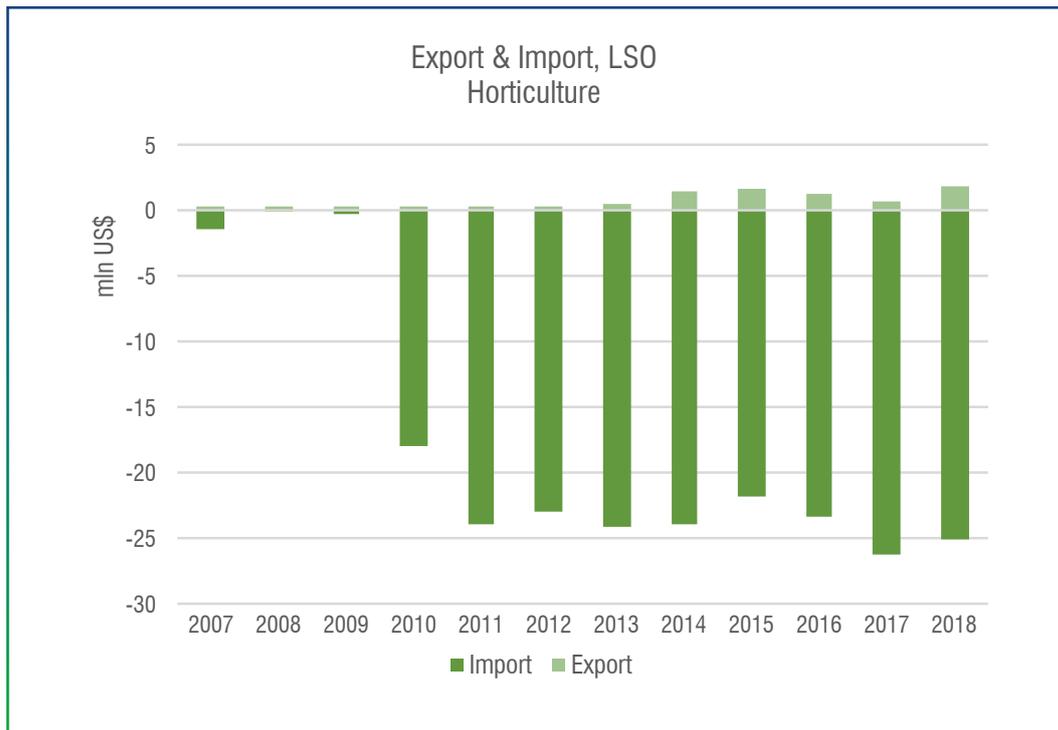
Source: World Bank's World Integrated Trade Solution (WITS) database

Horticulture is one of the sectors considered to have export potential even though historically it has been a sector with significant trade deficit. As shown in Figure 9, the main export destination is Germany (74%), while imports come almost entirely from South Africa (99%). The horticulture sector constitutes products with the

following HS codes: trees and other plants, live; bulbs, roots and the like; cut flowers and ornamental foliage (HS06), vegetables and certain roots and tubers; edible (HS07), fruit and nuts, edible; peel of citrus fruit or melons (HS08).

Figure 9: Trade in horticulture





Source: World Bank's World Integrated Trade Solution (WITS) database

This is yet another sector with a strong dependence on one import and export market. This degree of dependence poses a risk in terms of food security, particularly given that Lesotho produces less than 20% of its total food demand. Change of conditions or a natural

disaster could mean that the amount of South African supplies changes rapidly. The SACU hub and spokes model is visible in this industry – SACU members rarely trade with each other.

Trade policy framework

The geographical location of Lesotho has played a large role in the formation of its trade partners. Lesotho's trade policy is primarily influenced by its membership in SACU. As such, it participates in SACU's trade policy as well as SACU's activities within the international trade framework. This provides a platform for Lesotho but also limits it in terms of reducing the external tariffs by virtue of being a customs union member. For example, Lesotho cannot liberalise import tariffs on key inputs coming into the country without SACU's decision.

Lesotho is a member of the WTO and engages in the work of other regional groupings such as the African Group, G-90 etc. At the same time, Lesotho is a member of various international trade agreements both as a SACU member (i.e. trade deals with the EU or EFTA) as well as in its own right (preference schemes

for developing and least developed countries such as the EU's Generalised Scheme of Preferences (GSP) as well as the American AGOA programme). This means that Lesotho can access several international markets duty-free and quota-free (DFQF). This network of trade deals remains highly underutilised.

Many of Lesotho's companies are not aware of these opportunities. Given that the majority of businesses in Lesotho are MSMEs, companies often lack the capacity to navigate the complex requirements related to exporting or importing under trade deals. The entering into force of the African Continental Free Trade Agreement (AfCFTA) on May 2019 and the launch of its operational phase during 2020 expands the range of opportunities for Lesotho across the entire African continent for the years to come.²

2.– The agreement establishing the AfCFTA entered into force on 30th May 2019 for the 24 countries that had deposited their instruments of ratification. Lesotho signed the agreement on 2nd July 2018 but has still not ratified it.

Box 1: The AfCFTA

African policymakers are embarking on what could be the most ambitious regional integration effort of the 21st century. The African Continental Free Trade Area (AfCFTA) Agreement aims to design a first-of-its-kind common strategy for Africa's trade competitiveness and development. This common strategy will heavily rely on the free access of African nations to the African common market.

The free movement of people, capital, goods and services can result in a significant increase in trade and investments across the continent. Increased intra-African trade has the potential to unlock growth in many African countries. In particular, those countries with relatively smaller internal markets but solid institutions that are prepared to support the private sector in seizing the opportunities ahead.

Lesotho would be one of the main beneficiaries from free access to the African market. The LNTS stakeholder consultations identified the AfCFTA as one of the most crucial opportunities for the future of Lesotho but also as an important challenge given the history of the country underutilizing its current trade agreements.

Despite the reality that the implementation of the AfCFTA can still take some time; it is fundamental that the private and public sectors gear up now and work together to be ready to embrace the opportunities when they arise. Vis à vis the LNTS, this translates into getting better at utilizing the advantages that the existing trade agreements already offer to Lesotho.

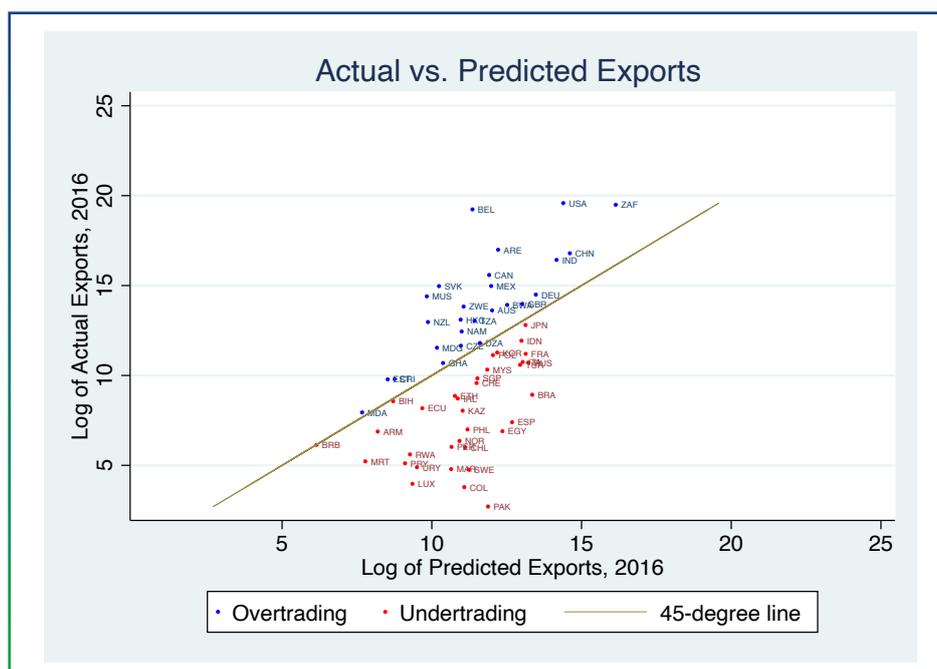
Lesotho's wealth of young and female entrepreneurs also stand to benefit greatly from the opportunities that the creation of the African single market is going to generate. It is still possible to generate those opportunities in Lesotho. Failing to do so would further exacerbate the existing trends in brain drain amongst the young.

Development partners such as EIF and ITC through trade mainstreaming support, National Export Strategies and Diagnostic Trade Integration Studies are supporting analytical work for LDCs to better understand the benefits of AfCFTA.

As previously discussed, Lesotho's key trading partners are the USA and South Africa, followed by, Canada, China and a few European countries such as Belgium. Figure 10 demonstrates actual vs predicted exports per country and indicates the countries with which

Lesotho's trade is under-performing. In some cases, there might be obvious reasons for the low volume of trade; however, in some cases, there is an opportunity to increase trade.

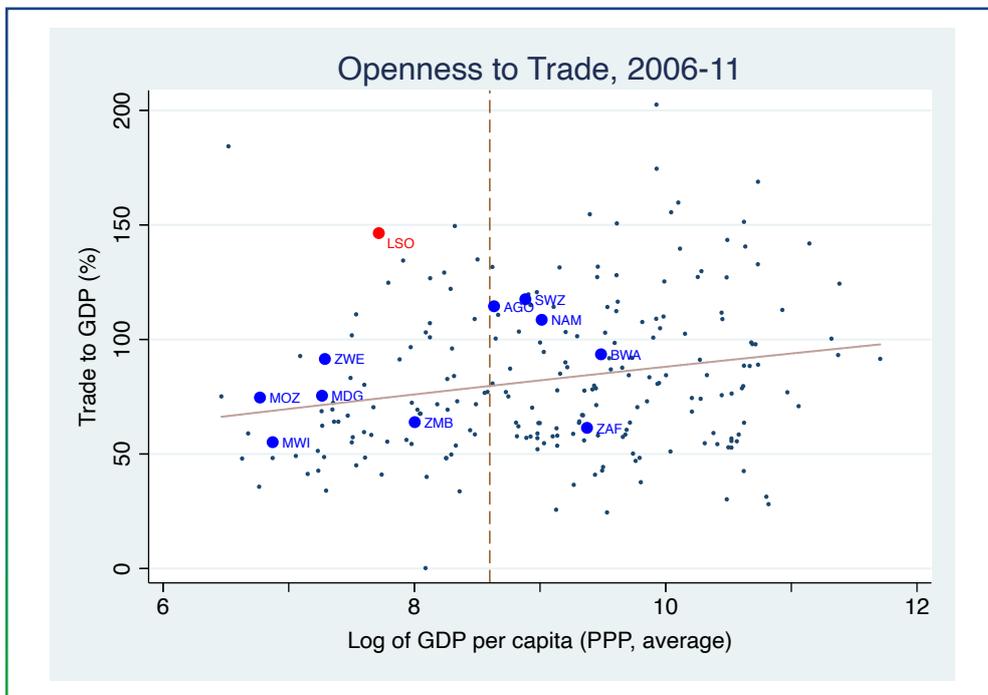
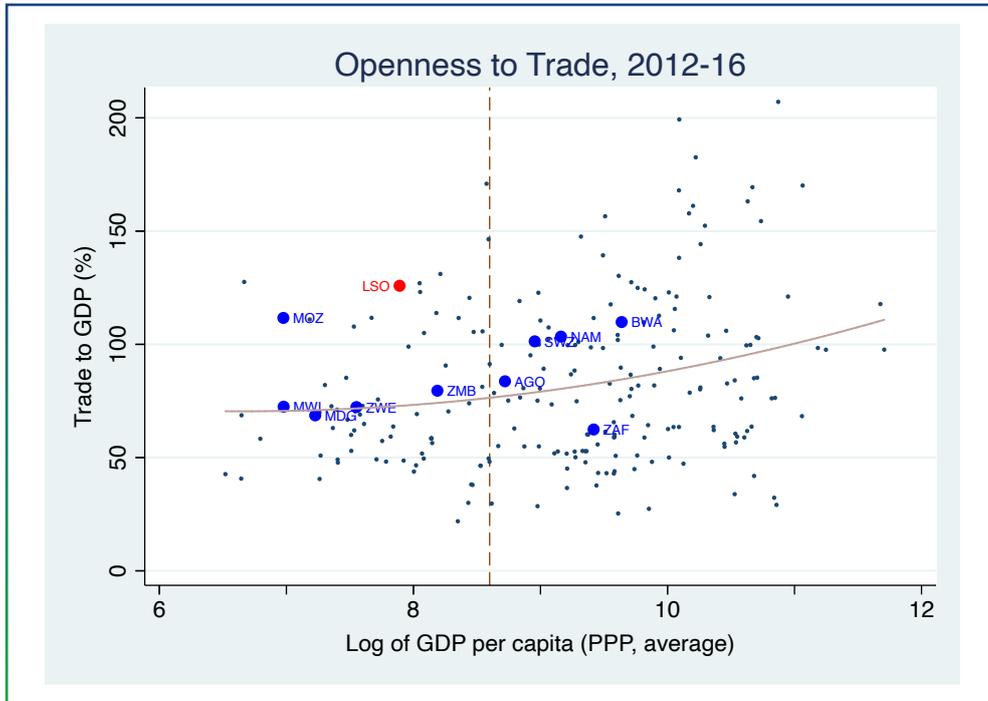
Figure 10: Trade potential



In the context of imports and inward investment, there is also significant room for improvement. Lesotho's economy is relatively open by world's standards. However,

over the last five years, the index of openness, measured by trade as a percentage of GDP, has been decreasing as shown in Figure 11.

Figure 11: Openness to trade



Source: Author's calculations using Comtrade data from the World Bank's World Integrated Trade Solution (WITS) database

One of the elements that could help improve the volume of inward investment, as well as support exports would be to improve the ease of doing business in the

country. Facilitating domestic processes related to business activity could also support increasing exports' value-added and improve overall trade competitiveness.

Lesotho was ranked to be 106th country out of 190 in World Bank's Doing Business 2019. This annual ranking reflects business and trade-related factors characterizing each country included in the ranking. For example, the World Bank noted that between 2017 and 2018, Lesotho made importing faster by implementing the Automated System for Customs Data (ASYCUDA) and reducing documentary compliance time for imports by two hours.

Table 1 below lists a set of indicators where the country scored a rank lower than its overall rank. Addressing issues such as obtaining domestic permits could make a difference.



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Table 1: Lesotho's ease of doing business rankings

LESOTHO	
Ease of doing business rank (1–190)	106
Starting a business (rank)	119
Score for starting a business (0–100)	83.13
Procedures (number)	7
Time (days)	29
Cost (% of income per capita)	7.1
Minimum capital (% of income per capita)	0.0
Dealing with construction permits (rank)	171
Score for dealing with construction permits (0–100)	52.36
Procedures (number)	10
Time (days)	183
Cost (% of warehouse value)	11.7
Building quality control index (0–15)	5.0
Getting electricity (rank)	157
Score for getting electricity (0–100)	52.38
Procedures (number)	5
Time (days)	114
Cost (% of income per capita)	1,247.1
Reliability of supply and transparency of tariffs index (0–8)	0
Registering property (rank)	108
Score for registering property (0–100)	58.25
Procedures (number)	4
Time (days)	43
Cost (% of property value)	8.0
Quality of land administration index (0–30)	9.5

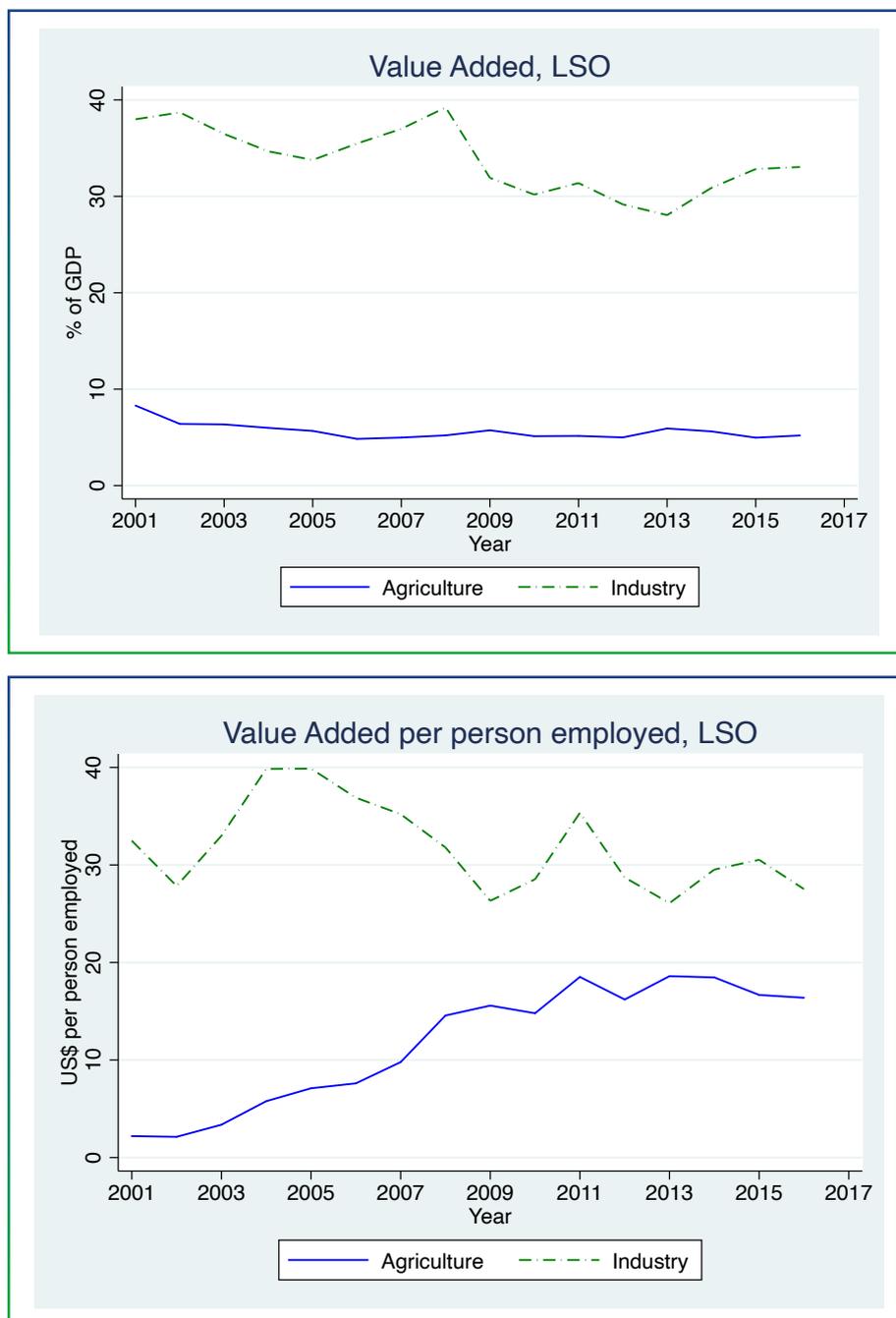
Source: World Bank's Doing Business 2019

Improving exports value-added and export basket diversification

Both agriculture (horticulture) and textiles and garments industry (key industry within the manufacturing sector) have room for improvement in terms of value-added. The value-added in the manufacturing industry is much higher than in the agricultural sector as shown

in Figure 12. When compared with the value-added per person employed, it becomes clear that the number of people working in the agricultural sector might have slightly declined given the increase in value-added.

Figure 12: Value added by sector in Lesotho



Source: Author's calculations using Comtrade data from the World Bank's World Integrated Trade Solution (WITS) database



(CC BY-NC-ND 2.0) International Labour Organization ILO, lesotho-50.

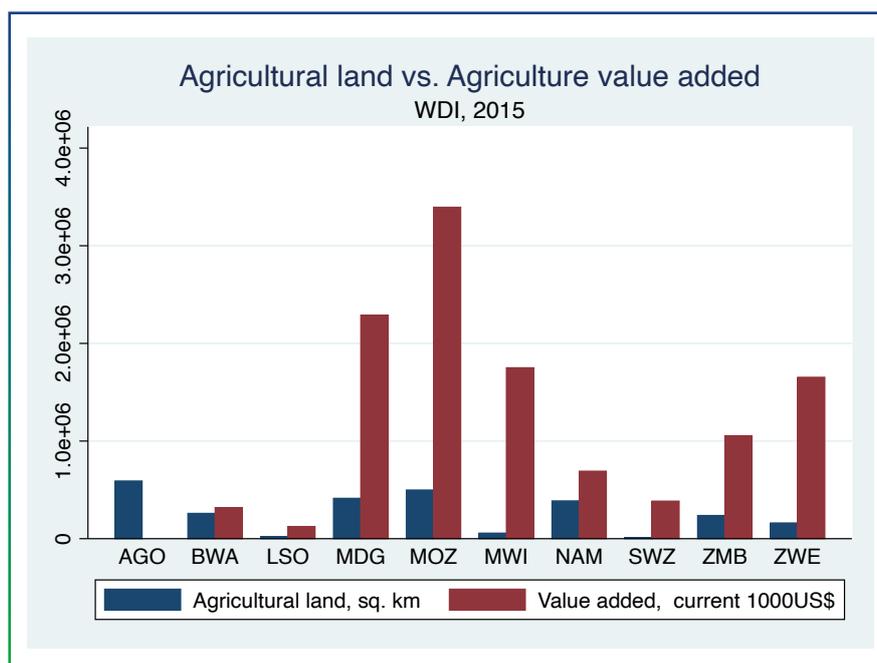
The agriculture (horticulture) sector is a good example of what that means in practice. Figure 13 below demonstrates the share of land use to the agriculture value-added in many African countries. It shows how efficiently the land is being used. We can see that not only could the relative efficiency be improved as South Africa's efficiency is at 1:10 –but also overall efficiency could increase given that countries with a similar amount of land achieve greater efficiency – Eswatini at 1:39 and Malawi 1:29 compared to Lesotho at 1:6.

If other countries in the region achieve greater efficiency with the same amount of agricultural land, the question of efficiency of Lesotho's agriculture sector becomes paramount. Some of the constraints may result

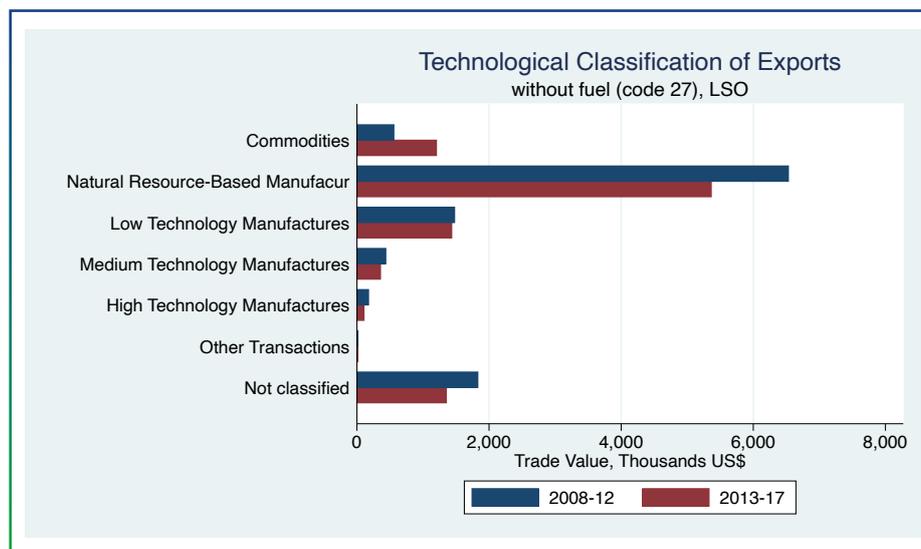
from the geographical factors discussed previously, like climate and type of soil, but it also may mean that there is an opportunity to improve.

The use of technology can also support the improvement of value-added per sector. Currently, Lesotho's exports are mostly based on relatively low technology (low level of technological sophistication). Figure 14 below shows that the level of technology currently used in exported products is significantly low. The value of medium –and high-technology manufactured goods is much lower than natural resource-based manufactured goods. This indicates that the use of low and medium technology could perhaps lead to improved value-added per sector.

Figure 13: Value added in agriculture



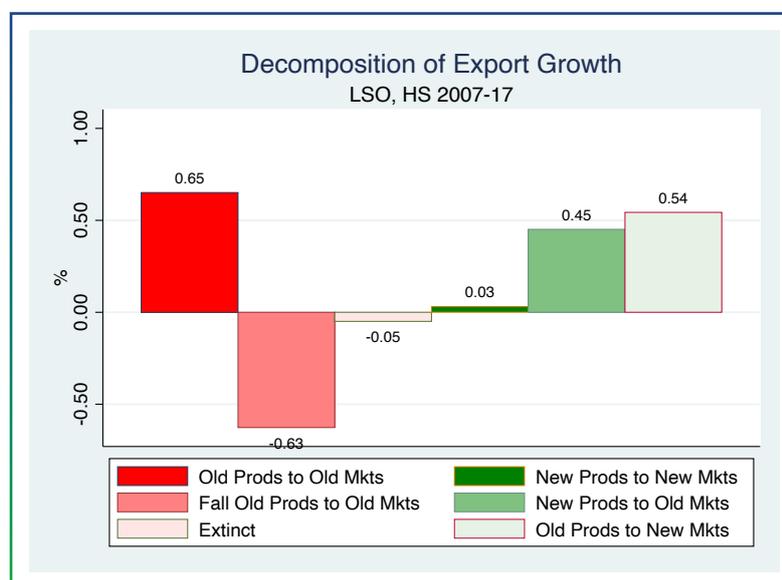
Source: Author's calculations using Comtrade data from the World Bank's World Integrated Trade Solution (WITS) database

Figure 14: Technological content of exports

Source: Author's calculations using Comtrade data from the World Bank's World Integrated Trade Solution (WITS) database

Product diversification could support the overall trade performance. As previously discussed, Lesotho has a narrow export basket concentrated on a small number of products and trading partners. Figure 15 covers

years 2007-2017. There is some progress in terms of new products, perhaps less so in terms of accessing new markets.

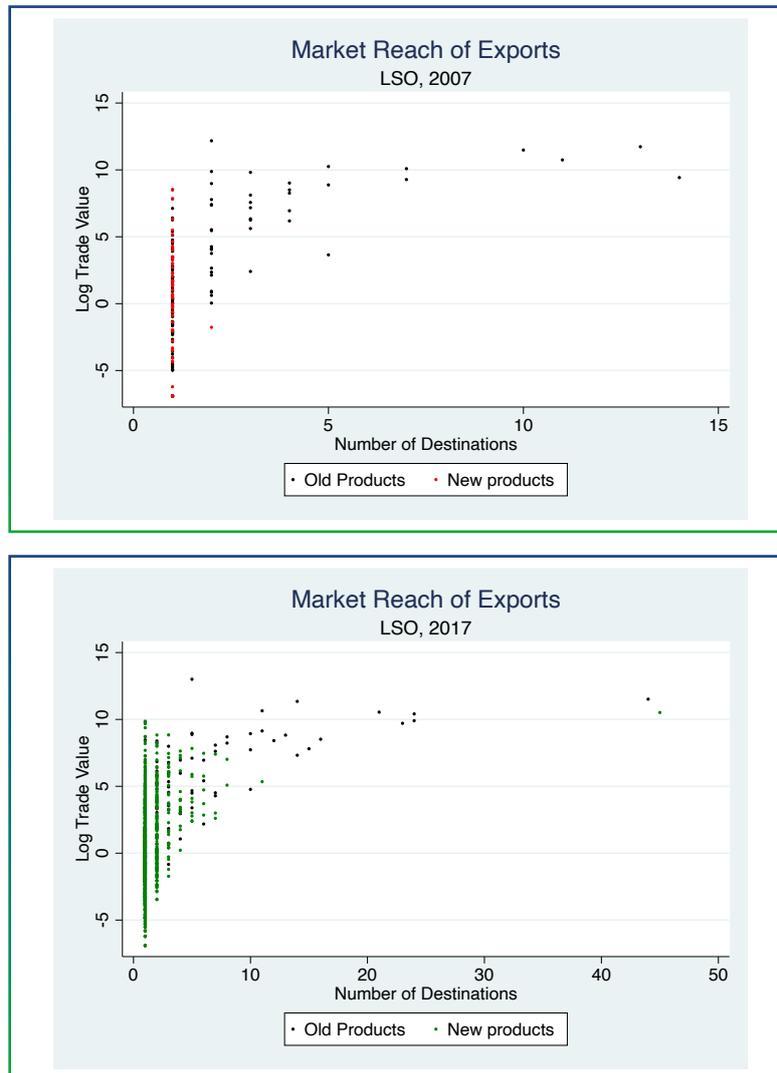
Figure 15: Decomposition of export growth

Source: Author's calculations using Comtrade data from the World Bank's World Integrated Trade Solution (WITS) database

Figure 16 demonstrates the market reach of Lesotho's exports in 2007 and 2017. It is broken down by old and new products. The main conclusion is that there is a visible improvement in term of the number of markets reached. However, more needs to be done.

Further product and market diversification would also help with trade sustainability: with exports focused

on two main industries and high dependency on a few markets, the country's trade performance is susceptible to external factors and changes. For example, as previously discussed, the risk of U.S. preferences expiring and its non-reauthorization would render Lesotho's textile and garment products less competitive. Diversification could decrease this risk.

Figure 16: Market reach of exports

Source: Author's calculations using Comtrade data from the World Bank's World Integrated Trade Solution (WITS) database

Key takeaways:

- Several geopolitical factors have so far constrained the growth of Lesotho's economy. Being a small, landlocked economy and one that is to a large extent dependent on its only neighbour has led to a lack of import and export markets diversification. As a member of SACU, Lesotho trade policy is influenced by its membership in SACU.
- At the same time, there are significant domestic constraints that need to be addressed such as high unemployment, lack of sufficient infrastructure and lack of value-addition in Lesotho's products. Improvements are needed in terms of the business ecosystem.
- There is, however, a potential for growth and scope for improving domestic economy by export promotion. Industries such as horticulture, textiles and garments and other areas of the manufacturing industry can be gradually transformed into higher value-added industries. In addition, supporting domestic industries in achieving product and market diversification as well as improving trade and business environments can play a significant role.

National strategies and development plans

Strategic planning was embedded into the activities of the Government of Lesotho shortly after the country had gained independence in 1966. Medium-term (three to five years) development plans were subsequently translated into annual plans and budgets. A broader perspective framework was however missing.

A review of the documents related to the advancement of trade and sectors in Lesotho reveals a few trends. Of the three general sectors— agriculture, manufacturing, and services— sector and trade focus have seemed to be on horticulture, textiles and apparel, tourism, and ICT services. Horticulture has been identified as a valuable agricultural subsector owing to the country's natural competitive advantages in the harvest of crops, fruits and vegetables, especially relative to South Africa. The manufacturing growth strategy has been dominated by textiles and apparel manufacturing while the development of other manufacturing subsectors has also been emphasised.

Major documents have focused on trade diversification, improving and investing in micro, small and medium-sized enterprises, and trade facilitation. Documents such as Lesotho National Vision 2020, along with its implementing strategy, the National Strategic Development Plan I & II, focused more on general development. Moreover, as a SACU member, Lesotho has been promoting regional integration, specifically with South Africa, the country that Lesotho has been heavily relying on for exports and access to global markets. However, despite the consensus on the importance of private sector and trade development among the key stakeholders, SME and Trade Policies should be thoroughly implemented to achieve this goal.

The main part of Lesotho's trade economy also focuses on improving trade logistics. The Diagnostic Trade Integration Study (DTIS) Update, as well as other documents, have focused on this matter. Suggestions to improve trade facilitation include improved transport infrastructure, more expeditious processes, better cost-effective and accessible border regulations, and better ICT and computerization of the facilitation process. With respect to inclusive trade policy-making, ITC rolled out She Trades Outlook in Lesotho in 2019/2020. SheTrades Outlook provides an assessment of the extent to which policies and programmes in the country are supportive of women's participation in trade.

In what follows, an overview of the recent national economic and trade development studies, policies and strategies in Lesotho are presented.

VISION 2020

It was in 2004 when, after an extensive consultation process with all internal stakeholders, [the first long-term strategic document – Vision 2020](#) – was published. The document stipulates that “by the year 2020 Lesotho shall be a stable democracy, a united and prosperous nation at peace with itself and its neighbours. It shall have a healthy and well-developed human resource base. Its economy will be strong, its environment well managed and its technology well established”. A number of challenges were identified in the document, including maintaining macroeconomic stability, sustaining high levels of investments, strengthening the national capacity to fully take advantage of the presence of foreign-owned manufacturing enterprises and diversifying export markets and investment opportunities.

As a response to key challenges, the Vision 2020 developed several dozens of strategic actions. Some of them were directly related to trade, namely strengthening investment and trade promotion capacity of the country, developing and promoting backward and forward linkages between foreign-owned firms and local businesses or diversifying export markets. As an indicator of achievement, exports of goods and services as a percentage of GDP will have increased to 48% in the year 2020 (as compared with 28% in 2000), whereas imports will have decreased from 88% in 2000 to 70% in 2020.

The implementation of Vision 2020 was operationalised in the medium-term documents: first in the Poverty Reduction Development Plan and the Interim National Development Framework, which were later replaced by two National Strategic Development Plans (NSDP). Based on the diagnosis of the current situation, lessons learned from previous programming periods and future challenges and opportunities, the National Strategic Development Plans define the key development objectives and main activities to be undertaken to meet the targets set.

NATIONAL STRATEGIC DEVELOPMENT PLAN 2012/13-2016/17

Trade became one of the key growth areas under the [National Strategic Development Plan 2012/13 – 2016/2017](#). The document identified a number of export-oriented actions grouped under 5 areas:

1. **Enhance productive capacity and exports** – with focus on manufacturing, mining, agriculture and tourism and other services.
2. **Diversify and improve market access** – with actions like negotiating new market access agreements, improving the processing of import and export permits for trading, developing quality policy, national standards framework and establishing a Bureau of Standards.
3. **Strengthen investment and trade promotion** – by development and implementation of trade promotion strategy as a key activity.
4. **Promote consumer protection** – including the establishment of an appropriate institutional framework for dealing with consumer protection, complaints and education.
5. **Strengthen trade institutions' capacity and efficiency** – these activities encompassed development of policy framework, capacity building programmes, strengthening private sector associations and putting information on trademarks and intellectual property rights in the public domain.

NATIONAL STRATEGIC DEVELOPMENT PLAN II

National Strategic Development Plan II 2018/19 to 2022/23 is currently implemented in Lesotho. It was developed on key lessons from the implementation of NSDP I such as poor alignment between priorities and spending patterns, ineffective monitoring and evaluation as well as insufficient implementation management. This is why it can be difficult to achieve trade indicators defined in Vision 2020. In 2017/18 export/import of goods and services as a share of GDP reached 42% and 83%, respectively. Four key priority areas defined in the NSDP II:

1. **Enhancing inclusive and sustainable economic growth and private sector job creation,**
2. **Strengthening human capital,**
3. **Building enabling infrastructure,**
4. **Strengthening national governance and accountability systems.**

shall transform Lesotho from a consumer-based economy to a producer – and export-driven economy. It sets out the jobs and growth strategy anchored on the four productive sectors – (1) agriculture, (2) manufacturing, (3) tourism and creative industries and (4) technology and innovation.

As in the previous NSDP, the strategy contains numerous trade-related objectives and activities to be undertaken under key priority areas. These include inter alia:

- Better access to finance,
- Improving manufacturing capabilities and move into knowledge-intensive value chains,
- Strengthening business and trade facilitation for export promotion,
- Expanding textiles and clothing hub to increase exports,
- Improving the regulatory framework to create a competitive business environment,
- Enhancing collaboration between institutions of higher learning, industry, and government on learning and research,
- Improving relevance and applicability of skills,
- Expanding and upgrading Technical and Vocational Education and Training (TVET) institutions and programmes to support growth sectors.

SHETRADES OUTLOOK LESOTHO

SheTrades Outlook is an evidence-based tool to enable policymakers to assess, monitor, and improve the extent to which the institutional ecosystem supports women's participation in trade. SheTrades Outlook encompasses 86 indicators across six pillars, namely trade policy, business environment, legal and regulatory framework, access to skills, access to finance, and work and society. These indicators cover aspects of the ecosystem that either target female entrepreneurship and trade or, although not targeted, are likely to benefit women-owned businesses disproportionately. Examples include: gender provisions in trade agreements, gender mainstreaming into trade policies and strategies, and digital single windows and access to information.

Under the trade policy pillar, a number of areas have been identified for potential interventions:

- Enhancing the participation of women's associations in trade consultation processes;
- Including trade-related concerns in gender equality/women's empowerment action plans;
- Mainstreaming gender into trade policy;
- Carrying out ex-ante and ex-post assessments of trade agreements;
- Collecting gender-disaggregated company data (consider mandating in Statistics Act 2001);
- Promoting representation of women in ministerial positions and parliament (consider gender quota);
- Training for Ministry staff on gender issues.³

3.– Generally, mainstreaming gender into trade policy will be sufficient because there are other vulnerable groups such as youth and people with disabilities who may as well need focal points. As long as Ministry's staff is well trained on issues affecting various groups, they will be able to handle them.

SheTrades Outlook Lesotho: Key findings



Pillar	Results	Potential Priority Areas	
Trade Policy	<ul style="list-style-type: none"> ☑ Cabanele e ntlafala e nts'ebetse ☑ Women's participation in strategic roles ☑ Sex-disaggregated data ☑ Assessment, monitoring and evaluation policies and agreements ☑ Gender-related concerns included in consultation process 	<ul style="list-style-type: none"> • Encouraging women's associations or organizations to participate in consultation processes; • Including trade-related concerns in gender equality/women's empowerment action plans; • Mainstreaming gender in trade policy; • Carrying out ex-ante and ex-post assessments of trade agreements; • Collecting gender-disaggregated company data (consider mandating in Statistics Act 2001); • Promoting representation of women in ministerial positions and parliament (consider gender quota); • Training for Ministry staff on gender issues and assigning a gender focal point. 	
	<h3>Legal and Regulatory Framework</h3>		
	Legal and Regulatory	<ul style="list-style-type: none"> ☑ Signature, ratification and implementation of international conventions ☑ Restrictions to access productive resources ☑ Restrictions related to the labour market ☑ Paid parental leave ☑ Child-care facilities 	<ul style="list-style-type: none"> • Providing parental leave for both parents; • Providing child-care support for parents; • Providing support for families with children under school age for education and care.

Pillar	Results	Potential Priority Areas						
	Business Environment							
Business Environment	<ul style="list-style-type: none"> Presence and participation of women business associations Business start-ups Access to trade-relevant information Public procurement Grievance mechanisms to report unfair practices Existence of special frameworks and initiatives Public-private dialogue and frameworks 	<ul style="list-style-type: none"> Providing written business start-up guidelines and posting relevant customs procedures and trade regulation information online Increasing access to public procurement process by collecting gender-disaggregated data on tender bids and contract awards and creating a preferential scheme for women-owned enterprises Increasing accessibility of grievance mechanism to report complaints Monitoring working conditions, especially in export-processing zones Creating a single-window electronic interface Sensitizing border agents/officials Including gender concerns in regulatory framework for public-private partnerships 						
	Access to Skills		<ul style="list-style-type: none"> Universal access to education Monitoring frameworks Access to tertiary education Targeted programmes to enhance skills for workers Targeted programmes to enhance skills for companies Targeted support to enhance skills and access to information Access to information and communication technologies 	<ul style="list-style-type: none"> Monitoring frameworks (specifically data on national numeracy tests and drop-out rates by gender) Collecting disaggregated data on access to tertiary education (especially on scholarship availability and enrolment in technical and vocational programmes) Providing targeted programmes to enhance skills for companies (frequent training on market access) Providing targeted support to enhance skills and access to information, including targeting women with incentives Creating policies/programmes to foster business innovation, exclusively targeting women. 				
			Access to Finance		<ul style="list-style-type: none"> Access to financial services Gender responsive strategies and programmes Support for women-owned businesses and business associations Fiscal and targeted trade finance schemes Financial instruments and other financing opportunities 	<ul style="list-style-type: none"> Promoting access to financial services (including coverage of financial service providers) Committing to use gender budgeting Increasing venture capital financing opportunities to support women entrepreneurs 		
					Work and Awareness		<ul style="list-style-type: none"> Woman's opportunities in the labour market Division of labour Gender occupational biases National and regional awareness initiatives Support of private and non-profit initiatives 	<ul style="list-style-type: none"> Collecting data on unemployment rate with advanced education ratio Addressing gender occupational biases (e.g. male-female ratio of time-use on unpaid domestic care work) Promoting national and regional awareness initiatives and participating in initiatives/dialogues on gender equality and women's economic empowerment and

OTHER KEY NATIONAL ECONOMIC AND TRADE DEVELOPMENT STRATEGIES

The [Industrialization Master Plan](#) (2007) provides a framework for industrial policy in Lesotho to foster economic growth and achieve the objectives contained in the 2020 National Vision and the Millennium Development Goals. The plan focuses on private sector contribution in increasing investments and boosting exports, underlining the need for attracting foreign investors. Furthermore, it addresses the need for infrastructure development through state intervention and coordination.

The [Lesotho Industrial Policy](#) (2015) aims to build on the existing industrial base for sustainable job creation through, among others, strengthening the industrial development support institutions, promoting Basotho Entrepreneurship as well as diversifying into a range of manufacturing products while increasing value addition.

The [AGOA Response Strategy for Lesotho](#) (2019-2025) prepared by the Government of Lesotho aims to address the competitiveness constraints faced by Lesotho in order to unlock the full potential the country can acquire by 2025. Besides maximising the benefits of AGOA and access to the U.S. market, the strategy is also about enabling Lesotho to compete regionally and internationally to diversity its export market. The strategy focuses on the internal, rather than external, initiatives and interventions that Lesotho can proactively undertake to unlock its supply-side constraints and metamorphose from a consumption economy into a dynamic export-led economy.

[Lesotho Draft Trade Policy Framework](#) provides transparent guidelines for implementing the Government's trade agenda and identifies specific policy interventions and regulatory goals aimed at advancing the country's development for investors and citizens. The Trade Policy geared towards maximising exports through improving the domestic business enabling environment, implementing trade facilitation to reduce trade costs, maintaining and expanding market access regionally and internationally.

[Lesotho MSME POLICY](#) outlines the framework and sets out strategies for the implementation, coordination and monitoring of MSME support mechanisms which are designed to enhance growth and development of the sector.

The main goal of the MSME Policy is to create an environment in which micro, small and medium enterprises thrive and become market competitive, generate decent jobs on a sustainable basis and stimulate growth and development of the economy that lead to the main objective of this policy which is to define clearly how the Government, private sector, including workers and employers organisations, non-governmental

organisations and other development partners can participate in creating an environment for MSMEs to grow and enhance the contribution of this sector to national development.

The [EPA Implementation Plan](#) incorporates a strategic framework and an action matrix that guides the actions of relevant private sector, civil society and public sector stakeholders in ensuring maximum utilization of the potential benefits that are likely to be derived from the Economic Partnership Agreement (EPA) while also ensuring compliance to the provisions of the Agreement. The NEIP identifies products that have the potential for export to the EU market as well as the challenges foreseen and requisite solutions to enter that market.

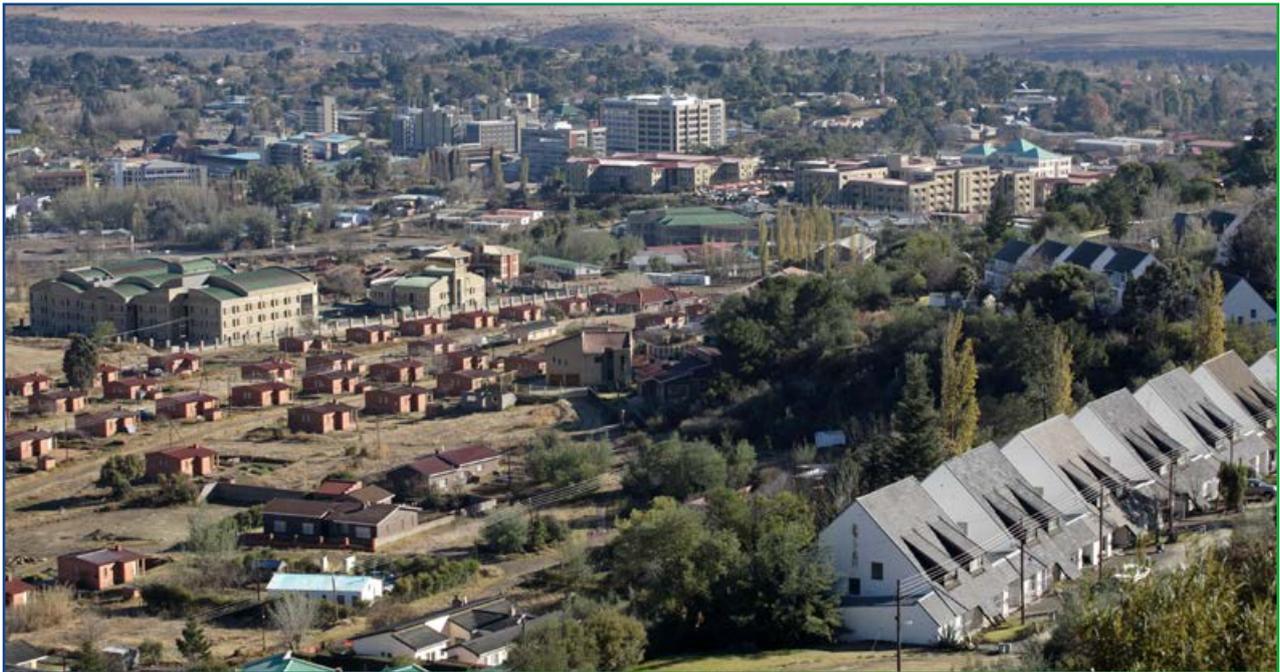
[Linking Smallholders to Markets](#): A supplier Development Programme for Vegetable Farmers in Lesotho – (2019) The study aims assess the demand for vegetable from the main buyers, examine current production and marketing strategies of commercial vegetable producers practicing protected farming as well as suggest the design of the pilot Supplier Development Programme to improve formal market access for small holder farmers. The paper builds on the findings of the World Bank report "Unlocking the potential of Lesotho's Private Sector. A focus on Apparel, Horticulture and ICT" (World Bank).

STRATEGIC PLANS AND DOCUMENTS OF INTERNATIONAL ORGANISATIONS

National Strategic Development Plans incorporated some of the policy recommendations presented in the documents elaborated by international organisations.

The [Diagnostic Trade Integration Study Update](#) (2012), funded by the Enhanced Integrated Framework (EIF) proposed the action matrix in five areas, which should have supported the implementation of Vision 2020 and the NSDP: (1) strengthened institutional capacity for trade and investment policy analysis and implementation, (2) increased regional and multilateral trade integration, (3) improved business environment, (4) improved trade infrastructure and logistics and (5) export-oriented productive capacity development.

The [Private Sector Competitiveness and Economic Diversification Project](#) (2013) is the project of the Government of Lesotho under the Ministry of Trade and Industry, Cooperatives and Marketing with funding from the World Bank. It was relaunched in 2013 with objectives to grow the economy and to make Lesotho become an investment destination of choice through private sector-led economic growth, envisaged to create 50,000 new jobs in key sectors such as horticulture and tourism. As a continuation of the initiative towards



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expanding commercial horticulture, the Programme plans to harness endowments in favourable microclimate conditions that allow for high-value horticulture and early season harvest to the market. The programme aims to transform strategic areas in Lesotho into major producers and exporters of early variety fruits in a competitive and sustainable manner.

“Lesotho: Systematic Country Diagnostic” conducted by the World Bank (2015) considered facilitating competitive, export-oriented private sector as one of five priority interventions to eliminate poverty and promote shared prosperity. To this end, incentives to support an outward-oriented private sector shall be established (trade, competition, and business-regulation policies) and key infrastructure developed (trade facilitation, electricity, roads, ICT). These recommendations have been reiterated in the World Bank’s “Country Partnership Framework 2016-2020”, with the Bank’s support concentrated in two focus areas: (1) improving efficiency and effectiveness of the public sector, and (2) promoting private sector jobs creation.

World Bank’s report “Supporting Lesotho’s Economic Diversification and Trade Integration: structural transformation through greater export competitiveness” (2018) in its policy recommendations calls for (1) improved access to imported material inputs and technology, (2) increase of productivity in AGOA beneficiary sectors, most notably textiles and apparel, and aiming to increase spillovers and linkages from these sectors, (3) enhanced export promotion activities, (4) a reduction in trade costs from a coordinated approach to meeting trade-related regulatory requirements and border management, (5) undertaking a comprehensive

analysis of service sector performance in Lesotho and its implications for export-driven growth and (6) developing a comprehensive trade and investment strategy linked to the NSDP II.

A more operational approach is presented in the World Bank study “Unlocking the potential of Lesotho’s private sector. A focus on apparel, horticulture and ICT”. The three sectors have been selected owing to their potential to create jobs, government priorities and feasibility to improve performance in a relatively short period. The document offers several concrete actions to boost the sectors’ competitiveness. These include inter alia improvement of cross-border trade logistics and building stronger relations with South African buyers (apparel), better functioning of the land market and attracting FDI from South Africa (horticulture) as well as increasing competition among service providers (ITC).

The World Bank also funds specific sector projects such as the [Smallholder Agricultural Development Programme II](#) (2019). It is designed to advance agricultural production and productivity, enhance commercialisation, improve dietary diversity and contribute to food security through technology generation and transfer. In addition, it intends to provide training and offer advisory services in climate-smart agricultural practices to strengthen the adaptive capacity of smallholder farmers to adjust their production systems to minimise potential future impacts from climate change and variability. Through these measures, the programme aims to achieve three important outcomes, namely; improved productivity, increased adaptive capacity to climate risks, and reduced greenhouse gas emissions.



(CC BY-NC-ND 2.0) World Bank Photo Collection, Lesotho - Maseru Qoaling School - John Hogg.

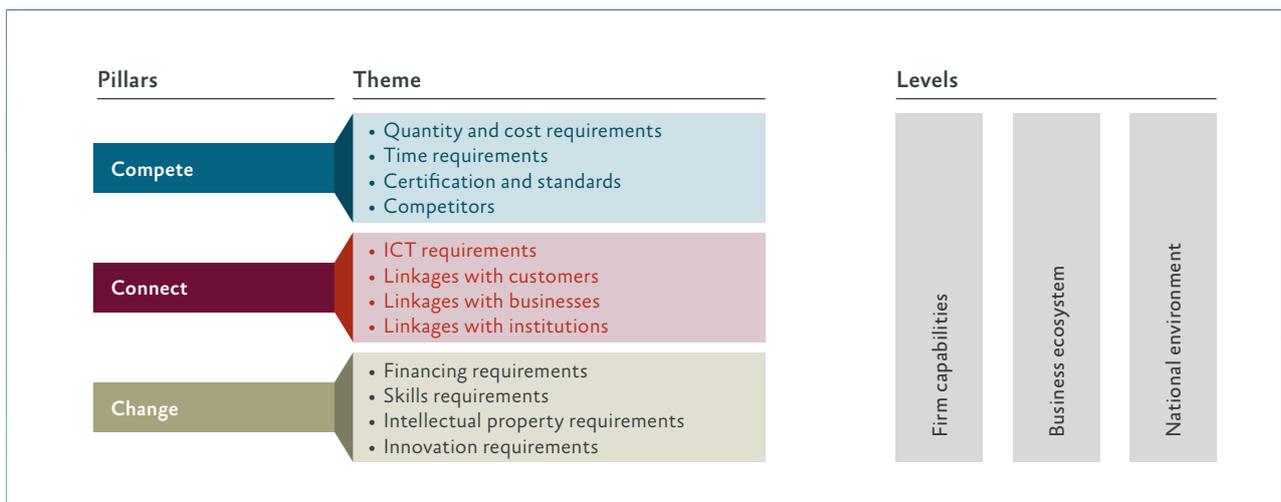
Key takeaways:

- The strategic framework for development and implementation of the economic policy of the Kingdom of Lesotho consists of long-term strategy Vision 2020 and more operational, medium-term National Strategic Development Plans;
- Although NSDPs contain various trade-related objectives and actions, no specific national export strategy has been developed so far;
- Vision 2020 assumes that exports of goods and services as a share of GDP will have increased from 28% of GDP in 2000 to 48% in 2020, whereas imports will have decreased from 88% in 2000 to 70% in 2020;
- The main objective of the current National Strategic Development Plan II for the years 2018/19–2022/23 is the transformation of Lesotho from a consumer-based economy to a producer –and export-driven economy with a focus on four productive sectors: agriculture, manufacturing, tourism and creative industries and technology and innovation;
- NSDP II contains a number of export-related activities, which are dispersed among various key priority areas and objectives;
- The latest World Bank report on Lesotho's export competitiveness concentrates its recommendations on improved access to imported material inputs and technology, increased productivity in textiles and apparel, enhanced export promotion activities, a reduction in trade costs, undertaking a comprehensive export-oriented analysis of service sector performance and developing a comprehensive trade and investment strategy linked to the NSDP II;
- In regards to sectors of promotion, the subsectors of horticulture, textiles and apparel, tourism, and ICT services were of the greatest importance;
- As it pertains to addressing general trade topics, SME improvement, trade facilitation, trade diversification, and regional integration are of the greatest prominence.
- SheTrades Outlook identifies a number of areas for potential interventions to support women's participation and benefits from trade.

KEY COMPETITIVENESS CONSTRAINTS

Competitiveness is the demonstrated ability to design, produce and commercialize an offer that fully, uniquely and continuously fulfils the needs of targeted market segments, while connecting with and drawing resources from the business ecosystem and achieving a sustainable return on the resources employed.⁴

Figure 17: SME Export Competitiveness Grid



Source: ITC

The ITC SME Export Competitiveness Grid provides a methodology for analysing the current situation and export capabilities and identifying key challenges and issues.

- Compete** – covers items related to industries' ability to compete such as productivity, quantity, cost, timeliness, consistency, etc.
- Connect** – the ability to connect to information, public-private collaboration, private-private collaboration, institutional coordination, communicating with clients, product branding, etc.
- Change** – capacity of industries to access the right skills, innovation, attracting investment, intellectual property requirements, etc.

Based on the ITC SME Competitiveness Grid, challenges across the three levels and three dimensions of competitiveness of Lesotho's exports were analysed.

COMPETE

Compete assesses whether current production is efficient and meets market requirements. The competitiveness of exporting sectors in Lesotho is undermined by several factors related to the firms' capabilities, institutional support and national environment.

4.– SMECO, 2015.

Box 2: Competitiveness constraints at the whole economy level: Compete

Compete in national and foreign markets

Firm capabilities

- The high cost of imported inputs impedes the development of export-oriented enterprises and significantly limits a variety of domestic goods and services.
- A strong concentration on a few exported goods poses a serious risk for the economy.
- Lesotho does not fully leverage the potential of existing trade agreements, which results in low diversification of export destinations.
- Outdated technologies and management techniques combined with low skills of employees and high cost of input create low labour productivity and reduced the competitiveness of the products and services offered.
- The limited availability and inconsistent supply of domestic resources hinder the development of new products and services.

Business ecosystem

- The current structure of the private sector accompanied by a preference for an informal way of doing business does not support the development of export-oriented companies.
- Small domestic market constrains production in the sectors which have the potential to be developed to diversify the economy.
- The absence of local standards and certification bodies negatively impacts the quality and price of local goods and services and makes it difficult to export goods to foreign markets.

National environment

- The quality of the road network significantly impedes economic cooperation between urban and rural areas.
- Air transport is not yet an alternative for road and ship transport.
- Inefficient customs and border services cause delays in deliveries.
- Short supply of factory shelves and storage facilities hinder the development of production and export potential of Basotho businesses.
- High dependence on SACU revenues and a local currency pegged to Rand makes the country vulnerable to external economic downturns.
- Unemployment disproportionately affects the youth.
- The gender gap decreases, but it is still quite significant in terms of economic participation.
- Not fully reliable and costly electricity hampers economic activities.

Firm capabilities

The high cost of imported inputs impedes the development of export-oriented enterprises and significantly limits a variety of domestic goods and services. As a small landlocked economy, Lesotho imports the majority of the inputs. The country's trade balance has been negative at around 60% of the GDP. Moreover, being a member of SACU, the country cannot independently lower its tariffs for key inputs as it is bound by the SACU Common External Tariff. Any changes in tariffs require consensus among the SACU member states. Existing duty drawback system, which should alleviate the problem of high import duties on inputs for the production of export goods does not function properly. Long delays in reimbursement tie-up outward-oriented companies' cash-flow. The high propensity to import also limits the development of local productive capacity. As a result, domestic products cannot compete with imported products on quality, quantity, cost, or variety.

- **Plan of Action reference:** Activities 1.4.1, and 1.4.2.

Strong concentration on a few exported goods poses a serious risk for the economy. Lesotho's exports are limited to a few products: apparel and textiles, diamonds, water and agricultural products. Strong competition from Asian manufacturers on the American market has already decreased the volume of exports of apparel and textiles, which are the most important export products of Lesotho. Further deterioration of competitiveness in this area, triggered by potential phasing out of AGOA agreement or new free trade agreements signed by the United States with Lesotho's main competitors may have a tremendous impact on the whole economy. Furthermore, exports of horticultural products are highly seasonal. Lesotho also does not fully take advantage of its potential in this area. A lot of exported products (e.g. diamonds) have low value-added leading to limited profitability for the economy.

- **Plan of Action reference:** Activities 2.1.1, and 3.1.1.

Lesotho does not fully leverage the potential of existing trade agreements, which results in low diversification of export destinations. In addition to access to various trade agreements and SACU market, as a least developed country, Lesotho also benefits from preferential, duty-free, quota-free trade agreements with several countries and the EU. Despite such market access opportunities, export partners of Lesotho are confined to only several markets, including the United States (apparel), Belgium (diamonds) and South Africa (the most diversified variety of goods). Although South Africa is one of the key export destinations, the potential for regional trade cooperation within SACU countries is not fully explored. Trade with other SACU countries is limited. Similar to product concentration, such reliance on a few export markets may have serious economic consequences in case of a decline in demand from these markets.

- **Plan of Action reference:** Activities 2.1.1, and 2.1.2.

Outdated technologies and management techniques combined with low skills of employees and high cost of input create low labour productivity and reduced competitiveness of the offer. With the dominance of low-skill type of work and insufficient investment in human capital and the development of modern technologies, labour productivity is generally poor. This is also reinforced by the limited knowledge transfer from existing FDIs. Currently exported goods incorporate little value-added and low or any technological content, which makes them less competitive. Without applying new technologies and management techniques, it will be difficult to increase productivity.

- **Plan of Action reference:** Activities 3.2.1, 3.3.1, and 3.3.2.

The limited availability and inconsistent supply of domestic resources hinder the development of new products and services. Agriculture is a good exemplification of the problem. The country has a huge potential for the development of the segment, but imports 80% of agricultural products, mainly from South Africa. Some of the factors that lead to this state of affairs are underdeveloped land market and value chains, limited access to finance, technology and extension services, the dominance of subsistence farming, poor linkage to the local markets, lack of aggregators, insufficient irrigation systems and soil degradation. However, the sector has the potential to create new products and

services. Successful sales of trout to Japan confirm that agricultural products have strong export potential.

- **Plan of Action reference:** Activities 1.2.1, 1.2.2, and 1.2.3.

Business ecosystem

The current structure of the private sector accompanied by a preference for an informal way of doing business does not support the development of export-oriented companies. One of the biggest challenges for the Basotho government is to carry out transformation from public to private sector-led economy. The private sector consists of relatively small firms, with 97% of companies employing less than 20 people and concentrated in the urban area. Large companies, mainly foreign-owned, constitute 1% of all businesses, but half of employment. Majority of the managerial positions in these enterprises are occupied by foreigners, therefore local employees have limited access to managerial positions and know-how. Most of the companies are engaged in wholesale and retail trade, serving the local market only. Official businesses are accompanied by strong informal economy, which according to estimates, might have generated over 40% of GDP in 2014.⁵

- **Plan of Action reference:** Activities 1.1.1, 1.2.1, and 1.2.2.

Small domestic market constrains production in the sectors which have the potential to be developed to diversify the economy. The domestic market is not large enough to offer economies of scale. This results in relatively high production costs and inefficiencies. With the low purchasing power of the local population, inward-oriented enterprises have limited potential for high growth. The companies in Lesotho must, therefore, strive to join regional (in the SACU area) and global value chains to succeed.

- **Plan of Action reference:** Activity 3.2.2.

Lack of local standards and limited certification capacity negatively impacts the quality and price of local goods and services and makes it difficult to export goods to foreign markets. The Lesotho Standards Institution has been recently set up and is operational as of 2020/2021. LSI has developed a roadmap for publication of standards in bottled water, Fresh Fruits and Vegetables, Health and safety products etc and

5.– Matsoso, P.K., 2015. Measuring inasrdxformal economy through household surveys (such as Labour Force Survey, Household Budget Survey) or censuses (Such as the Population Census). Paper submitted to the Expect Group Meeting on Statistics for SDGs: Accounting for Informal Sector in National Account. 6–8 October 2015, Addis Ababa, Ethiopia 6–8 October 2015, Addis Ababa, Ethiopia.

enhancement of the complimentary conformity assessment such as testing and certification services. LSI is set to respond to the cumbersome compliance costs and processes to the export technical requirements.

Traditionally, in order to receive globally recognized certificates of quality, the local companies have relied on the services of South African institutions. To certify a shipment, a specialist from South Africa needs to travel to Lesotho to certify goods. This can often cost up to \$2,000 according to local producers.⁶ This has severely impacted producers' ability to export goods and the costs of potential exports for goods which require certification (for example, agricultural goods). Exporters are facing difficulties complying with the technical regulations and standards applied by partner countries and the EU in particular. This prevents their access to international markets.

- **Plan of Action reference:** Activities 2.3.1, and 2.3.2.

National Environment

The quality of road network significantly impedes economic cooperation between urban and rural areas. With only a short railway track from Maseru to South Africa in operation, the local population relies heavily on the roads network. Most of the country is covered in mountain ranges. A substantial part of the population lives in the isolated mountain rural areas and the commercial activities are concentrated in lowland western part of the country. The government of Lesotho invested in road improvements under the NSDP. However, the road connectivity between mountain areas and the lowlands is still low. Travel times are unreliable, transportation costs relatively high and business links between lowland urban and rural highland areas significantly impacted and underdeveloped as a result. It is of crucial importance to establish transport links between these areas as a prerequisite for inclusive economic development.

- **Plan of Action reference:** Activity 1.3.1.

Air transport is not yet an alternative for road and ship transport. The capacity to transport goods and people by air is key for a landlocked country with a large distance to global markets. Currently, this capacity is significantly underdeveloped. There are only 3 flights a day from Johannesburg to the international airport in Maseru. This poses a problem when it comes to the development of tourism, especially from countries other than South Africa. Moreover, the airport offers limited

cargo or cold storage services making it hard to be used for exports of the majority of goods.

- **Plan of Action reference:** Activity 1.3.2.

Inefficient customs and border services cause delays in deliveries. Lesotho borders with South Africa only. The current border procedures result in border friction leading to significant delays in lead times. Limited electronic payment systems, complex import and export formalities and regulations, as well as lack of sufficient coordination between all actors involved in cross-border trade, have a significant impact on the ability to export goods. Waiting time on the South African border can be up to 16 hours.⁷ The lack of proficient customs procedures remains an impediment to export development. Another issue is the handling of transit cargo in South African ports. Trade facilitation is particularly important for women entrepreneurs because they tend to operate smaller-sized business and are often more vulnerable to inefficiencies and irregularities at the border.

- **Plan of Action reference:** Activities 1.4.3, and 1.4.4.

Short supply of factory shells and storage facilities hinder the development of production and export potential of Lesotho businesses. Since the private sector is currently not able to sufficiently cover businesses' needs in terms of factory shells and storage facilities, the Lesotho National Development Corporation supports businesses in this respect. However, this system is not always without issues and does not fully meet business requirements. Companies complain about limited availability of bulk storage facilities for lease, which inflates the warehousing costs. With a significant decrease of FDI in the last years, a new approach to the provision of business infrastructure with stronger participation of private sector might attract new investors with their capital and know-how.

- **Plan of Action reference:** Activity 1.3.3.

High dependence on SACU revenues and local currency pegged to Rand makes the country vulnerable to external economic downturns. The second-largest revenue source in the state budget is SACU revenue. As they are volatile and declining, it poses a risk to the financial stability of the country. The medium-term financial planning of budgetary expenditure becomes more difficult. The pegging of Loti to Rand, meaning that the local currency is pegged at par with the South African one, deprives Lesotho of independent monetary

6.– Information obtained from local producers during a stakeholder workshop in October 2019 in Maseru

7.– Information obtained from local producers during a stakeholder workshop in October 2019 in Maseru

policy. Local exporters and importers are exposed to exchange rate risk, which results solely from the economic policy of the neighbour and the commodity market cycle, as minerals represent the bulk share of South African exports.

- **Plan of Action reference:** Activities 2.1.1, 2.1.2, 2.2.2, and 2.2.4.

Unemployment disproportionately affects the youth.

Demographically, Lesotho population is dominated by young people, with 40% of the population aged 15-35, and a median age of 24 years. The local labour market is not able to absorb the available human resources. This leads to social unrest and migration, especially to South Africa. The unemployment rate is around 25% and over 36% among the youth. The majority of the working population is engaged in occupations which consist of simple and routine tasks that require the use of hand-held tools and physical effort. The NSDP I attributes high unemployment rates to inadequate technical skills; dropping-out of school; limited work experience (some employers prefer experienced labour); mismatch between labour market needs and skills; lack of entrepreneurial skills and venture capital; lack of access to finance; and low political participation in decision-making.

- **Plan of Action reference:** Activities 3.3.1, 3.2.1.

The gender gap decreases, but it is still quite significant in terms of economic participation. Lesotho is classified 81th out of 149 countries in the latest "The Global Gender Gap Report 2018"⁸. It ranked 1st in categories "educational attainment" and "health and survival". The former index measures the gap between women's and men's current access to education, the latter the sex ratio at birth and healthy life expectancy of women and men. The worst score is under category "economic participation and opportunity" (ranked 88th). It captures the difference between women and men in labour force participation, remuneration gap, the ratio of women to men among legislators, senior officials, managers, technical and professional workers. To achieve progress in the two areas, activities empowering women to participate equally in economic activities are badly needed. According to ITC statistics, as a global average, only one out of five exporting companies is women-led. When they do export, women-owned businesses may face specific constraints, are likely to be smaller and engaged in more traditional

sectors. However, women-led exporting companies tend to employ proportionally more women than men-led companies.

- **Plan of Action reference:** Activity 3.3.4.

Not fully reliable and costly electricity hampers the economic activities. Despite successful investments in hydropower generation, the availability of electricity is still low and generally confined to urban areas. About 62% of the population still live without access to electricity⁹. Although Lesotho has huge potential for green energy production from other sources, technologies relying on wind or sun are still in their nascent stage. The cost of electricity, as well as a lack of reliable supply, are still an issue. This can significantly affect businesses, especially in the manufacturing sector. Lesotho is ranked 157th among 190 countries in the category "getting electricity" in the latest Doing Business report¹⁰ with the indicator "reliability of supply and transparency of tariff" scoring 0 (on a scale of 0-8).

- **Plan of Action reference:** Activity 1.1.2.



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8.- World Economic Forum, 2018

9.- Reference ?

10.- Doing Business 2019, World Bank Group

CONNECT

Connect is the connectivity dimension of competitiveness. To be competitive, enterprises must link to

customers, businesses, institutions, and be literate in information and communications technologies. Critical factors constrain the ability of Lesotho's export sector to connect and maintain commercial relationships.

Box 3: Competitiveness constraints at the whole economy level: Connect

Business environment constraints

Firm capabilities

- Lack of local suppliers constrains the expansion of the manufacturing sector.
- Linkages among sectors are not strong enough to generate additional business opportunities.
- Lack of cooperation amongst companies hampers the development of joint business ventures and local supply chains.
- Companies in Lesotho are lagging behind in using basic ICT tools to connect with customers and suppliers.
- Low awareness about the available trade support services amongst SMEs leads to underutilisation and prevents the support network from fulfilling its purpose.
- Business organisations are fragmented making it difficult for them to impact the government's economic and trade policies.

Business ecosystem

- Lack of sufficient backward and forward linkages of Lesotho's companies limit the spillover effect on the whole economy.
- Limited instruments to attract additional investment from new and existing investors hamper diversification potential.
- Lack of service offshoring despite existing advantages of the local labour market.
- Trade intelligence data is not widely available to companies, which limits their decision-making abilities.
- The usual tasks undertaken by the dedicated export promotion agency are in Lesotho divided among several institutions making it difficult to coordinate efforts.
- The absence of a strong national brand makes it harder to promote national goods and services.
- Limited scale of promotional activities makes it more difficult for businesses to build visibility of their products and services.

National environment

- Ease of doing business needs to be increased to attract new investors and boost existing companies.
- Lack of sufficient cooperation between companies and administration means the business environment is not fully conducive to export development.
- A fully operational commercial dispute resolution system is needed to resolve disputes efficiently.
- Climate change is an ongoing threat to Lesotho's economy.

Firm capabilities

Lack of local suppliers constrains the expansion of the manufacturing sector. Lesotho's textile and apparel sector is the only business segment with established links to the global value chains (GVCs). Taking advantage of duty-free export to the United States, it produces in bulk for American retail giants. On the other hand, apparel exports to the European Union are almost non-existent, despite similar preferential access to the EU market. With all inputs imported from Asia (no fabric knitting mills or dye houses in Lesotho), the producers are not able to satisfy the European buyers from the fast fashion sector who require fast deliveries of small batches of products.

Linkages among sectors are not strong enough to generate additional business opportunities. The scarce inter-sectoral linkages limit opportunities for the transformation of the local economy. Growth in one sector does not translate into growth in related sectors. A case in point is mining and mineral sector. Expansion of the segment is not reflected in the development of ancillary sectors such as agriculture, food production, manufacturing or business services. This is related to the absence of a critical mass in the national market. Strong alliances should be developed between current importers and national producers – the parties should work jointly towards a gradual shift to domestic sourcing.

- **Plan of Action reference:** Activity 1.2.2.

- **Plan of Action reference:** Activities 1.2.2, and 1.2.3.

Lack of cooperation amongst companies hampers the development of joint business ventures and local supply chains. Cooperation between companies with complementary skills, products or services usually generates value-added, which could not be achieved on a stand-alone basis. It is especially important in a country like Lesotho, dominated by small companies with limited financial, human and management capacity on one hand, and offering huge potential for businesses development locally and abroad on the other. The sector, which could especially benefit from better cooperation is agribusiness. One of the explanations for weak cooperation is the low level of trust in the society, which in the enterprise sector may be attributed to poor business ethics. To encourage cooperation between local companies, especially large enterprises with small businesses, appropriate institutional, training and promotional actions need to be undertaken. Public-private partnerships are also required to strengthen local companies.

- **Plan of Action reference:** Activities 1.2.2, and 1.2.3.

Companies in Lesotho are lagging behind in using basic ICT tools to connect with customers and suppliers. In the digital era, entrepreneurs must invest in e-tools and skills indispensable to connect with actual and potential customers and suppliers. Company e-mails and websites are one of the main tools for communication with business partners. But when compared with other lower-middle-income countries, usage of e-mail and websites in Lesotho is below the average¹¹. Few Basotho enterprises use e-commerce to attract international customers. Digital skills and presence are low. Significant improvement in this area is needed to reach the full potential of ICT tools for export development. Given that English is the official language of Lesotho, online presence should significantly facilitate communication with international partners. Lack of access to the Internet and low utilisation of ICT tools means that companies do not take advantage of opportunities offered by new technologies to advertise their products, search for new customers or arrange sales via e-commerce solutions.

- **Plan of Action reference:** Activities 2.4.1, and 2.4.2.

Low awareness about the available trade support services amongst SMEs leads to underutilisation and prevents the support network from fulfilling its purpose. The trade support institutions provide several services that can facilitate firms' operations. However, most

SMEs do not use them because they are not aware of what type of services are available. Institutions do not make sufficient efforts to market their services.

- **Plan of Action reference:** Activities 1.2.1, 1.2.2, and 2.2.1.

Business organisations are fragmented making it difficult for them to impact the government's economic and trade policies. Affiliation to a business organisation is not obligatory in Lesotho. Business associations are fragmented and associate only a fraction of entrepreneurs. Their activity is concentrated in cities. Due to the low profile, they are not able to offer comprehensive services to their members, including those related to export. They are also not able to be a strong voice in the formation and implementation of Lesotho's economic policy.

- **Plan of Action reference:** Activity 2.2.1.

Business ecosystem

Lack of sufficient backward and forward linkages of Lesotho's companies limit the spillover effect on the whole economy. The business ecosystem of Lesotho consists predominantly of low-skill and low-value-added companies with limited linkages to local suppliers and poorly integrated with existing regional and global value chains. The businesses are inward-oriented, which bearing in mind a small internal market leads to the prevalence of micro-companies, characterized by low productivity and limited potential for development.

- **Plan of Action reference:** Activity 1.2.2.

Limited instruments to attract additional investment from new and existing investors hamper diversification potential. Although Lesotho has made significant progress in improving the ease of doing business indicators¹², FDI trends are declining and local investment is stagnating. There is no targeted plan for attracting new FDIs and domestic investment. Instruments offered by the Lesotho National Development Corporation seem to be insufficient to boost investment from foreign and local companies. This hinders the development of new innovation-based products and services.

- **Plan of Action reference:** Activity 3.2.1.

11.– SME Competitiveness Outlook 2019, International Trade Centre

12.– Reference?

Lack of service offshoring despite existing advantages of the local labour market. Despite the availability of English-speaking workforce, low labour costs and less stringent labour market laws, Lesotho has not been able to generate considerable export revenues through services outsourcing. The country's proximity to the South African market with its much more developed global and regional value chains suggests that there would be potential for export of such services. The country has capabilities to capture business services, financial services, or ICT services from international corporations located first of all in South Africa.

- **Plan of Action reference:** Activity 3.2.2.

Trade intelligence data is not widely available to companies, which limits their decision-making abilities. Although the Lesotho Trade Portal has been launched and incorporated into One-Stop Business Facilitation Centre, it contains limited information regarding market access conditions. Comprehensive information on market access conditions is crucial especially for SMEs with limited experience of exporting to foreign markets. This should also include information on available trade preferences as well as conditions and documentation required to take advantage of such preferences. These export opportunities are generally untapped. Lack of knowledge not only prevents the local companies from developing export-oriented product strategies but also impedes design of national export policies and marketing campaigns, which are critical to succeed in the foreign markets.

- **Plan of Action reference:** Activities 2.2.1, 2.1.1.

The usual tasks undertaken by the dedicated export promotion agency are in Lesotho divided among several institutions making it difficult to coordinate efforts. There is a lack of a dedicated export promotion agency. Export promotion activities are carried out by several institutions including the Lesotho National Development Corporation and the Lesotho Tourism Development Corporation. The lack of sufficient coordination between these institutions results in duplication of activities and often misallocation of resources. With no comprehensive export promotion strategy led by a dedicated organization, it is difficult to coordinate marketing activities.

- **Plan of Action reference:** Activities 2.2.1, 1.2.1.

The absence of a strong national brand makes it harder to promote national goods and services. A distinctive national brand is often an integral part of a national export promotion strategy. It can provide an umbrella

for export-related marketing activities and significantly improve the perceived attractiveness of exported products and services. Developing and strengthening the national brand is of special importance for countries like Lesotho, which need to heavily invest in the promotion of its products and services. Since Lesotho already has a national brand and a slogan, strengthening and promoting the brand could support export promotion activities.

- **Plan of Action reference:** Activity 2.2.4.

Limited scale of promotional activities makes it more difficult for businesses to build visibility of their products and services. There are no exhibition facilities in Lesotho, which prevents businesses from presenting their offer to potential customers on local trade fairs. Participation in foreign exhibitions and trade missions is costly and it is usually confined to SACU countries. No website presents various Basotho companies and their product offer.

- **Plan of Action reference:** Activity 2.2.5.

National Environment

Ease of doing business needs to be increased to attract new investors and boost existing companies. For small, landlocked country located far from the main world markets, ease of doing business is particularly important to attract investment and develop the domestic economy. Domestic regulation is the key factor affecting the ease of doing business. The World Bank's Doing Business report presents quantitative indicators on business regulations in 11 areas. Among 190 countries classified, Lesotho is ranked between 38th (trading across borders) and 171st position (dealing with construction permits). This illustrates the scale of the regulatory challenge ahead of Basotho legislators.

- **Plan of Action reference:** Activities 1.1.1, and 3.2.1.

Lack of sufficient cooperation between companies and administration means the business environment is not fully conducive to export development. Limited involvement of businesses in terms of trade policy consultation process leads to policies that do not meet business needs and do not reflect the type of issues faced by companies. Stakeholder engagement, in this case, Basotho exporters, is crucial when developing new governmental initiatives on trade. Another issue is the lack of sufficient access to advice on governmental regulations. Companies often struggle to understand and apply legal requirements. The business sector needs

to actively participate in the development of export-oriented policies, programmes and legislation.

- **Plan of Action reference:** Activity 1.2.1.

A fully operational commercial dispute resolution system is needed to resolve disputes efficiently. The judiciary system of Lesotho is facing a backlog of cases. As the NSDP II stresses, there is a need for a fully operational commercial court with trained legal professionals. Courts' capacity is exceeded and the cases take longer to resolve. Lesotho is classified 95th in the latest Doing Business ranking under "enforcing contracts" category. The dispute which involves the breach of a sales contract between two domestic businesses can take up to 615 days to be resolved.

- **Plan of Action reference:** Activity 1.2.1.

Climate change is an ongoing threat to Lesotho's economy. Climate change and the ensuing extreme weather conditions like droughts, hail, snowstorms or

heat waves pose a serious threat to the local economy. Agriculture is especially vulnerable to such changes. Deterioration of natural conditions combined with the dominance of low-skill subsistence agriculture will require immense financial and technological investment. The negative effects of climate change are accompanied by erosion of soil resulting from deforestation and overgrazing. Negative consequences of extreme weather conditions such as water shortages or black-outs may impact all sectors of the Basotho economy.

- **Plan of Action reference:** Activities 1.1.2, and 3.1.1.

CHANGE

Change is the dynamic dimension of competitiveness. It assesses whether enterprises have the capacity to make human and financial investments and to adapt to fast-changing markets. Lesotho's export sector currently has a limited capacity to innovate and to tap into emerging trends and markets.

Box 4: Competitiveness constraints at the whole economy level: Change

Change, innovate and tap intemerging trends

Firm capabilities

- Lack of access to loans for SMEs impedes development.
- Blended finance in Lesotho needs to be further developed to improve access to finance.
- Limited use of technology and companies' R&D capacity impedes product and process innovation.
- Managerial skills of Basotho workforce require improvement.
- Human potential of Basotho diaspora in most sectors is not sufficiently utilised to boost trade and inclusive economic growth.

Business ecosystem

- Mismatch between the actual and required skills of graduates is a challenge for the educational system.
- The absence of an innovation ecosystem hinders the creation of successful local start-ups.

National environment

- The R&D sector is too small to have a positive impact on the level of domestic innovation.
- Comprehensive legal and technological framework for the digital economy must be set up to improve access to markets.

Firm capabilities

Lack of access to loans for SMEs impedes development. The banking sector in Lesotho is stable with a number of foreign and local institutions. Nevertheless, companies have problems with access to loans. In particular, SMEs which are prevalent in Lesotho, are often not able to meet credit criteria and requirements, provide sufficient collateral and provide an elaborate proposed business plan. With Basotho companies

operating in a limited number of sectors, banks encounter credit concentration risk, which prevents them from lending to a given sector when a safe financing limit is reached. Companies operating more informally are excluded from SME banking financing (but instead use consumer loans). The banking system is not connected to other domestic systems such as the civil registry, which may cause further administrative hurdles. The National Debt Bureau is in its nascent stage and is not yet able to fully cooperate with the financial sector.

Microfinance institutions are not developed enough to serve all the customers ineligible for other forms of financial support. Leasing could be an alternative to loans, but it is not widely spread.

- **Plan of Action reference:** Activity 1.2.3.

Blended finance in Lesotho needs to be further developed to improve access to finance. Credit guarantee schemes were established to alleviate the problem of insufficient collateral for loans. The scale and scope of the available support seem to be inadequate to the actual needs. Other public-private financial programmes have not yet been developed, despite high demand for such type of service. Lesotho has no development bank and start-up/venture capital funds. Targeted blended finance schemes designed and implemented together with financial institutions would be especially helpful for start-ups and innovative companies from high value-added sectors.

- **Plan of Action reference:** Activity 3.1.3.

Low use of technology and companies' R&D capacity impedes product and process innovation. According to the latest Global Competitiveness Report 2017-2018, Lesotho ranks 134 out of 137 countries in terms of the availability of the latest technologies and 133 in terms of firm-level technology absorption. There are several reasons behind this. One of them is the structure of the local economy dominated by low-skill and labour-intensive sectors. Another reason is the weak financial situation of companies resulting from lack of access to finance, limited research at the company level, low level of foreign direct investments, which are not combined with technology and know-how transfer. In addition, poor cooperation between universities and businesses further reinforces this state of affairs.

- **Plan of Action reference:** Activities 3.1.1. and 3.1.2.

Managerial skills of Basotho workforce require improvement. The limited number of employees with comprehensive managerial skills results in less than efficient business management practices. Some of the areas where this skill-gap is most visible are financial management, marketing, international trade and emerging technologies. With a lack of access to high-quality training programmes and limited financial resources for personal development, the most common method for people to improve their skills is on-the-job training. However, there are limits to how much can be achieved in this way. Employers are not eager to invest in training their staff.

- **Plan of Action reference:** Activity 3.3.2.

Human potential of Basotho diaspora is not utilised to boost trade and inclusive economic growth. Lesotho has a relatively large diaspora, mainly in South Africa and Europe. Currently, there is no mechanism for encouraging business links between domestic companies and the diaspora. Such linkages have proven to be extremely useful in one or two industries already (textiles and cosmetics). In addition, given the current mismatch between the skills of local labour and companies' needs, a legal and organisational framework for attracting talent from abroad would be needed.

- **Plan of Action reference:** Activity 2.2.3.

Business ecosystem

Mismatch between the actual and required skills of graduates is a challenge for the educational system. Although Lesotho made a great effort to eradicate illiteracy and invested in its education system, there is a gap in the current level of skills of the population and businesses' needs. At the same time, the unemployment rate is high. In the apparel industry, for example, there is a high demand for certain artisanal skills. However, there is no training available in Lesotho. Technical and Vocational Education and Training (TVET) is not sufficiently developed. Limited opportunities to complete an apprenticeship mean that graduates have little practical job experience and might find it difficult to find employment. As mentioned previously, employers are reluctant to invest in the training of their staff. Subjects such as business skills or entrepreneurship do not form part of the school curricula.

- **Plan of Action reference:** Activity 3.3.1.

The absence of an innovation ecosystem hinders the creation of successful local start-ups. The business incubation system in Lesotho is at its nascent stage. The links between the universities, the government and business are not developed enough for significant cooperation for innovation to develop. Business incubators offering workspace, advisory services, seed and start-up financing as well as networking potential are not developed in Lesotho. This makes it difficult for new companies to develop new innovative products or services. There is also a lack of links with international innovation centres, which could bolster a transfer of know-how and capital.

- **Plan of Action reference:** Activities 3.1.1, 3.1.2, and 3.1.3.



(CC BY-NC 2.0) Water Alternatives, Katse Dam, Lesotho Africa's highest and second largest dam.

National Environment

The R&D sector is too small to have a positive impact on the level of domestic innovation. The research and development segment faces many constraints. There are currently no research institutes in Lesotho and the R&D conducted at the National University of Lesotho is insufficient due to limited financial and other resources available. Companies rarely invest in R&D and there is a low level of cooperation between universities and businesses. Brain drain is another challenge facing Lesotho and local companies. Foreign direct investments located in Lesotho seldom contain research and development elements. Additionally, national innovation policy is missing.

- **Plan of Action reference:** Activities 3.1.1, 3.1.2, and 3.1.3.

Comprehensive legal and technological framework for the digital economy must be set up to improve access to markets. Transformation towards the digital economy has the potential to significantly impact Lesotho's economy. Unfortunately, access to the Internet is still not widely available. Lack of competition in terms of providers results in a high cost of Internet, mobile and data-based services. Slow development of ICT infrastructure significantly impedes the development of innovative sectors and application of export-oriented e-solutions within companies. Infrastructure constraints also prevent the government from offering a full array of e-services for businesses. In addition to infrastructure, legislation is lagging behind the technological changes. The process of updating legislation is lengthy and is constrained by the shortages of experts in highly specialized domains. In some areas such as data protection, cybersecurity, e-commerce, digital finance, competition or intellectual property legislation is outdated or deficient.

- **Plan of Action reference:** Activities 3.2.1, 2.4.1, and 2.4.2.



THE WAY FORWARD

This section is based on the comprehensive analysis of key aspects of Lesotho's trade performance, national economy, innovation, and investment framework as well as Lesotho's institutional landscape, development plans, and its competitiveness constraints. The "way forward" lays down the key strategic framework of the National Export Strategy (NES) comprising the vision statement, the strategic and operational objectives, a selection of priority sectors and cross-sector functions, as well as the Plan of Action.

Vision and strategic objectives

To guide the implementation of the NES in the next three to five years, the vision statement set out below has been formulated and agreed upon by stakeholders who participated in the consultations for the design of this NES.¹³ It represents the ambitions of the country as well as a consensus among stakeholders over the role of exports in the economy today and in the near future. The following is a delineation of the proposed vision and strategic approach in this direction, agreed with all national trade stakeholders in Lesotho.

“ A competitive and sustainable food processing industry driven by food safety and quality assurance ”

To realize the vision statement, strategic objectives have been formulated which provide orientations that are to guide the implementation of the NES in the three strategic areas where action is required over the following five years to bring about changes. The three strategic objectives are as follows:

1. To strengthen the competitiveness of the business ecosystem and improve trade facilitation.

In order to successfully implement an export promotion strategy, diversification in terms of products and market cannot occur in a vacuum. Being a small, land-locked country, the size of Lesotho's market restricts the

opportunities for firms to grow and exploit economies of scale. This restriction makes the quality of the business ecosystem central to the development of SMEs. A well-functioning business ecosystem eases the effort for entrepreneurs and investors, boosts firms' competitiveness, and lowers the cost of doing business in the country. In short, strengthening the business ecosystem mitigates some of the costs linked to a small domestic market.

This strategic objective focuses on improving the infrastructure, simplifying and streamlining customs procedures as well as optimising SACU's trade framework.

At the operational level, there are the following sub-objectives:

13.– These consultations took place in Maseru during the 17th – 18th September and 11th – 14th November of 2019.

- **Improving business conditions for existing private sector companies and potential investors.** This objective ensures the simplification and facilitation of regulations and procedures required to set up and run a business. It aims to improve access to loans. Finally, it also aims to improve access to one of the commodities necessary to increase economic activity – electricity.
- **Development of local export companies via cooperation.** This activity focuses on supporting employers and employees and helping them create linkages which will enable to improve productivity and companies' performance. This includes both public-private and private-private sector dimensions. Cooperation and dialogue between the private sector have been identified as an important factor in facilitating exports. In addition, companies can learn from and support each other in their growth. This includes encouraging creating local supply chains and links between companies providing goods and services at different stages of the process. Participation of the population from rural areas in economic activity and national supply chains is crucially important, as well as women entrepreneurs and producers. Public-private sector dialogue is equally important to ensure that companies have sufficient information on the support available to them and actively participate in the policy formation process.
- **Better infrastructure for exporters.** Infrastructure is key for exporting goods to foreign markets. Goods need to be delivered to the border, port or other modes of transport. Improving road and air infrastructure is the envisioned way forward. As a land-locked country, Lesotho uses South African ports to export its goods to distant markets. The activity covers using SACU structures to open a dialogue with South Africa on simplifying procedures in these ports. It also covers better storage infrastructure and access to cold storage which is needed to successfully increase the volume of exports of agricultural products.
- **Facilitating trade and improving the functioning of the SACU framework.** This operational sub-activity focuses on internal negotiations within SACU to improve conditions for Basotho firms. This would be done via lobbying for a lower SACU common external tariff for key inputs imported from outside SACU. The activity also covers amendments to the current duty drawback system. Finally, this objective covers border procedures. Since the majority of goods are currently exported via road (awaiting expansion of Maseru airport), procedures on South African borders impact the ease with which companies can deliver their products to foreign markets. The way forward consists of improving cross-border logistics

and streamlining customs procedures by increasing awareness of rules and regulations and encouraging better compliance.

2. To intensify existing trade relationships and diversify the range of export destinations.

Basotho exporters rely on a small number of export markets, in particular South Africa and the US. This creates risk in terms of the sustainability of exports and interruptions in demand from these markets. In order to increase exports, Basotho firms need to not only diversify in terms of exported products but also attempt to reach new clients and access new markets.

This strategic objective focuses on supporting Basotho companies in expanding to new markets. This is done both internally by increasing awareness of various opportunities, educating exporters about regulatory requirements in other markets, as well as externally by ensuring Lesotho is well represented in SACU's trade negotiations. Particular attention is paid to ensure women entrepreneurs and producers are included in these initiatives.

Lesotho is a member of several trade agreements but the awareness of these agreements and the related opportunities are quite low. In addition to providing information on existing trade agreements and exporting under preference, educating exporters about standards and certification plays a key role in export strategy. A national branding initiative supports this objective.

At the operational level, there are the following sub-objectives:

- **Market diversification through full utilization of trade agreements.** As a result of Lesotho being a member of several trade agreements, exports to a number of foreign markets are not subject to customs duties. This operational objective aims to familiarise exporters with the existing opportunities as well as requirements the goods need to fulfil in order to be eligible for preferential tariffs. This also includes customs documentation that needs to accompany a good exported under a trade deal. In addition, ensuring that the interests of Lesotho's businesses are reflected in all future trade negotiations under SACU (both with SACU partners as well as those conducted by SACU with third parties) should be a priority for the Government.
- **Export promotion activities.** This activity is twofold. First, it focuses on export promotion within the country by providing advice, information and support to local firms. This is aimed at increasing awareness of market opportunities as well as supporting companies throughout all stages of the process.

Having a centralised, national agency responsible for providing a range of information on all aspects of export promotion would support this objective. An exhibition centre would also play an important role. Furthermore, strengthening and promoting externally Lesotho's national brand is envisioned. The involvement of both Lesotho's foreign diplomatic missions as well as Basotho diaspora can support this objective.

- **Standards and certification.** Standards are one of the most important non-tariff barriers to trade, not only in Africa but worldwide. Lack of awareness about product standards as well as certification demonstrating that the exported products meet them can be a major hindrance to exports. This objective is aimed at ensuring that Basotho companies are able to obtain support and certify their products locally without having to invite specialists from South Africa.
- **ITC for market diversification.** This objective focuses on increasing the usage of e-commerce tool and e-administration for exports. Improving access to the Internet would support this objective.

3. To expand the national productive capacity and diversify the export basket.

Lesotho's export basket is highly concentrated on a few relatively low value-added products and services. The country exports a small number of products in a small number of industries, namely apparel and textiles, diamonds, water and agricultural products. As a result, the country's exports overly rely on a couple of products, with some of them being highly susceptible to weather and seasonal changes.

While the previous objectives focused more on market diversification and improving the wider business ecosystem, this alone will not be enough without increasing companies' competitiveness via steps included in this section.

Expanding the national productive capacity requires strengthening SMEs: supporting their development and increasing their profitability. A combination of internal enhancements, boosting innovation, increasing access to vocational training and attracting selective knowledge-enhancing foreign investments is proposed as the way forward. The emphasis of this objective is placed on the internal factors that affect the competitiveness of the firms.

Vocational training should focus on enhancing the skills, knowledge, and competencies required to succeed in international markets. Fostering collaboration on innovation between enterprises and educational institutions is a key element of this strategic objective. In the long run, growth hinges on the capacity to develop



(CC BY-NC-ND 2.0) International Labour Organization ILO, lesotho-8.

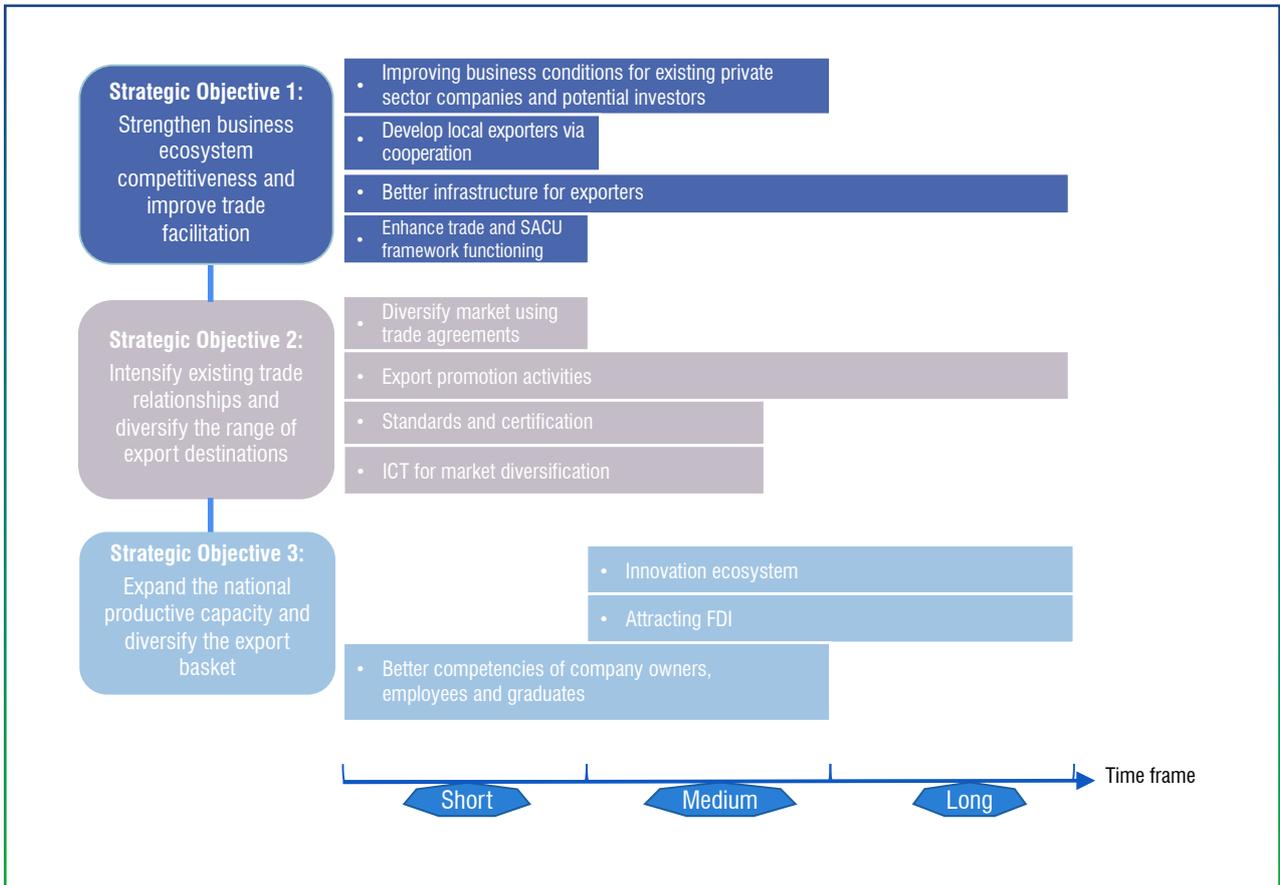
and retain know-how locally. The objective should also be to ensure that foreign direct investments have a knowledge spillover effect on the local economy and increase the skills of the Basotho people. Increasing the participation of women in the country's workforce, especially in mid and high level skilled positions, and encouraging female entrepreneurs will be key.

At the operational level, there are the following sub-objectives:

- **Innovation ecosystem.** This operational objective focuses on creating the right environment for product and business innovation. It ensures that the right legislative framework is in place to support these efforts. Finally, it also supports companies in obtaining financing for innovative projects.
- **Attracting FDI.** This operational objective aims to attract export-focused FDI as well as promoting Lesotho as a destination for offshoring business services from South Africa. FDIs able to provide transfer of know-how, including managerial skills, should be particularly encouraged.
- **Better competences of company owners, employees and graduates.** Export promotion, as well as overall productivity and economic activity, relies on people and their skills. The purpose of this objective is to create vocational training that would be in line with the needs of companies and the market. This is both vocational training for young people wishing to enter a given industry as well for current employees. Encouraging female entrepreneurs strongly supports this objective.

Figure 18 summarizes the way forward at the national level.

Figure 18: Way forward at the national level



National level Plan of action

Strategic Objective 1: To strengthen the competitiveness of the business ecosystem and improve trade facilitation.			
Operational objective	Activities	Executing agency	Timeframe
1.1. Improving business conditions for existing private sector companies and potential investors.	1.1.1. To improve the ease of doing business by ensuring existing regulations and procedures do not create unnecessary friction for SMEs.		Short term
	<ul style="list-style-type: none"> Analyse the latest Doing Business detailed report, especially in the areas of starting a business, dealing with construction permits, getting electricity and resolving insolvency. 	Ministry of Trade, Ministry of Public Works, Ministry of Energy, LEC, and Ministry of Law, Ministry of Development Planning	
	<ul style="list-style-type: none"> Develop procedures and legal acts improving doing business framework based on the above key challenges in Lesotho and enact new procedures and legal acts and ensure their enforcement. 		
	<ul style="list-style-type: none"> Design and carry out training and promotional activities for local stakeholders/users. Ensure information is available in the local language. 	Ministry of Trade	
	<ul style="list-style-type: none"> Prepare and implement a promotional campaign aimed at potential foreign investors presenting Lesotho as a business-friendly country. Provide information on navigating existing domestic regulations and procedures for foreign investors. 		
	This activity is an initial step towards improving ease of doing business in Lesotho. It is designed to lay the foundation for a conducive business ecosystem. It aims to simplify regulation and procedures around various business activities such as setting up companies, obtaining information and relevant permits as well as financial support. It should also help to minimise the administrative burden for existing companies and attract new foreign investment. This activity should start in the short term as it is one of the fundamental efforts that will underpin all other activities.		
	1.1.2. To strengthen the export potential of Lesotho's businesses by ensuring access to environment-friendly energy.		Medium term
	<ul style="list-style-type: none"> Continue the work on the hydropower dam programme. 	Ministry of Energy, Ministry of Water, and LHDA	
	<ul style="list-style-type: none"> Draw up a master plan based on a study assessing the potential of other renewable sources (e.g. wind, sun) for electricity generation. 	Energy Ministry	
	<ul style="list-style-type: none"> Design incentives programme for companies (e.g. tax incentives, grants, soft loans) to invest in renewable energy and energy-saving production assets. 	Ministry of Finance, Ministry of Energy and Ministry of Trade	
This activity supports the key vision of increasing economic activity in Lesotho. Enabling increased access to sustainable energy sources (incl. electricity) will enable local companies to increase productivity and efficiency. It will enable the use of modern machinery and IT technology. While such activities require time, Lesotho should take every opportunity to improve access to electricity as this is a prerequisite for any business activity and improving the business ecosystem and increasing the volume of exports. While new renewable energy sources are a long-term project in the scope of this strategy, efforts to increase access to electricity should be a priority and start in the medium term at the latest.			
1.1.3. To unlock the business potential of Lesotho's entrepreneurs by improving access to business loans.		Short term	
<ul style="list-style-type: none"> Set up a working group on access to finance, consisting of representatives of government, Central Bank of Lesotho, financial supervisory authority, businesses as well as banking and non-banking financial institutions 	CBL, Ministry of Finance and Ministry of Trade		
<ul style="list-style-type: none"> Diagnose access to business loans for companies and individuals from the perspective of (1) financial institutions, (2) businesses and (3) financial supervisory authority. 			
<ul style="list-style-type: none"> Working group to design detailed proposals for solving the problems identified in the diagnosis. 			
<ul style="list-style-type: none"> Implement solutions agreed by working group members. Agree on a specific target for women entrepreneurs and monitor their participation, including through collection of gender-disaggregated data. 	Ministry of Finance and Ministry of Trade		
<ul style="list-style-type: none"> Launch promotional, advisory and training activities to ensure interested parties are aware of the changes. Ensure information is available in the local language and to women's business associations. 			

Strategic Objective 1: To strengthen the competitiveness of the business ecosystem and improve trade facilitation.			
Operational objective	Activities	Executing agency	Timeframe
1.1. Improving business conditions for existing private sector companies and potential investors.	<p>This activity will ensure that companies, existing and new, that wish to export have better access to finance options. Access to finance is an important part of export promotion as companies often need to invest to increase the volume of production as well as to expand to new markets. This activity should start between the short and medium term.</p>		
	<p>1.2.1. To improve access to information and cooperation between companies and the government by creating public-private partnerships.</p> <ul style="list-style-type: none"> Institutionalize the public-private dialogue platform via an act of Parliament to ensure continuity and de-politicization. Establish regular meetings between representatives from a number of Government departments and organizations with private sector bodies to discuss challenges and latest developments. This is to go beyond the current stakeholder engagement done by portfolio committees. Including gender concerns in regulatory framework for public-private partnerships as part of the institutionalised public-private dialogue. Facilitate a meeting /workshop to discuss the adequacy of existing businesses/export support. Develop an exhaustive directory of the agencies and government departments with trade-related functions, map out the services they offer to businesses and maintain updated records. Develop a promotion plan to inform businesses of all the existing trade-related services at their disposal. Ensure it is available in the local language and women's business associations. Strengthen the dispute resolution system to allow business disputes to be resolved efficiently. 	<p>Ministry of Development Planning</p> <p>Ministry of Trade</p> <p>Ministry of Justice</p>	Short term
1.2. Development of local export companies via cooperation	<p>This activity aims to develop a strong and stable public-private institutionalised dialogue that would enable the continuous exchange of views and information. The ability for businesses to share their feedback and concerns as well as gather information from the government will support the formation of better export and trade policies. This activity should start in the short term and the public-private partnership should support the implementation of this strategy.</p>		
	<p>1.2.2. To create a more collaborative business environment by building and strengthening private-private partnerships.</p> <ul style="list-style-type: none"> Promote and strengthen the existing ties between local suppliers and top exporters. Work with international companies established in Lesotho to increase their local sourcing for their international operations. Incentivize permanent contracts among actors within the value chain to guarantee supplies, reduce costs and improve efficiency. Create new ties between local suppliers and top exporters. Map the value chains of the priority sectors identified in this document. Analyse how these value chains could make more use of local content and increase value-added. Develop a pilot "buy local programme" that can generate local clusters around the existing export sectors. Roll out other clustering programmes based on the success of the pilot programme. Organize networking events and factory visits between local suppliers of products and services and users of similar imported products. Explore and develop opportunities for joint ventures among producers with complementary offerings. Develop a pilot programme. <p>This activity promotes cooperation between different types of companies, including well-established exporters and prospective exporters. It is aimed at exchanging skills and information. It also promotes forming new partnerships between businesses and creating stronger local supply chains which could, in turn, increase productivity and promote exports. This activity can also indirectly support strategic objective number 3 – product diversification. This activity should start in the short term.</p>	<p>LNDC, Ministry of Trade, BEDCO</p>	Short term
	<p>1.2.3. To increase the participation of rural areas in business activity by increasingly involving producers from these areas in national supply chains and export strategy.</p>		Short term

Strategic Objective 1: To strengthen the competitiveness of the business ecosystem and improve trade facilitation.			
Operational objective	Activities	Executing agency	Timeframe
1.2. Development of local export companies via cooperation	<ul style="list-style-type: none"> • Create a sub-group dedicated to the involvement of producers in rural areas and supporting them in bringing their products to new markets. • Ensure that entrepreneurs and producers in these areas have sufficient access to information and support from the government's business services. <p>This activity aims to unlock the business potential of Lesotho's rural areas. This activity should start in the short term to allow time for the rural population to participate in the wider economic activity.</p>	BEDCO, MSCM	
	<p>1.3.1. To connect businesses and increase the ability to move goods across the country with the view to export by improving road infrastructure.</p> <ul style="list-style-type: none"> • Increase investment in rural infrastructure and the provision of public services. • Encourage the participation of rural communities in the decision-making process for large investments. • Provide support to initiatives that seek to improve the road network, and identify long-term infrastructure needs. <p>This activity will increase road connectivity in Lesotho and facilitate the movement of goods between different regions of the country. Road infrastructure is necessary for exporters to be able to deliver their goods to the border. This activity will also help to connect rural areas and increase their participation in business activities (activity 1.2.3.). This is an important activity which will also help to connect the rural population. As such it is one of the priorities. However, infrastructure projects require time. Therefore, this activity should start in the medium term and continue in the long term.</p>	Ministry of Public Works	Medium term
1.3. Better infrastructure for exporters	<p>1.3.2. To support export promotion and access to foreign markets by improving air infrastructure.</p> <ul style="list-style-type: none"> • Implement the plans to expand Maseru airport to be able to accommodate more flights and bigger planes. Attract direct connections from other countries. • Modernize the airport to be able to take part in cold supply chains. <p>The aim of this activity is to increase Lesotho's air links with foreign markets and enable local companies to export more. Sufficient infrastructure is a key element of any export strategy as it enables businesses to physically deliver their goods. This activity is also connected with activity 1.3.3 and 1.3.1 – together they will support exports. This activity is a long-term activity due to the nature of the airport expansion project.</p>	Civil Aviation	Long term
	<p>1.3.3. To support the development of business activity by providing better infrastructure for companies wishing to export (industrial sites, factory shells and storage facilities).</p> <ul style="list-style-type: none"> • Strengthen the Ministry of Small and Medium-sized Enterprises' ongoing efforts to provide additional storage facility for SMEs. • Develop cold storage facilities at various locations including Lesotho airport to enable the development of cold supply chains. <p>This activity will support export promotion by allowing companies to store larger volumes. Together with infrastructure, availability of storage space plays an important role in companies' ability to export. This activity should start in the short term, initially with increasing storage space for SMEs. As various activities in this strategy start yielding results, companies will need space to store goods destined for export. Cold chain facility at the airport is equally important but as this activity is also connected with activity 1.3.2. it will need to start in the medium term.</p>	Ministry of Small Business Development, BEDCO and Ministry of Trade	Short term
	<p>1.4.1. To lower tariffs for key imported goods by using existing SACU framework.</p> <ul style="list-style-type: none"> • Create the National Tariff Board to represent Lesotho's interests in SACU bodies and meetings. To replace the Tariff Investigation Section within the Ministry of Trade. • Recruit full-time staff to research and analyse the impact of tariffs. The Board would also be responsible for research and analysis on the targeted tariff lines via a dialogue with the private sector. <p>This activity will allow Lesotho to be represented in tariff negotiations and debated within SACU and propose and lobby for lowering tariffs on inputs that are key for Lesotho's economy. By decreasing tariffs on imports, Lesotho's companies will be able to lower their costs and become more efficient. This activity is also related and supports activity 2.1.2 and ensuring that national interests are reflected in SACU's trade negotiations. The creation of the National Tariff Board should take place in the short term.</p>	Ministry of Finance and Ministry of Trade	Short term
1.4. Facilitating trade and improving the functioning of the SACU framework.	<p>1.4.2. To alleviate the impact of high import duties for the production of goods for export by improving the functioning of the duty drawback system.</p>		Short term

Strategic Objective 1: To strengthen the competitiveness of the business ecosystem and improve trade facilitation.				
Operational objective	Activities	Executing agency	Timeframe	
1.4. Facilitating trade and improving the functioning of the SACU framework.	<ul style="list-style-type: none"> Review the duty drawback process and identify the reasons for delays in reimbursement. Liaise with the business community to find ways to shorten the process. Introduce amendments to the drawback system allowing for shorter timescales. 	Ministry of Trade		
	<p>This activity aims to shorten the time required for reimbursement under the duty drawback system. The system supports producers of goods for export allowing them to receive reimbursement for duty paid on inputs. Speeding up the process will help with companies' cash-flow. Since the duty drawback system is already in place, efforts to improve its functioning should start in the short term.</p>			
	1.4.3. To facilitate exports as well as imports of key inputs via improving customs procedures and formalities.			Short term
	<ul style="list-style-type: none"> Develop an inventory of all the required customs formalities and procedures that are necessary to export. Map the end to end process for exports and imports including various permits and licenses where appropriate. Set up an inter-ministerial task force with the mandate to harmonize and simplify the requirements to support export promotion. Strengthen the national Trade Facilitation Committee. Promote ownership within representatives and charge them with passing the information to their respective organizations. Develop a one-page guide describing, step-by-step and in the most concise manner, what an entrepreneur needs to do to export. The guide should include practical information such as addresses, contact details, websites, video tutorials, etc. Ensure it is available in the local language. Develop a version for each key industry including various applicable licenses, permits etc. Make the list of documents that are required to complete any type of property transaction publicly available and downloadable online. Ensure it is available in the local language. Work with local customs agents to disseminate information, encourage compliance and simplify procedures. Regularly review simplified procedures, how their work and access to them. Ensure traders are aware of the existence of simplified procedures. Posting relevant customs procedures and trade regulation information online, Increasing accessibility of grievance mechanism to report complaints. Providing gender sensitization to border agents. Establish a helpdesk with a hotline staffed with adequately trained personnel that can assist companies uncertain about customs procedures or information they need to provide. The helpdesk will also support companies in providing their customs data such as customs classification, valuation and origin. As part of the helpdesk service, provide information on non-tariff measures. 	Ministry of Trade		
	<p>This activity focuses on simplifying customs procedures and supporting companies wishing to export in navigating the customs formalities and documentation. It also includes providing support in other export and import related procedures such as licensing and permits. Lack of awareness and access to information on customs formalities can impede exports. This activity is closely linked to activity 1.4.4. While this activity focuses on the behind-the-border part of the customs process, the following activity specifically touches upon cross-border logistics. This is the key activity that should start in the short term.</p>			
	1.4.4. To minimise the time of delivery to foreign markets by improving border processing time and simplifying cross-border logistics.			Short term
	<ul style="list-style-type: none"> Minimizing the length of checks on the South African side by encouraging compliance and raising awareness on customs issues. Providing information to Basotho exporters on required documentation and information. Decrease processing time for Lesotho's exports in South African ports by cooperating with the South African customs authorities. 	Ministry of Trade, LRA, Ministry of Finance		
			Ministry of Trade and Ministry of Home Affairs	

Strategic Objective 1: To strengthen the competitiveness of the business ecosystem and improve trade facilitation.			
Operational objective	Activities	Executing agency	Timeframe
1.4. Facilitating trade and improving the functioning of the SACU framework.	<ul style="list-style-type: none"> Engaging with customs brokers and agents to provide information on non-tariff barriers to exports and ways to speed up customs clearance by increasing compliance. 	Ministry of Trade, LRA, Ministry of Finance	
	<ul style="list-style-type: none"> Establish a continuous dialogue with the South African customs authorities to highlight the efforts undertaken in Lesotho to increase compliance. Organize a regional consultation where traders and shippers can identify ways in which shipping to and from Lesotho can be more efficient and less costly. Encourage the promotion of best practices. 		
	<p>This activity aims to shorten the time it takes to physically export goods from Lesotho. While the previous activity focused on preparing the necessary documentation and going through customs formalities, this point is around cross-border logistics and working with customs brokers. This activity also aims to promote best practices and better customs compliance which would result in shorter waiting times on Lesotho's border with South Africa. These times have increased in recent years due to ongoing lack of compliance and the resulting lack of trust from the South African authorities. This is a key activity which should start in the short term but some of the sub-activities will require a longer period of time and should continue in the medium term.</p>		

Strategic Objective 2: To intensify existing trade relationships and diversify the range of export destinations.			
Operational objective	Activities	Executing agency	
2.1. Market diversification through full utilization of trade agreements	<p>2.1.1. To export larger volumes to new markets by increasing the utilisation of existing trade agreements (SADC, SACU, AGOA, EU Partnership Agreement).</p> <ul style="list-style-type: none"> Raise awareness of the existing preferences and conditions of use by creating an information campaign for local businesses. Ensure information is available in the local language. For businesses interested in entering foreign markets, provide information (including in the local language) on documents needed and regulatory requirements. While the national market access database is being developed, promote the use of existing e-platforms and databases (ITC tool) while the national version is being developed to support producers in obtaining information around eligibility, rules of origin etc. Circulate updates on the various trade agreements to exporters and the wider business community. Develop a pilot project with local businesses in the priority sectors to export new products to target markets under preference. End to end process including obtaining a certification. (addresses knowledge not lack of finance). Establish a system of financial support for companies to help them with the costs associated with the necessary certifications to enter new markets. Ensure women entrepreneurs benefit from the scheme and monitor their uptake. 	Ministry of Trade	Short term
	<p>This activity is aimed at promoting exports to markets with which Lesotho has an existing trade deal. These trade deals offer competitive advantages for Lesotho's exporters. However, they often remain underutilised due to lack of awareness. Supporting Basotho producers in exporting to these markets could be one of the quick wins. As the activity relates to taking advantage of the deals that Lesotho has already signed, it is one of the quick wins and should start in the short term.</p>		
	<p>2.1.2. To improve access to foreign markets by ensuring that national strategic interests are reflected in future SACU trade negotiations</p> <ul style="list-style-type: none"> Institutionalize the continuous government-industry dialogue and introduce frequent consultations during negotiations of new SACU trade agreements. This would enable technical and business inputs into trade-related negotiations or at least find a structured two-way communication mechanism that allows negotiators to use the inputs of the industry. Introduce an institutional body to support the dialogue ensuring women's business associations are included in the consultations for new SACU trade agreement, and the agreement incorporates gender concerns. 	Ministry of Finance and Ministry of Trade	Short term
<p>This activity will strengthen Lesotho's voice in the SACU trade agreements negotiations and enable Lesotho to lobby for the inclusion of provisions that will directly benefit its companies. This activity is closely linked to 1.4.1 and the establishment of the National Tariff Board would also support this activity. Work on this activity should start in the short term to ensure Lesotho is prepared for any upcoming negotiations, including AfCFTA.</p>			

Strategic Objective 2: To intensify existing trade relationships and diversify the range of export destinations.		
Operational objective	Activities	Executing agency
2.2. Export promotion activities.	<p>2.2.1. To expand the Lesotho National Development Corporation activity into a fully-fledged export promotion agency by developing a One-Stop Business Facilitation Centre.</p> <ul style="list-style-type: none"> Define the tasks of an export promotion agency based on best world practices. Review the current tasks and structure of LNDC based on the above. Ensure LNDC is sufficiently connected to other governmental and non-governmental agencies, including its participation in the private-public dialogues (activity 1.2.1.). Introduce a One-Stop Business Facilitation Centre service which would allow businesses to obtain information and advice on all aspects of exporting. Ensure information is available in the local language. Operationalize agency and implement its first annual work plan. <p>This activity focuses on creating a One-Stop Business Facilitation Centre as a key service for businesses wishing to enter new markets. A successful agency of this type would provide information and support to businesses and link them with relevant governmental services. This activity is particularly relevant for smaller and newer businesses that do not currently have much experience in exporting. Such businesses will require additional initial support. Therefore, this activity also supports strategic objective number 3 – product diversification. This activity should start in the short term.</p>	Ministry of Trade and LNDC
	<p>2.2.2. To promote Lesotho's exports via existing diplomatic missions abroad.</p> <ul style="list-style-type: none"> Explore the option of having independent economic attachés at Embassies focused on trade promotion and paid by the business associations. Decide on the location of trade attachés. Design and carry out a comprehensive training programme for trade attachés with emphasis on the specificity of their mission country. Launch trade attachés' missions. <p>This activity will enable Lesotho to take advantage of their diplomatic missions to promote Lesotho's products and potentially attract investment. This activity will help to promote the changes and new policies implemented in Lesotho and should start in the long term.</p>	Ministry of Foreign Affairs
	<p>2.2.3. To explore further export opportunities via engaging Basotho diaspora abroad.</p> <ul style="list-style-type: none"> Strengthen the existing diaspora links in the textile and cosmetics sectors. Use the lessons learned in other sectors. Encourage Basotho diaspora in Johannesburg and Bloemfontein to engage with the local diplomatic mission as well as directly with Lesotho exporters. Set up a platform for Basotho diaspora to provide support and advice to Basotho businesses on regulations, standards and marketing. <p>This activity supports export promotion by strengthens linkages between the Basotho diaspora and Lesotho companies. It aims to provide new networking and business opportunities for Lesotho exporters. This activity should support the implementation of this strategy and start in the medium to long term. The efforts to create engagement with the Basotho diaspora should start in the medium term and continue in the long term.</p>	Ministry of Foreign Affairs, Ministry of Home Affairs, Ministry of Trade
	<p>2.2.4. To support export promotion by establishing the national brand of Lesotho.</p> <ul style="list-style-type: none"> Publicise the slogan "Kingdom in the sky", the logo of Basotho hat and the country's quality/uniqueness in selected areas as the key elements of the national brand of Lesotho. Implement the national branding developed under the LNDC. Verify with the Ministry of Trade whether any obstacles exist to implementing the strategy. <p>This activity aims to build and promote Lesotho's national brand as a way to promote the country's products and increase exports. The country's brand stressing its unique features could support the development of tourism as well as increase the attractiveness of Lesotho's products abroad. It could bring attention to local crafts and arts. This activity should start in the short term. Given that the efforts to create the national brand have already been undertaken, it should be implemented at the first opportunity especially since building awareness of the national brand will take some time.</p>	LNDC
	<p>2.2.5. To give local businesses an opportunity to showcase their products via establishing an exhibition centre in Lesotho.</p>	

Strategic Objective 2: To intensify existing trade relationships and diversify the range of export destinations.		
Operational objective	Activities	Executing agency
2.2. Export promotion activities.	<ul style="list-style-type: none"> Survey local companies, higher education and cultural institutions regarding their expectations for establishing an exhibition centre in Lesotho to facilitate the display of their exhibitions. 	Ministry of Trade
	<ul style="list-style-type: none"> Implement lessons learned from past visits to exhibition centres abroad. Design concept, business plan and executions of the plans for the centre. <p>This activity will lead to the establishment of an exhibition centre in Lesotho allowing local businesses to showcase their work. This could strengthen business cooperation as well as support export promotion. This activity will be supported by other activities in this strategy and as a result, can start in the long term.</p>	
2.3. Standards and certification	2.3.1. To facilitate trade via strengthening of the Lesotho Standards Authority	Short term
	<ul style="list-style-type: none"> Finalise the establishment the Lesotho Standards Authority. Invest in training of specialized staff that would be able to provide standards certification. Work with the business community to ensure the certification process is well suited to business needs. For example, provide certification for a period of time and not per shipment. 	Ministry of Trade
	<ul style="list-style-type: none"> Conduct a series of industry-specific (for each key industry) workshops on standards. To be delivered in the local language, in the local area and attended by producers, including SMEs. 	
	<p>A National Standards Authority would enable Lesotho's companies to obtain certification domestically without having to reach to foreign experts. This activity will decrease the time and cost needed to export goods that require certification. It will also provide access to reliable information on product standards. Product standard is an important non-tariff measure and impede export for a number of SMEs. This activity requires substantial investment and effort. However, it is also an important priority that affects the cost and time required to export. Therefore, it should start in the short term.</p>	
2.3.2. To decrease the time and cost needed to test products by establishing local certification laboratories.	Medium term	
	<ul style="list-style-type: none"> Establish local laboratories under the Standard Authority to conduct product testing. 	Ministry of Trade
	<p>This activity will allow product testing to occur in Lesotho significantly decreasing the time and cost required to obtain documents necessary for exports. This activity is connected to activity 2.3.1 and is also a priority. Efforts to establish such laboratories should start in the short term and laboratories should be created in the medium term.</p>	
2.4. ICT for market diversification	2.4.1. To increase the utilization of e-commerce tools in companies by providing training and increasing investment in e-commerce related tools.	Medium term
	<ul style="list-style-type: none"> Raise awareness of the export opportunities offered by international e-commerce platforms among local businesses. Support e-commerce and e-tools training for companies. Develop an assistance programme for SMEs to help them distribute their products and services using e-commerce platforms, with a specific target or programme for women entrepreneurs. Create and provide access to shared business spaces equipped in computers and with access to the Internet. This will offset the relatively low usage of the internet and the high cost of mobile data. 	Ministry of Trade
	<p>This activity focuses on a gradual increase in the usage of e-commerce tools by Lesotho's exporters. In particular, it focuses on facilitating access to foreign markets for SMEs via the usage of e-commerce platforms. Such platforms are a less investment-heavy way of entering foreign markets without physical infrastructure. This activity should start in the medium term.</p>	
	2.4.2. To facilitate exports via increased usage of e-administration tools by government, customs brokers and companies.	Short term
<ul style="list-style-type: none"> Simplify and increase the usage of e-portals for exports including for customs declarations (ASYCUDA). Restart the Single Window project. <p>This activity is aimed at increasing the usage of e-administration procedures as part of trade facilitation and reducing the required to complete customs procedures. This activity is connected to activities 1.4.3 and 1.4.4 – it supports the simplification of customs procedures and shortening the time required for cross-border logistics. This activity should start in the short term. The effects will take a while to become visible given that the activity involves IT systems.</p>		

Strategic Objective 3: To expand the national productive capacity and diversify the export basket.		
Operational objective	Activities	Executing agency
3.1. Innovation ecosystem	3.1.1. To support existing and promising export sectors by establishing an innovation and business incubator centres.	Medium term
	<ul style="list-style-type: none"> Review best practices of innovation and business incubator centres around the world. 	Ministry of Trade
	<ul style="list-style-type: none"> Identify the needs of local businesses regarding incubation centres and perform a gap analysis of the currently available support. 	Ministry of Trade, Ministry of Communications & NUL
	<ul style="list-style-type: none"> Develop an innovation and business incubation centre concept focused on export industries. Ensure participation of all key stakeholders including government, businesses and universities. 	
	<ul style="list-style-type: none"> Conduct a detailed feasibility study of innovation and business incubator centre, include strategies to maximise and monitor the participation of women entrepreneurs. 	Ministry of Trade, BEDCO & NUL
	<ul style="list-style-type: none"> Implement the concept and ensure appropriate financial and human resources to make the centre operational. 	Ministry of Trade
	<p>This activity aims to develop an ecosystem of innovative firms centred around the export sectors that are the most promising. Providing firms in such sectors with an environment that can help them boost innovation and improve their overall productivity. This activity should start in the medium to long term as it will build on other activities within this plan, such as efforts to improve the business ecosystem.</p>	
	3.1.2. To create a legal framework that supports innovative businesses by updating existing legislation in the areas relevant to innovation (e.g. intellectual property, ICT, data protection, cybersecurity, etc).	Medium term
	<ul style="list-style-type: none"> Review the current legislation in the above areas and identify provisions that are out of date (for example as a result of technological and legal changes). Benchmark the current legislation with best practices worldwide. 	Ministry of Trade, Ministry of Communication and LNDC
	<ul style="list-style-type: none"> Where possible, draft and pass new legislation to support innovation. Launch an information campaign to inform businesses of the changes. 	
<p>This activity will support increased business innovation and provide a stable legal framework for incubator centres. It will strengthen the innovation ecosystem. This activity should start in the medium term as the legislation will also impact other areas.</p>		
3.1.3. To provide financing for innovation by creating blended finance programmes targeting innovation, R&D and exports.	Long term	
<ul style="list-style-type: none"> Survey companies, whose activities involve innovation, research and development as well as export on their financial needs and current challenges with current projects. 	Ministry of Finance & Ministry of Trade	
<ul style="list-style-type: none"> On the basis of the study, define financial products to be made available for the companies and private sector institutions to be able to offer the products. 		
<ul style="list-style-type: none"> Design incentives from the government to make the financial offer more attractive and available for companies (e.g. grants, guarantees, interest-subsidies, principal-subsidies, tax incentives) with specific targets or dedicated instruments for women entrepreneurs. 		
<ul style="list-style-type: none"> Implement the blended finance programme and actively target potential firms to raise awareness. 		
<p>This activity aims to support highly-innovative businesses involved in R&D with an export potential as one of the key strategic business groups. Trade financing is one of the key elements of export promotion and development. Providing easy access to blended finance programmes for highly innovative businesses will enable them to export new products. This activity can form part of the long-term efforts as it will build upon the results of other points in this strategy.</p>		
3.2. Attracting FDI	3.2.1. To attract new skills and know-how by developing a streamlined export-focused FDI strategy.	Long term
	<ul style="list-style-type: none"> Review and benchmark best practices regarding attracting FDI in target sectors in similar economies in the region and worldwide. Compare with the current legal, institutional and financial framework for FDI support in Lesotho. Define Lesotho's sectors with high export potential to be targets of FDI. 	LNDC, Ministry of Trade

Strategic Objective 3: To expand the national productive capacity and diversify the export basket.		
Operational objective	Activities	Executing agency
3.2. Attracting FDI	<ul style="list-style-type: none"> Develop an export-focused programme for attracting FDI in targeted sectors and in line with wider trade and economic objectives (e.g. exporting good with higher value-added). Ensure that the strategy and programmes include policies on targeting investments that will lead to capacity building, skills acquisition and sharing of know-how. Work with existing bodies, such as Lesotho's National Development Cooperation (LNDC), to implement such a programme. Build LNDC's capacity. Provide additional incentives for foreign investors willing to invest in knowledge-transfer (e.g. internship programmes etc), such as additional support and information. <p>This activity is aimed at attracting export-focused FDI to Lesotho as a way to increase the local workforce's skills and knowledge. This will, in turn, lead to an increase in domestic productivity and volume of exports. This activity will require research and analysis. Preparatory activities should start in the medium term and as a result, the export-focused FDI strategy should be implemented in the long term.</p>	LNDC, Ministry of Trade
	<p>3.2.2. To increase exports of services via attracting business services offshoring, especially from South Africa.</p> <ul style="list-style-type: none"> Analyse Lesotho's potential for providing business services with a focus on multinational companies from South Africa by reviewing success stories from English-speaking countries (e.g. India). Create a detailed business offer for potential investors. Ensure initial infrastructure is available (e.g. office space with access to ICT infrastructure). Prepare an information campaign on Lesotho's potential to offer business services and start approaching potential investors. <p>This activity is aimed at exploring Lesotho's potential to export services, taking advantage of the availability of English-speaking workforce. The focus could initially be on the South African market. However, it could also eventually include European markets given similar time-zone. This activity will be dependent upon the availability of ICT equipment and sufficient access to electricity. Therefore, it will be supported by activity 1.2.2. This activity should start in the medium term, as soon as sufficient infrastructure is available.</p>	Ministry of Trade
3.3. Better competences of company owners, employees and graduates.	<p>3.3.1. To improve the employability of graduates by better matching of educational offer with companies' needs (Technical and Vocational Education and Training – TVET).</p> <ul style="list-style-type: none"> Create a body with the responsibility to oversee TVET activities based on existing institutions such as the Lesotho College of Education and Lerotholi Polytechnic. Benchmark the current TVET offering versus best practice. Ensure that the private sector is involved in the development of a new TVET system, together with the above body. The new system should be aligned to the need of the employment market. Focus on vocational training throughout all levels of education (not only higher education). Adapt the curriculum of secondary schools to include subjects such as entrepreneurship, creative thinking, innovation, developing business models, financial planning, and leadership. Re-establish the bursary programme for vocational training and vocational training institutions. Create a system of incentives and subsidies for companies wishing to hire bursary participants. Make TVET training more widely available to people in rural areas. For example, by offering training in local language and in line with local needs (farming, crafts). Create a programme that supports Basotho nationals to undertake vocational training overseas. Regularly monitor and evaluate the utilization and impact of TVET output such as employment of trainees, the satisfaction of private sector needs etc. Ensure quality and standards compliance. Create a nationally recognized trade certification. 	Ministry of Education, Ministry of Trade and TVET institutions

Strategic Objective 3: To expand the national productive capacity and diversify the export basket.			
Operational objective	Activities	Executing agency	
3.3. Better competences of company owners, employees and graduates.	<ul style="list-style-type: none"> Develop a comprehensive plan to import missing education skills to close the knowledge gap. As part of this plan, foreign talent (experts, academics, and researchers) should be actively targeted to join Lesotho's educational institutions. The visa policy should be aligned to the foreign talent attraction goals. Collecting gender-disaggregated data on access to technical and vocational programmes) and providing targets or dedicated programmes for women. <p>This activity seeks to ensure the availability of vocational, business-specific training on all levels of education. This will lead to the development of the necessary business and technical skills and prepare Lesotho's graduates to join the workforce. This activity also relates to strategic objective 1 – improving business ecosystem. This activity should start in the short term. As it relates to education, the results will take time to take effect. Therefore, while the activity will start in the short term, the effects might only fully be noticeable in the long term.</p>	TVET Institutions and the Ministry of Education	S
	3.3.2. To raise productivity and promote innovation by providing high-quality training programmes for employers and employees.		Short term
	<ul style="list-style-type: none"> Raise awareness among employers of the benefits of continuous training and investing in their staff. Organize a national campaign encouraging large firms to hold systematic training for employees, including overseas training. Promote skills development schemes between employers and employees (e.g. employees would receive training in exchange for permanence commitments or performance evaluations). 	Ministry of Trade, Lesotho Association of Employers and Business (ALEB)	
	<ul style="list-style-type: none"> Support existing bodies, such as the Association of Lesotho Employers and Business (ALEB) and Basotho Enterprises Development Corporation (BEDCO), in assisting companies in developing a structured training programme including acquiring training materials and professional trainers. Survey local firms to clearly identify the missing skills and required training. Shift educational resources from low-demand or saturated areas to high-demand skills that businesses need. Boost the budget allocation for the programme on areas with skills gaps. 	Ministry of Trade, Lesotho Association of Employers and Business (ALEB), BEDCO	
	<ul style="list-style-type: none"> Introduce multiple pathways for receiving skills certification including recognition of prior learning and workplace assessments. Provide assistance to SME associations to provide pooled access to high-quality training for their members. Areas of training should include foreign languages, business management and project management skills, new technologies, etc. 	Ministry of Trade, ALEB, BEDCO and LNDC	
	<ul style="list-style-type: none"> Establish a framework and encourage companies to provide informal training (e.g. mentoring) and skills exchange internally and between themselves. As far as possible, encourage companies to form clusters and share their training programs with other participating companies to minimise the cost of training. 	Ministry of Trade, ALEB	
	<ul style="list-style-type: none"> Explore the available e-learning programmes. Ensure that current information technologies are used in this training. <p>This activity aims to promote and popularise continuous training within companies increasing the qualifications and competencies of the active workforce. This will, in turn, boost innovation and productivity. This activity also relates to strategic objective 1 – improving business ecosystem. This activity should start in the short to medium term. Some of the activities can be done in the short term, like encouraging companies to start investing in the training of their current employees, setting up mentoring programmes etc. Others, such as the e-learning training, might require access to additional infrastructure such as classrooms equipped in computers with internet access.</p>		
3.3.3. To increase productivity, encourage women's active participation in export-related activities.		Medium term	
<ul style="list-style-type: none"> Set up a female entrepreneurship award. Use the examples of nominated candidates to build a database of new entrepreneurship projects. Develop a series of inspirational case studies of young female entrepreneurs that have successfully developed their business ideas. Use these materials to display the success stories in primary and secondary schools to build awareness of opportunities for women in trade. Ensure media coverage on female entrepreneurship topics. Work with the local radio and television stations, producers, and project sponsors to produce and air a weekly programme on entrepreneurship. 	Ministry of Trade		

Strategic Objective 3: To expand the national productive capacity and diversify the export basket.		
Operational objective	Activities	Executing agency
3.3. Better competences of company owners, employees and graduates.	<ul style="list-style-type: none"> Organize an entrepreneurship showcase event to connect the community, investors, and interested parties with entrepreneurs / aspiring entrepreneurs and to allow the entrepreneurs to showcase their business plans, inventions, etc. 	Ministry of Trade
	<ul style="list-style-type: none"> Explore introducing an affirmative action programme similar to the one in South Africa in the public sector and public procurement: mandatory percentage of women and disadvantaged groups in public sector positions (e.g. 30%). Monitor progress and include that metric in annual reporting and performance scorecards. <p>This activity is designed to increase women’s participation in Lesotho’s economy and to provide viable career opportunities for them. By doing so it will increase the inflow of new ideas and potentially boost entrepreneurship. This activity should start in the medium term.</p>	



(CC BY-NC-ND 2.0) International Labour Organization ILO, lesotho-39.



SECTOR STRATEGIES

Resources available for export development are limited. Defining priority sectors allows for a relevant and realistic allocation of resources for export development. To maximize its impact on trade competitiveness, the strategy must combine actions that are expected to have an influence on the wider economy with other more precise initiatives that target specific sectors of strategic importance.¹⁴ The choice of priority sectors is, therefore, a key consideration that will determine the kind of development process that the strategy triggers.¹⁵

The list of priority sectors has been narrowed down and refined further following a consultative and participatory process during which the relevance, capacity, and readiness of the different sectors to meet the criteria were examined. The following sectors have been finally selected to constitute the list of priority sectors for the national-level strategy:

- **Horticulture:** Lesotho has a long tradition of subsistence agriculture, which is the economic sector absorbing the highest share of the working population. Most of the crops grown are staple foods such as cereals and though some experience with growing fresh fruits and vegetables exists, the horticulture subsector remains largely untapped for commercial use. The Government supports promoting investment in horticulture and envisions the scaling up of commercial fruit and vegetable production by 100 ha per year. Lesotho can thus capitalize on government support as well as its advantages in geographical location, temperate climate, workforce availability and free trade agreements to thrive in horticulture exports. But a clear export development strategy for the sector is needed.

The sector strategy presented in this NES was formulated and agreed through extensive stakeholder consultations for Lesotho's promising horticulture sector. It is structured around three interrelated strategic objectives: (i) promoting horticulture to enhance income, food security and opportunities

for youth and women, (ii) developing infrastructure, business skills and conducive national environment, and (iii) promoting horticulture exports. The sector strategy includes 16 detailed activities that have been agreed upon with the key sector stakeholders to guide the achievement of these objectives.

- **Light industry:** Light manufacturing is a stepping stone for industrializing low – and middle-income countries that launch their economic transformation. It requires reduced sophistication in terms of supply chains, managerial know-how and technology. Outputs are typical consumer and general use products, for example, leather products, food and beverages, simple electronics, storage, packaging, personal care items, etc., and are relatively easy to transport and to export. Developing countries such as Lesotho with high reliance on low-value agriculture production should consider light manufacturing with higher value creation in sectors that have a competitive advantage. This is a promising low hanging fruit for Lesotho thanks to its pool of low wage labour, abundant and inexpensive utilities (water and electricity) and existing agricultural input production.

Stakeholder consultations, field visits and literature reviews have revealed constraints in Lesotho's light industries sector that challenge its short and medium-term growth. As such, the following three strategic objectives are developed under the NES to make the sector succeed in the export market: (i) developing competitive production opportunities in non-textile light manufacturing, (ii) creating enabling environment with SEZs, free zones/ports and industrial areas, and (iii) promoting managerial and technological innovation and acquiring export development intelligence. Following consultations with key sector stakeholders, the sector strategy lays down 25 detailed activities to help implement the export strategy.

14.– Sectors are groups of products or services that are closely related through their inputs, production and transformation processes, and that share a common value chain. Usually sectors are not limited to single products or single tariff lines but are built around clusters of products or services.

15.– The second key consideration has to do with the precise nature of the actions proposed at the sector level.

- **Textiles and garments:** Lesotho's textiles and apparel industry has demonstrated strong performance over the past decade. It is one of the country's strongest industries with a sound trade surplus and low dependence on import. It is the biggest private-sector employer in the manufacturing sector and most of those employed are women. However, the sector remains vulnerable due to foreign competition, limited upstream capacity for inputs, concentrated export market and non-extension of trade preferential programs such as the African Growth and Opportunity Act (AGOA) from which the sector has benefited substantially.

The textile and apparel sector strategy recognizes these competitiveness constraints faced by the sector and outlines three strategic objectives to tackle them: (i) enhancing the global competitiveness, (ii) improving industry linkages with markets, suppliers and institutions, and (iii) establishing a policy framework for creating a conducive business environment. To help achieve these strategic objectives, the sector strategy outlines 15 detailed activities which were formulated through discussions with the key sector stakeholders.



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Horticulture

Horticulture comprises a large productive sector including fresh fruits and vegetables, ornamental plants, cut flowers and herbs and spices. It generally entails intensive production systems offering some level of environment control (e.g. greenhouses, irrigation systems, controlled fertilization schemes) aimed at achieving high yields and quality.

Over the past few decades, horticulture has become an increasingly important export business for developing countries where geographical location, climate and availability of the required workforce allow for competitive, often year-round production.

Commercial aviation and sea transport offer efficient and economically feasible shipping options, making it possible to send hundreds of perishable products to distant markets at times of the year when such products are not available locally (creating access to specific market windows) or introducing products which cannot be grown at the destination market and can thus be marketed as exotic.

Modern lifestyles encouraging consumption of plant-based foods and ornamentals are driving expansion in this sector. Horticulture provides significant and varied

opportunities for economic diversification, youth employment and gender equality in developing countries, where agriculture is generally already a tradition.

GLOBAL TRENDS IN HORTICULTURE

Trade of horticulture products around the world accounts for around \$45 billion dollars per year. The global horticulture sector can be divided into the following segments:

Fruits:

Trade in this category was valued at \$19 billion in 2018¹⁶ and includes fresh fruit, as well as frozen, dried or otherwise processed fruit. The main products traded are citrus fruits (oranges, lemons, limes, grapefruits, etc.), bananas, strawberries and grapes. Products showing significant trade increase in recent years are berries (particularly blackberries and raspberries), avocados, some tropical fruits (e.g. golden gooseberries, pitahayas, starfruits, mangoes), and nuts (e.g. cashew nuts, macadamia nuts).

Vegetables:

Trade in this category was valued at \$14 billion in 2018¹⁷ and also includes fresh, prepared, frozen and dried products. The main products traded are tomatoes, onions, potatoes and legumes, which in turn comprise a wide array of varieties and product types. A segment on the rise is that of “speciality vegetables” including baby zucchini, kale, sprouts and others, increasingly sought by customers pursuing healthy diets and vegans/ vegetarians.

Ornamentals:

These accounted for about \$9 billion in trade in 2018¹⁸. They include cut flowers, mainly roses, carnations and chrysanthemums, cut foliage used as a complement to flower arrangements and live plants such as pot plants and ornamental trees. The latter, however, are restricted in many markets, which ban any growing media attached to roots. Noticeable trends in this sector are diversification (more than 100 flower and foliage types are marketed at present) and increasing trade of customer-ready bouquets (cut flower bouquets exported from the country of origin already assembled and ready for the end consumer, offered at mass markets such as supermarket chains). Customers are on the lookout for unusual plants and flowers that can make unique arrangements and decorations.

Other miscellaneous but nevertheless important products are culinary herbs, medicinal and aromatic herbs and spices. There is increased interest among consumers for natural medicinal products, cooking with herbs and unusual or exotic spices. Ethnic cooking is also growing in many developed countries.

Exporters are mainly developing countries enjoying good geographical location with respect to importing markets, ideal climate for production, and good availability of manual labour. Mexico, Colombia, Ecuador, Brazil, South Africa, Kenya, Spain, Morocco are clear examples of this. In addition, various other countries are also key players in this trade. For example, the USA and the Netherlands are big exporters of fruits and vegetables and the Netherlands is a key flower exporter.

Importers are mainly in North America and Europe. Supply from one country to another and re-exports also occur. A clear example is the Netherlands, a very important hub for cut flowers and other ornamentals. These products are sold at the Dutch auctions and then distributed from there to the rest of Europe.

Producing and exporting horticultural products successfully entails more than a strategic geographical location and an adequate climate. Production capabilities

– the selection of most suited varieties, technical know-how, plant nutrition, pest and disease management – and technical assistance are essential. Sufficient and economically feasible access to inputs (plants/ seeds, agrochemicals, greenhouse supplies), plus ensuring that products get to consumers, in time, during specific market windows (good market access) are also critical. Sufficient installed capacity, infrastructure, and trading volumes will influence the success of trade as will transport options and logistics, including a cold chain to extend the shelf life of perishable products. Such factors, as they specifically relate to the development of horticulture in Lesotho are analyzed in more detail in the following section.

LOCAL PERSPECTIVE

Agriculture in Lesotho

Lesotho has a strong tradition in agriculture production. Agriculture is a traditional and subsistence activity characterized by low yields, land degradation and generally poor results. Crop production focuses and depends on rainwater and is disproportionately in the hands of an older population. Production techniques are basic and yields are low, but nevertheless, some experience with growing fresh fruits and vegetables exists. Although there are an estimated 140,000 farmers, they are largely subsistence farmers informally producing crops and livestock on smallholdings (less than 3ha of land on average). The main crops are maize, sorghum and wheat, which are staple foods occupying, respectively, 60%, 20% and 10% of agricultural land. Beans and peas are also produced¹⁹ and bring a low average income of \$220/ha per year. On average, Lesotho produces less than 30% of its food demand and imports the rest.

Over the past three decades, this sector has been reported to be in decline and its contribution to the GDP has reduced from 11.8% in 1985-1994 to about 5% currently. However, agriculture remains an important sector for the economy of Lesotho, providing employment to about 67% of the population in 2017. The Government has thus given priority to supporting commercial agriculture, developing value chains and marketing infrastructure and promoting investment in sectors considered to offer good opportunities including horticulture, where scaling up commercial fruit and vegetable production by 100 ha per year is envisioned. A Climate Smart Agriculture (CSA) initiative was launched in 2018 aimed at integrating agricultural

17.– ITC trade statistics www.trademap.org

18.– ITC trade statistics www.trademap.org

19.– Agriculture – Lesotho Review. <https://www.lesothoreview.com/contents/agriculture/>

development and climate change, to achieve better food security standards²⁰.

Previous analyses and initiatives²¹ have identified commercial horticulture as a path to provide transformation opportunities in the rural economy, increase incomes and create jobs. In addition, horticulture was found economically feasible for smallholder farmers, and there is interest in the Lesotho Government to encourage investment in this sector and develop job opportunities for young people.²²

Previous and current initiatives for sector development

The Government of Lesotho is supportive of horticulture development. The Ministry of Trade, in particular, is actively identifying and pursuing opportunities to develop and strengthen this sector. Different projects have been developed, for example, the horticulture Market Centre²³ opened in 2018 aimed at providing cleaning, packing and cold storage of produce (e.g. tomatoes, spinach, cucumbers and peaches) and selling to hotels and supermarkets in Lesotho, whilst providing necessary support to expand exports to the SADC region. The Centre was inaugurated and put to service but has faced a variety of hurdles and is presently not operating.

Various other projects and initiatives have also been developed for example by the World Bank, who conducted a study aimed at linking smallholder vegetable farmers to local markets, thus increasing local revenues and substituting imports.²⁴ Production schemes for deciduous fruit were explored under the World Bank's Private Sector Competitiveness and Economic Diversification Project Stage II, which found for example that climate was favourable for production earlier than South Africa, thus opening an interesting market window. Other initiatives have explored producing herbs, spices and aromatic plants for the US market under AGOA.²⁵

Perspective for developing exports and further considerations

As stated previously, agriculture production in Lesotho is in the hands of large numbers of producers on small land extensions (less than 1 ha) and a very low proportion of the production gets sold commercially; exploring opportunities to develop more intensive/ technically developed production options and providing income opportunities for women and young people is a suggested way forward.

In addition to the good climate, labour availability and proximity to South Africa, which could become a key importing partner, Lesotho currently enjoys free trade access to a number of key importers of horticultural products such as the USA, Canada, the European Union, Australia, New Zealand, the Republic of Korea, China and India.

As a Least Developed Country (LDC), Lesotho further enjoys access to many international funding and trade development opportunities. These may include participating in value chains (e.g. specialising in the production of specific steps or tasks along the value chain for a product), opening new markets and taking advantage of trade preferences. The United Nations Conference on Trade and Development (UNCTAD) has identified that to take full advantage of such opportunities, it is essential to integrate trade effectively into a country's national development strategy.²⁶ Trade in horticultural products can be geared towards export (particularly to South Africa) but also as a substitution of imports. ITC data shows that Lesotho imports about \$28 million worth of fruits, vegetables and ornamentals, almost 100% of which comes from South Africa.²⁷ Recent studies have shown that demand for fresh fruits, vegetables, herbs and flowers in Lesotho is strong, and that, albeit with some challenges, even smallholder farmers can produce profitably.²⁸ Boosting local production for domestic consumption appears

20.– Agriculture – Lesotho Review. <https://www.lesothoreview.com/contents/agriculture/>

21.– World Bank Group, 2018. Unlocking the potential of Lesotho's private sector: A focus on apparel, horticulture and ICT. <http://documents.worldbank.org/curated/en/832751537465818570/Unlocking-the-potential-of-Lesotho-s-private-sector-a-focus-on-apparel-horticulture-and-ICT>

22.– World Bank Group 2019. Linking smallholders to markets: A supplier development program for vegetable farmers in Lesotho. <http://documents.worldbank.org/curated/en/515391560754757314/Linking-Smallholders-to-Markets-A-Supplier-Development-Program-for-Vegetable-Farmers-in-Lesotho>

23.– ITC 2018. Lesotho opens horticultural market centre. <http://www.intracen.org/Lesotho-opens-horticultural-market-centre-to-boost-business-for-farmers/>

24.– World Bank Group 2019. Linking smallholders to markets: A supplier development program for vegetable farmers in Lesotho. <http://documents.worldbank.org/curated/en/515391560754757314/Linking-Smallholders-to-Markets-A-Supplier-Development-Program-for-Vegetable-Farmers-in-Lesotho>

25.– Agriculture – Lesotho Review. <https://www.lesothoreview.com/contents/agriculture/>

26.– UNCTAD, 2016. Making trade work for least developed countries: A Handbook on Mainstreaming Trade. United Nations, New York and Geneva https://unctad.org/en/PublicationsLibrary/aldc2015d5_en.pdf

27.– ITC trade statistics www.trademap.org

28.– World Bank Group 2019. Linking smallholders to markets: A supplier development program for vegetable farmers in Lesotho. <http://documents.worldbank.org/curated/en/515391560754757314/Linking-Smallholders-to-Markets-A-Supplier-Development-Program-for-Vegetable-Farmers-in-Lesotho>

as a good option that does not exclude the possibility of exporting.

In addition, other factors that can directly impact the successful development of horticulture in Lesotho are:

- Trade agreements/arrangements (e.g. AGOA, SACU, SADC, SADC-EU EPA, SACU EFTA) that ensure duty-free access to key markets should be fully explored.
- Market windows or best seasonality for trading specific products should be studied. A clear example is found in the production of deciduous fruits, where peak harvest occurs earlier than in South Africa, offering a potential advantage in the market.
- Branding to make products stand out, or become identified by their origin, is a way to differentiate products from Lesotho and give them a commercial edge among costumers.
- Certification is increasingly requested by clients, particularly importers in Europe and the USA. Many schemes are in operation and the best and more feasible for Lesotho need to be identified and implemented.
- E-commerce is becoming increasingly important in driving trade quickly and efficiently. It allows for trading in real-time and rapid response to customer requests. This is an area where increased access to the internet and further training may be required. According to a 2019 study of UNCTAD, “the conditions for success require the adoption of a series of fundamental reforms, such as having reliable and affordable infrastructure, the necessary legal and regulatory framework in place for payments, the appropriate solutions with regard to access to finance, and the capacity to respond the needs of the digital economy”.²⁹
- Product quality is essential and directly impacts consumer preference and price. Strategies to ensure good shelf life and quality preservation (including, for example, post-harvest management, cold storage and pest and disease control) are of paramount importance.
- Appropriate packaging and compliance with food security and phytosanitary requirements will also impact the success of trade in this sector, particularly at the international level.

Key takeaways:

- Horticulture is a promising sector for export development. There are clear advantages including climate, labour availability, geographical location and free trade agreements, but a clear development strategy for the sector is needed.
- The Government of Lesotho is supportive of development in the horticulture sector and has taken steps in this respect, but better integration of the different segments/authorities involved is needed to increase efficiency and create significant impact.
- Import substitution (i.e. developing local production to reduce reliance on imported produce from South Africa) emerges as an option worth considering, which does not exclude the possibility of exporting.
- Installed capacity and access to key inputs and information are insufficient and often not consistent. Up-to-date technical training and capacity building is needed.

SECTOR DIAGNOSTICS

Although the extension of land suited for agricultural production in Lesotho is low and rain patterns tend to be erratic, water resources derived from various river basins are abundant and could be harnessed to develop irrigation schemes necessary for protected and

field production of fruits and vegetables as well as flowers. In addition, Lesotho enjoys a warm temperate climate suited for the production of a wide range of tree fruits including stone fruits, apples, nuts, berries and flowers.

29.– See UNCTAD’s 2019 “Lesotho Rapid eTrade Readiness Assessment” https://unctad.org/en/PublicationsLibrary/dtlstict2019d8_en.pdf

Key competitiveness constraints

Based on ITC SME Competitiveness Grid, challenges across the three levels and three dimensions of competitiveness of Lesotho's exports were analysed.³⁰

COMPETE

Compete assesses whether current production is efficient and meets market requirements. The com-

petitiveness capacity of exporting sectors in Lesotho is undermined by several factors related to the sectors' capabilities, institutional support and national environment.

This section analyses the sectors' ability to be competitive under current circumstances. Factors such as yields, installed capacity to be able to consistently offer and deliver products of the required quality in sufficient quantities to satisfy specific markets and ensuring a good shelf life will directly impact competitiveness.

Box 5: Competitiveness constraints in horticulture: Compete

Compete in national and foreign markets

Firm capabilities

- Infrastructure is lacking: greenhouses, irrigation, crop management, cold storage need improvement. Installed capacity is not sufficient.
- Technical skills are insufficient. Specific training is needed in intensive agriculture production, greenhouse management (cultivation practices, water and fertilizer management, pest and disease management, post-harvest management). These should be specific to the products selected (e.g. vegetables, flowers, fruit).
- There is limited access to required inputs and when available they come at a high cost. This refers for example to seeds and other propagation materials, specific varieties of vegetables, herbs, fruits or flowers, supplies (fertilizers, plant protection products) and services (technical assistance, pest and disease identification). Currently, such supplies and services are mostly imported and their availability is not consistent. Maintenance/ repair services for machinery or infrastructure is often not locally available.

Business ecosystem

- High taxes/ duties are often applied to agricultural products, negatively impacting their economic feasibility. None of these has been designed specifically for agriculture, and in fact agriculture is often exempted from such duties in other countries.
- A roadmap for development and publication of standards and complimentary compliance mechanisms have been devised through recent operationalisation of the Lesotho Standards Institution (LSI) as of August 2020. The preliminaries for development and enhancement of existing testing and certification capabilities is currently underway specifically for bottled water, Fresh Fruits and Vegetables, health and safety products. A robust and common regulatory regime needs to be implemented to address the haphazardness in administering traded products.
- Very limited finance/ credit or insurance lines are available currently for agricultural projects. Soft loans or incentives/ tax exemptions could be explored to encourage development in the horticulture sector.
- Infrastructure necessary for horticulture production is costly and not widely available. Funding sources need to be identified within the Government, external/ multilateral bodies and possibly the private sector to ensure sufficient installed capacity in this respect.
- The national education curriculum offers little training in horticulture, which translates into poorly developed skills and low interest in the sector. Actions to strengthen training opportunities and create awareness on horticulture as an option and better match training offered with skills required are suggested.
- Unemployment rate in Lesotho is currently high, particularly among the youth. The gender gap is also very significant.

National environment

- **Deficient infrastructure.** Greenhouses, reliable irrigation schemes, reliable access to electricity and cold storage are critical to the success of horticulture production, to ensure a consistent supply of good quality produce.
- **Deficient transport options.** Poor road network and non-existent airfreight for perishable goods.
- **Inefficient customs and border services.** Border procedures with South Africa (the only country with which Lesotho shares borders) can be the cause of extended delays. This poses a serious threat to the marketability of perishable produce such as fruits, vegetables and others.

30.— A two-day workshop was held in Maseru on November 11-12, 2019, which was attended by key stakeholders from private industry, trade or production associations and Government. This allowed for rich discussion and thorough analysis of both opportunities and challenges in the horticulture sector in Lesotho. A meeting was held at the Ministry of Agriculture to gather more information on current production of fruits and vegetables, resources and programmes in place to further the development of the sector, as well as present hurdles.

Firm capabilities

Insufficient technical skills. Updated know-how on crop production, pest and disease management and post-harvest handling (including packaging, cold storage) are necessary to reach yield and quality goals leading to good marketability of products. Training and skill development are essential to take full advantage of the infrastructure needed as discussed in the point above.

- **Plan of Action reference:** Activities 1.1.2., 1.1.4., 1.2.1., and 2.2.2.

Raising awareness about horticulture as a profitable option to generate revenue and increase food security. Education and training in agriculture in general and horticulture in particular should be included in education programs, from primary school up to universities. Lesotho has good infrastructure in this respect but it is underutilised for the purpose herewith described.

- **Plan of Action reference:** Activities 1.1.1., 1.1.2., 1.1.4., and 1.3.1.

Limited access and high cost of key inputs. Key inputs such as propagation materials, fertilizers, pest control agents, greenhouse materials and others are generally imported and often available at high prices, resulting in local products being more expensive than imported ones. Encouraging local production and retention of skills acquired and developed through training and incentives are suggested.

- **Plan of action Reference:** Activities 2.1.3., and 2.2.1.

Business ecosystem

High taxes/ duties, no incentives to encourage sector development. No incentives exist regarding agriculture such as tax exemptions for the creation of jobs, soft loans or lower duties

- **Plan of action reference:** Activities 2.1.1., 2.1.2., and 2.1.3.

Land ownership issues. Farmers typically own small extensions of land and merging areas among owners to achieve more efficient production is not easily achieved. The Government has launched schemes to allocate land to horticultural projects and encourage the creation of cooperatives seeking to join efforts, where the private sector is also participating. These are important factors influencing the product offer (quantities produced) as well as economies of scale. Promoting cooperatives/ joint venture could be a way to fix this.

- **Plan of action reference:** Activities 1.1.3., and 1.2.1.

National environment

Deficient infrastructure. Sufficient installed capacity of appropriate technical level is essential to ensure profitable yields and good quality. This comprises access to water for irrigation, reliable access to electricity, greenhouses for growing specific products and inputs (fertilization, irrigation, plant protection and other equipment, plastic film, seed or propagation material of the appropriate cultivars and others), but also essential facilities like grading and packing rooms and cold storage. A good cold chain, which is critical in achieving good shelf life and marketability of perishable products is not presently available.

- **Plan of action reference:** Activities 2.2.1., and 3.1.2.

Deficient transport options. The poor road infrastructure makes delivering perishable goods a challenge. Trucks can take many hours to reach potential markets, especially from more remote rural areas. Airfreight for perishable goods is non-existent.

- **Plan of action reference:** Activities 2.2.1.

Inefficient customs and border services. Lack of electronic payment systems, complex import and export formalities and regulations, as well as lack of sufficient cooperation between all actors involved in cross-border trade, have a significant impact on the ability to export goods. Crossing the South African border can take many hours, which very negatively impacts perishable products. The lack of efficient customs procedures – including phytosanitary inspection and controls – is an impediment to export development.

- **Plan of action reference:** Activities 2.1.1., 2.2.1., and 2.2.2.

CONNECT

Connect refers to the connectivity dimension of competitiveness. To be competitive, enterprises must link to customers, businesses, institutions, and be literate in information and communications technologies.

Sustained production and development of the horticulture sector will be influenced by an integrated development strategy that ensures a smooth connection between the different sectors involved as well as continued access to inputs and information. Constraints that impact development of the horticulture sector are discussed below.

Box 6: Competitiveness constraints in horticulture: Connect

Connect constraints

Firm capabilities

- Deficient business skills. Recordkeeping, business management, logistics, need improvement.
- Poor integration and cooperation between key stakeholders including public/ private sectors, producers, suppliers, technical assistants. Political and social rivalry, even indifference, cause negative impacts and often result in duplication of efforts.
- Low access to updated information, and challenges stemming from the low education level among some farmers as well as cultural differences impact the efficiency of the business.

Business ecosystem

- Finance lines, insurance schemes specific to agriculture are lacking and this hinders the development of the sector.
- Certification schemes that help to achieve good quality standards and enhance food security are lacking. Information on phytosanitary requirements (SPS agreement) is scarce.
- Marketing and promotion schemes for horticulture have not been developed and would be a way to increase revenue, attract investment and spur development in the sector.
- A strong national brand would facilitate promoting national produce abroad and provide an identity for customers to recognize.

National environment

- Broken and inefficient logistics, cumbersome paperwork, stringent requirements and regulations that are difficult to implement negatively impact the development of horticulture.
- Private-public partnerships are rare and should be encouraged. Government competition with the private sector occurs, distorting market opportunities.
- Climate change is an ongoing threat to Lesotho's economy, particularly agriculture.

Firm capabilities

Deficient business skills. Traditional agriculture is generally informal, with little projection, record-keeping, budgeting or efficient administration. As a result, production and quality are inconsistent. To be successful, horticulture production needs to focus on customer satisfaction, meeting market requirements and an adjusted product offer among others.

- **Plan of Action reference:** Activity 2.1.1.

Poor integration and cooperation within the sector. In several instances, duplication of efforts was identified, stemming from poor communication, rivalries or poor communication among key stakeholders (i.e. ministries, associations, individuals taking part in the sector). Integration and information exchange between different ministries and government agencies as well as producers and service and supply companies need improvement. Farmers and suppliers tend to work independently of each other, bypassing collaboration opportunities that can lead to benefits for all.

- **Plan of Action reference:** Activities 1.1.1., 1.1.3., 1.2.1., and 2.1.1.

Low access to updated information on the horticulture sector is detrimental to the development of the sector. Growers need to be aware of potential markets and

market windows, specific product demands and requirements and products with best potential for success. In conjunction with low level of education often found in rural areas, plus cultural differences that can make the working environment difficult, these factors can become a real hurdle to sector development.

- **Plan of Action reference:** Activities 1.1.1., 1.1.2., 1.2.1., 2.1.1., 3.1.1., and 3.1.2.

Business ecosystem

Lack of finance lines and insurance schemes geared at agriculture hinder sector development. Producers generally need seed capital and some level of assurance that risks associated with the production of (highly perishable) horticultural products are covered.

- **Plan of Action reference:** Activities 2.1.2., and 2.1.3.

Certification, quality standards and phytosanitary requirements. No certification schemes for agricultural products presently exist in Lesotho. Yet most importing markets including South Africa increasingly require abiding by production and quality standards (for example compliance with GAP – good agricultural practices). Phytosanitary issues are also key, as products exported need to be free of key pests and diseases often of quarantine nature, and abide by the SPS agreement.

- **Plan of Action reference:** Activities 2.2.2., and 2.2.1.

Marketing and promotion schemes. These are an important way of connecting the different segments and stakeholders in the production and marketing chain. There are no exhibition facilities in Lesotho, although agricultural events are organized. These could be used to develop linkages and strategic connections within the horticulture sector, both local and international. Participation in foreign exhibitions is very limited and there are no websites promoting Basotho produce.

- **Plan of Action reference:** Activity 3.2.1.

Developing a national brand would provide an identity to Lesotho's horticulture produce, attracting customers and promoting the sector. Lesotho already has a national brand and a slogan – 'a Kingdom in the sky'; strengthening and promoting the brand could support export promotion activities overall.

National environment

Conducting business in the horticulture sector in Lesotho is difficult. Broken and inefficient logistics, cumbersome paperwork, stringent requirements and regulations that are difficult to implement negatively impact the development of horticulture.

- **Plan of Action reference:** Activities 1.1.1., 1.1.3., 1.2.1., 2.1.1., and 3.1.2.

Private-public partnerships need to be construed. Such partnerships are rare and should be encouraged, to avoid pointless rivalries and duplication of efforts, which invariably distort market opportunities and sector development.

- **Plan of action reference:** Activities 1.1.3., and 1.2.1.

Climate change is an ongoing threat to Lesotho's economy, particularly agriculture. Climate change leads to increasingly frequent extreme weather conditions (droughts, hail, snowstorms or heat waves), which pose a serious threat to all sectors of the local economy. Negative consequences of extreme weather conditions such as water shortages or blackouts may impact all sectors of the Basotho economy and agriculture in particular. Erosion resulting from deforestation and overgrazing, soil deterioration and depletion of water sources, and the current low-skill, rain-fed subsistence agriculture will require immense financial and technological investment. Although horticulture can be conceived from a different standpoint within much more efficient production schemes, technical competence, infrastructure, reliable irrigation and a range of inputs are still critical.

- **Plan of Action reference:** Activity 1.4.1.

CHANGE

Change is the dynamic dimension of competitiveness. It assesses whether enterprises have the capacity to make human and financial investments and to adapt to fast-changing markets. Lesotho's export sector currently has a limited capacity to innovate and to tap into emerging trends and markets.

In light of the current constraints restricting the implementation of a strategy to promote the horticulture sector, the following section suggests actions directed at fostering development and facilitating market entry.

Box 7: Competitiveness constraints in horticulture: Change

Change, innovate and tap into emerging trends

Firm capabilities

- Strengthen infrastructure and facilities to ensure good/ extended shelf life of fresh produce (cold storage, irrigation schemes, electricity).
- Improve technical and managerial skills to allow for the efficient development of horticulture production businesses.
- Tap into the potential of Basotho diaspora as a way to generate information and promote the consumption of produce from Lesotho.

Business ecosystem

- Address lack of finance and fragmentation of the sector, by encouraging information exchange between government institutions, and also within the private sector, among suppliers, producers with a view of joining efforts and creating synergies.
- Mismatch between the actual and required skills of graduates is a challenge for the educational system.
- Work is needed to reduce reluctance to change, fear of "unknown crops" that impact innovation and development of new undertakings.

National environment

- Simplify regulatory processes and paperwork necessary to export produce, encourage the development of financial pathways and regulations that are directly applicable to horticulture.
- R&D in horticulture is too little to support innovation.

Firm capabilities

Strengthening infrastructure refers to production facilities, i.e. greenhouses suited to the local environment, irrigation schemes, post-harvest management facilities (grading, cold storage, packaging, shipping and transport). Some existing infrastructure is not being used (e.g. the horticulture market centre, some greenhouses falling into disuse), other is lacking. Cooperation among different segments of the industry should be strengthened, to enhance technical training, develop more efficient production and marketing strategies.

- **Plan of action reference:** Activities 2.2.1., and 1.1.2.

Improve the technical and managerial skills required to develop horticulture sector. The number of professionals with skills in horticulture production and development is low and there is a lack of quality training programmes available to fix this.

- **Plan of action reference:** Activities 1.1.4., and 3.1.2.

The Basotho diaspora offers potential to generate information and promote and facilitate consumption of fruits, vegetables and ornamentals produced in Lesotho. The relatively large diaspora from Lesotho is located mainly in South Africa and Europe, two interesting markets for horticultural produce. Linkages, marketing channels, product identity through brand promotion and business in general could be boosted with the help of Basotho nationals living abroad. A mechanism to encourage such actions and a legal and organisational framework for attracting such individuals would be needed.

- **Plan of Action reference:** Activity 3.3.1.

Business ecosystem

Lack of finance and insurance options, sector fragmentation. Credit or finance lines tailored to horticulture production need to be established. They should include insurance options and soft loans.

- **Plan of Action reference:** Activities 1.1.3., 1.2.1., 2.1.1., 2.1.2., and 3.2.1.

Mismatch between the actual and required skills of graduates. Lesotho has made a great effort to eradicate illiteracy and invested in its education system. However, there is a gap in the current level of skills of the population and businesses' needs. At the same time, the unemployment rate is high. The educational system currently offers very little training in horticulture at different levels of education, including primary and secondary school, technical training institutions and universities. This includes production, business management, marketing and other aspects necessary for



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sector development. In addition, there are few or no opportunities to get practical job experience.

- **Plan of Action reference:** Activity 1.1.2., and 1.1.4.

Reticence to change. Building trust and confidence in horticulture as a profitable option is essential to attract interest and investment in this sector. In line with the point above, these efforts should be complemented with credit and insurance lines to mitigate risks and training opportunities at different levels to improve production and marketing skills.

- **Plan of Action reference:** Activities 1.1.2., 1.3.1., 2.1.2, and 2.1.3.

National environment

Regulatory processes and paperwork necessary to export produce need to be tailored for horticulture. Financial pathways and regulations that are directly applicable to horticulture need to be developed. This includes, for example, certification of production and quality standards, compliance with the SPS agreement and others.

- **Plan of Action reference:** Activities 2.1.1., and 2.2.2.

R&D in horticulture is too little to support innovation. Whilst the Ministry of Agriculture and the National University of Lesotho conduct some programmes in deciduous fruit and vegetable production, R&D programmes (in the agriculture sector generally) are small and not sufficient to drive innovation and spur the growth of the sector. Existing horticulture companies are generally small and do not invest in R&D programmes.

- **Plan of Action reference:** Activity 1.1.4., and 2.2.1.

Key takeaways:

- Most of the constraints identified relate to the limited infrastructure available, lack of updated technical training, lack of government support for agriculture, and horticulture in particular: no finance or insurance, no incentives, poor private-public cooperation.
- The country has key resources to make further advancements – for example, water for irrigation is available, which is critical for growing horticultural crops. However, many challenges need to be overcome before the sector can become competitive.
- R&D efforts are too little to support innovation.
- Access to basic services such as irrigation and electricity can be another hurdle.
- Impacts of climate change need to be addressed and mitigation options identified. Irrigation schemes need to be fully developed to ensure sufficient water is available for cropping.
- The above measures are critical for achieving competitive horticulture production both locally and for export (to South Africa and other markets nearby such as Botswana and Eswatini).

THE WAY FORWARD

This section is based on the analysis of the key aspects of Lesotho's trade competitiveness constraints, its national economic framework and institutional landscape. The "way forward" lays down the key strategic framework of the NES comprising the strategic and operational objectives as well as the Plan of Action.

Strategic objectives

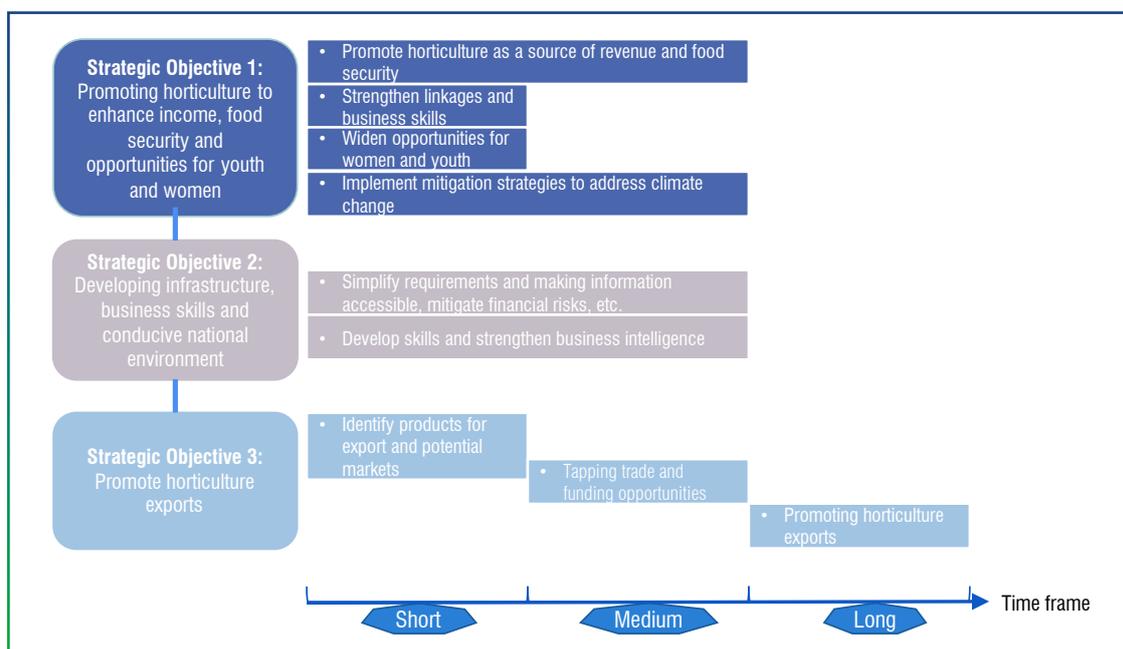
To guide the implementation of the NES in the next five years, the strategy presented was formulated and agreed by stakeholders who participated in the consultations for the design of this NES. It represents the ambitions of the country as well as a consensus among stakeholders over the role of exports in the economy today and in the near future.

The horticulture sector strategy is structured around three strategic objectives, initially geared towards harvesting "low-hanging fruits" i.e., those requiring the least amount of resources, which can be implemented in the short term, taking advantage of progress and development already achieved and thus producing more immediate effects. These objectives are mutually reinforcing and interlinked so that progress in one could feed into the others as shown in Figure 19.



(cc) pixabay, Herbert Bieser.

Figure 19: Logical framework of the horticulture strategy



Source: ITC and stakeholders' consultations

The strategic objectives are as follows:

1. Developing and/or improving horticulture production as a source of income and a path towards enhancing food security, and increasing job opportunities for women and young people.

Understanding the potential improvements arising from intensive production systems, which can prove profitable in smallholdings and generate jobs and income both from exports and by substituting current imports will help drive policies, regulations and strategies in the public and private sectors. This is essential in achieving a regulatory framework and developing the necessary support for development in this field.

Currently, there is little or no formal training in horticulture available to persons interested; a mismatch between the schooling offered at various levels and particular needs of the country was indicated. R&D programmes in this sector are very reduced. An opportunity to address climate change and mitigation options was also identified when strengthening education and training geared at increasing competitiveness in the horticulture sector.

The unemployment rate is very high in Lesotho, particularly among the youth. Cultural, economic and political barriers still hamper the development of enterprises run by women, even if the law presently allows women to be independent and even inherit and own land.

Although various regulations including the Constitution of Lesotho (1993), the Land Act (2010), the Legal Capacity of Married Persons Act (2006) and the Companies Act (2011) grant equal opportunities to women, in reality, a significant gender gap prevails as a legacy of long-held traditions that considered women as minors as well as the constitutional clause that still permits the practices of customary law. Economic participation and opportunity for women are still very low in Lesotho.³¹ There is a remuneration gap and the ratio of women in decision-making positions is also low.

A number of actions were proposed to address the challenges described above:

- **Improving information exchange between government agencies or institutions, trade associations and the private sector.** This activity aims at improving the business environment and the efficiency of the sector as a whole, by sharing information on what is currently done, allocating responsibilities and in general achieving a higher level of information exchange.
- **Encouraging integration amongst key stakeholders (production and marketing).** This activity aims at encouraging cooperative efforts among suppliers, producers, marketers and others, to strengthen capacities.
- **Creating finance and insurance lines specifically geared to the horticulture sector.** These will not only

31.– World Economic Forum, 2018

act as an incentive to promote horticulture but will provide a necessary level of assurance and support to encourage investors in this sector.

- **Developing and strengthening education and training opportunities in horticulture.** The national education curriculum offers little training in horticulture, which translates into poorly developed skills and low interest in the sector. Actions to strengthen training opportunities – not only within formal education but also through workshops, seminars and a train-the-trainers approach – will help build the required business skills. Creating more awareness of horticulture as an option to generate income is needed.
- **Creating more ample opportunities for women and young people through horticulture.** Activities empowering women and providing equal participation in economic sectors are urgently needed. By raising awareness, creating jobs in horticulture and offering better training, horticulture will emerge as a truly possible option to generate income. Producing and exporting horticulture products bring together many disciplines, from agronomy to business administration and marketing. Efforts to showcase horticulture as an attractive and possible option and clear opportunities for women and young people to pursue this activity will generate interest and development in this sector.
- **Implementing mitigation strategies for climate change.** Understanding the current and potential effects of climate change on horticulture is important, as is implementing ways to mitigate such changes. Many schemes have been developed that can be put into place, for example, the concept of Climate Smart Agriculture developed by FAO³². Specific actions include rational and efficient water management (this can include drip irrigation systems, collecting rainwater from greenhouses, which is then used for irrigation), soil preservation actions, use of drought-resistant varieties, integrated pest management programmes and others.

2. Achieving appropriate infrastructure, business skills and a national environment conducive to development in horticulture.

Commercialising horticulture produce is subject to various requirements related to food safety and quality, phytosanitary issues, sometimes certification and

others. Complying with requirements involved can be cumbersome and often confusing. Technical production skills and a clear understanding of the market for horticulture products are essential to successfully comply with such requirements whilst ensuring sector development.

As discussed in the introductory section, some initiatives have already been set forth to develop this sector^{33, 34, 35} and these no doubt offer valuable information and experience. However, more work is necessary to achieve this objective. The following sub-objectives emerge in this respect:

- **Simplifying compliance with regulatory requirements associated with trade in horticulture.** Horticulture is a very fragmented sector, and this often translates into higher costs for local production (i.e. imported produce is cheaper). In addition, the business itself requires compliance with a large number of requirements which are not centralized. Bringing stakeholders together to find the best way to simplify such requirements and encouraging cooperative efforts will help correct this.
- **Supporting the creation of finance and insurance lines for horticulture projects.** There are currently no financial instruments specific to horticulture that support the sector and help reduce the risks associated with the high investments necessary. This action will give confidence and support job creation.
- **Review current duties/taxes applying to agriculture and devise incentives to promote development in the sector.** Current duties do not distinguish between agricultural inputs and other imported commodities and this substantially impacts the costs of production resulting in more expensive locally produced horticultural products. This activity is aimed at establishing specific incentives for horticulture, for example, tax exemptions (or redemptions) for exporters, tax reductions when generating jobs and others. Analysing programs in place in other countries could be useful.
- **Improving the infrastructure and inputs needed to ensure good quality production and yields and good shelf-life.** This focuses on ensuring the availability of appropriate infrastructure for production such as greenhouses, irrigation systems, cold rooms, facilities for product preparation and others. Also critical inputs such as seed and propagation materials,

32.– FAO. Climate Smart Agriculture <http://www.fao.org/climate-smart-agriculture/en/>

33.– World Bank Group 2019. Linking smallholders to markets: A supplier development program for vegetable farmers in Lesotho. <http://documents.worldbank.org/curated/en/515391560754757314/Linking-Smallholders-to-Markets-A-Supplier-Development-Program-for-Vegetable-Farmers-in-Lesotho>

34.– World Bank Group, 2018. Unlocking the potential of Lesotho's private sector: A focus on apparel, horticulture and ICT. <http://documents.worldbank.org/curated/en/832751537465818570/Unlocking-the-potential-of-Lesotho-s-private-sector-a-focus-on-apparel-horticulture-and-ICT>

35.– Agriculture – Lesotho Review. <https://www.lesothoreview.com/contents/agriculture>

fertilization and plant protection products and other inputs necessary for production are vital. Ensuring that maintenance and technical assistance services are available is of high importance.

- **Develop quality and certification standards of international relevance.** Importers and end consumers are increasingly requiring products grown in a sustainable manner, observing production standards that protect and preserve the environment and observe adequate working conditions for the personnel involved. Not abiding by these can become a barrier to trade.
- **Take the necessary steps to ensure compliance with phytosanitary requirements (SPS agreement).** Providing tools and training to meet phytosanitary requirements is of paramount importance; the presence of certain pests and diseases in production areas can also often become barriers to trade. Good pest prevention and control skills as well as good inspection capacity for products exported are highly important as well.

3. To develop and promote horticulture exports from Lesotho.

Horticulture is an extremely large sector, comprising hundreds of different products. It is important to focus on production and work towards markets offering the best potential for Lesotho. In addition, horticulture is very different from traditional agriculture; it requires more precise planning, record-keeping and good knowledge of markets, seasonality, consumer market windows, varieties –where colour, shape and size of produce are often very relevant but also other factors such as pest and disease resistance. These can be very specific for each crop, so producing a wide array of products can become inefficient at best and impossible at worst. Whilst depending on one or two products poses risk, specialising in a range of products with good potential is advisable, at least as a start.

The following sub-objectives were identified as important in achieving this strategic goal:

- **An analysis to narrow down the list of horticulture products and markets with the best potential for export.** This is aimed at selecting a range of products that can be successfully produced in Lesotho and have good potential for export. Information already gathered in this respect will be considered. For example, Lesotho can produce some types of stone fruit ahead of South Africa, and this provides a market edge. Opportunities have been identified for vegetables (e.g. tomatoes, plums and peaches) and stone fruit. Some participants expressed

interest in cut flowers and cut foliage. The sector is still very incipient –there have been some efforts to develop greenhouses. These need to be accompanied by adequate training, capacity building, and assistance.

- **Improving access to updated technical and market information and its impact on crop production and planning.** This is aimed at documenting necessary information on specific crops selected for production in order to facilitate variety selection, best potential markets, production seasonality, specific market windows for which Lesotho holds an advantage and others. It will allow Lesotho producers to take advantage of the best potential opportunities. Learning to use tools such as those offered by ITC to analyse potential markets, seasonality, potential and specific requirements (for example compliance with rules of origin) of the products of interest will prove highly beneficial.
- **Making full use of trade agreements and financing sources of which Lesotho is beneficiary.** Lesotho is a beneficiary of various free trade agreements, incentives and exemptions, both regionally and globally. However, these are hardly used to their full potential and practically not used at all for horticulture products. Other sectors (e.g. textiles) are already taking advantage of free trade agreements such as AGOA, SACU and COMESA, ensuring tariff-free access to key markets. The best options for horticulture products need to be more fully explored and later when export capacity has been developed, used to their fullest. Similarly, as an LDC, Lesotho has access to a variety of different funds or financial aid options that can be used to develop horticulture production initiatives more fully.
- **Using Basotho diaspora and diplomatic representations abroad to generate information and promote the consumption of fruits, vegetables and ornamentals produced in Lesotho.**

The following section presents an action plan or proposed way forward bringing together the issues discussed above. It is envisioned for development over a period of five years.

The plan of action places a particular emphasis on training and capacity building activities. Although Lesotho has a long tradition in agriculture, familiarity with intensive horticulture production is only in the early stages. Developing intensive horticulture requires good technical knowledge, planning, professionalism, etc. All the relevant actors in the horticulture sector have been invited to take part in the strategy design process and contribute their ideas.

PLAN OF ACTION

Strategic Objective 1: Developing and/or improving horticulture production as a source of income and a path towards enhancing food security, and increasing job opportunities for women and young people.

Operational Objective	Activity	Executing agency	Timeframe
1.1. To promote and popularise horticulture as a source of revenue and food security	1.1.1. To improve the exchange of information between government agencies, trade associations and the private sector.		Short-term
	<ul style="list-style-type: none"> To raise awareness on the potential of horticulture for creating income, substituting imports and developing exports. Allocate responsibilities for horticulture across several ministries to address the variety of issues comprised: Agriculture, water affairs, forestry and land reclamation, trade and industry, labour, health. The farmers themselves need to be clearer about their requirements. 	<ul style="list-style-type: none"> Ministry of Trade and Ministry of Agriculture could lead the effort, integrating other agencies 	
	These activities are geared towards raising awareness about opportunities that can arise from horticulture and the need for integrating the sector with various government authorities to make it more efficient. It requires short term action. Linkages with activities 1.1.2., 1.1.4., 1.2.1., 3.1.2.		
	1.1.2. To disseminate information , knowledge and opportunities for the horticulture sector.		Short/medium-term
	<ul style="list-style-type: none"> Upgrade the current information portal so it provides specific information on horticulture products. The current one is general for trade. It should provide links to websites run by agriculture authorities. Utilise relevant social media/networks to promote and disseminate industry information, including radio programs on horticulture and related experiences and opportunities. Organize roadshows for the dissemination of information to the remote areas of the country. Organize study tours of selected growers to expand knowledge, learn from experience and adapt to local conditions. 	<ul style="list-style-type: none"> Ministry of Communications, Science and Technology 	
These activities are aimed at rearing interest in horticulture as an alternative business with good potential. Linkages with activities 1.1.1., 1.1.4., 1.2.1., 1.3.1., and 3.1.2.			
	1.1.3. To encourage further economic integration among key stakeholders.		Short-term
	<ul style="list-style-type: none"> Promote integration among the public and private sectors to reduce rivalries, avoid duplication of efforts, enhance communication and benefit all sectors involved. Promote coordination among service and product suppliers, improving their relationship with growers. Encourage information sharing among growers, marketing organisations, associations and others to strengthen the sector's capacity through cooperative efforts. Encourage joint ventures/ cooperatives among producers in order to create production units that are large enough to ensure sufficient volume of production and economy of scale. 	<ul style="list-style-type: none"> Ministry of Trade and Industry, Cooperatives and Marketing. Trade associations Producers 	
These activities are aimed at ensuring a smoother operation for producers and marketers and increase competitiveness that can lead to exporting efficiently. Linkages with activities 1.1.1., 1.2.1., 2.1.1., 2.2.1., 2.2.2., and 3.1.2.			
	1.1.4. To develop and strengthen education in horticulture.		Short/medium-term
	<ul style="list-style-type: none"> Review current curricula at different educational levels with a view of strengthening topics related to agriculture and horticulture. Include agriculture/ agronomy topics from primary school, to develop skills and awareness about opportunities and options from an early age. Host agriculture/ horticulture-related activities between schools and producing companies. Women could become integrated into activities involving children. 	<ul style="list-style-type: none"> Ministry of Agriculture and Food Security Ministry of Education Ministry of Trade and Industry, Cooperatives and Marketing Producers Associations Growers 	

Strategic Objective 1: Developing and/or improving horticulture production as a source of income and a path towards enhancing food security, and increasing job opportunities for women and young people.			
Operational Objective	Activity	Executing agency	Timeframe
1.1. To promote and popularise horticulture as a source of revenue and food security	<ul style="list-style-type: none"> Work with technical schools and universities to ensure that opportunities in horticulture are promoted throughout the learning cycle, and include training in the range of skills needed, including business management and record keeping. Encourage the government to invest and develop educational programs related to horticulture. Currently existing training centres and Agricultural Information Centres should be supported to provide high quality horticultural pieces of training. Organize and put in operation a “train-the-trainers” program to provide training and disseminate information on horticulture production topics. Produce communication materials on horticulture production including growing, pest and disease management, postharvest handling and others. <p>These activities aim at bridging the gap between the schooling offered at various levels, the current expertise available generally and the particular needs of the country. It will also encourage R&D programmes in this sector and provide an opportunity to address climate change and mitigation options, increasing competitiveness in the horticulture sector. Linkages with activities 1.1.1., 1.2.1.</p>	<ul style="list-style-type: none"> Ministry of Agriculture and Food Security Ministry of Education Ministry of Trade and Industry, Cooperatives and Marketing Producers Associations Growers 	
1.2. To create linkages and opportunities to strengthen business skills and enhance opportunities for development in horticulture	<p>1.2.1. Facilitating and enhancing cooperation among sector stakeholders.</p> <ul style="list-style-type: none"> Organize workshops, seminars, field days to help build the required business skills. Successful horticultural farmers or companies can become mentors of less developed ones and incubation programs such as the innovation hub operating at present should be strengthened. Fostering collaboration with farmers and agro-industrial companies in South Africa is critically important. Get the industry involved to help in creating linkages between farmers and service providers. These service providers also need to be trained so they can provide appropriate advice. <p>These activities are intended to maximize exposure and access to technical and business knowledge necessary to make horticulture successful as a business. Linkages with activities 1.1.1., 1.1.2., 3.1.1.</p>		Short-term
1.3. To create and widen opportunities for women and young people	<p>1.3.1. To identify work and income opportunities for women and young people in horticulture.</p> <ul style="list-style-type: none"> To encourage the creation of women’s associations where training and extension services on various key issues are provided. To foster and facilitate opportunities where young people become familiar with horticulture as a business with export potential, and interesting opportunities. Encourage and help organize activities such as field trips, meetings with successful growers and trade associations to disseminate and explore opportunities provided by horticulture. <p>These activities seek to reduce the gender gap in horticulture and empower women. Also, to create awareness among young people of the potential of this sector as a promising source of income and long-term business. Linkages with activities 1.1.1., 1.1.4., 1.2.1.</p>	<ul style="list-style-type: none"> Ministry of Gender and Youth, Sports and Recreation Ministry of Education Ministry of Agriculture 	2.
1.4. To implement mitigation strategies to address climate change	<p>1.4.1. To create awareness of climate change and identifying actions and solutions.</p> <ul style="list-style-type: none"> To address current and potential effects of climate change, its impacts and implications on agriculture such as land degradation, yield reduction, water scarcity or floods and others. Identify mitigation and management options, e.g. drought-resistant varieties, elements of climate-smart agriculture, efficient use of water, soil preservation measures. <p>These topics create awareness and encourage preventive actions or solutions to face the increasing and real threats climate change, to which agriculture is especially vulnerable. Linkages with activities 1.1.4., 2.2.1., 2.2.2.</p>	<ul style="list-style-type: none"> Ministry of Tourism, Environment and Culture Ministry of Agriculture and Food Security Ministry of Energy, Meteorology and Water Affairs 	Short/medium-term

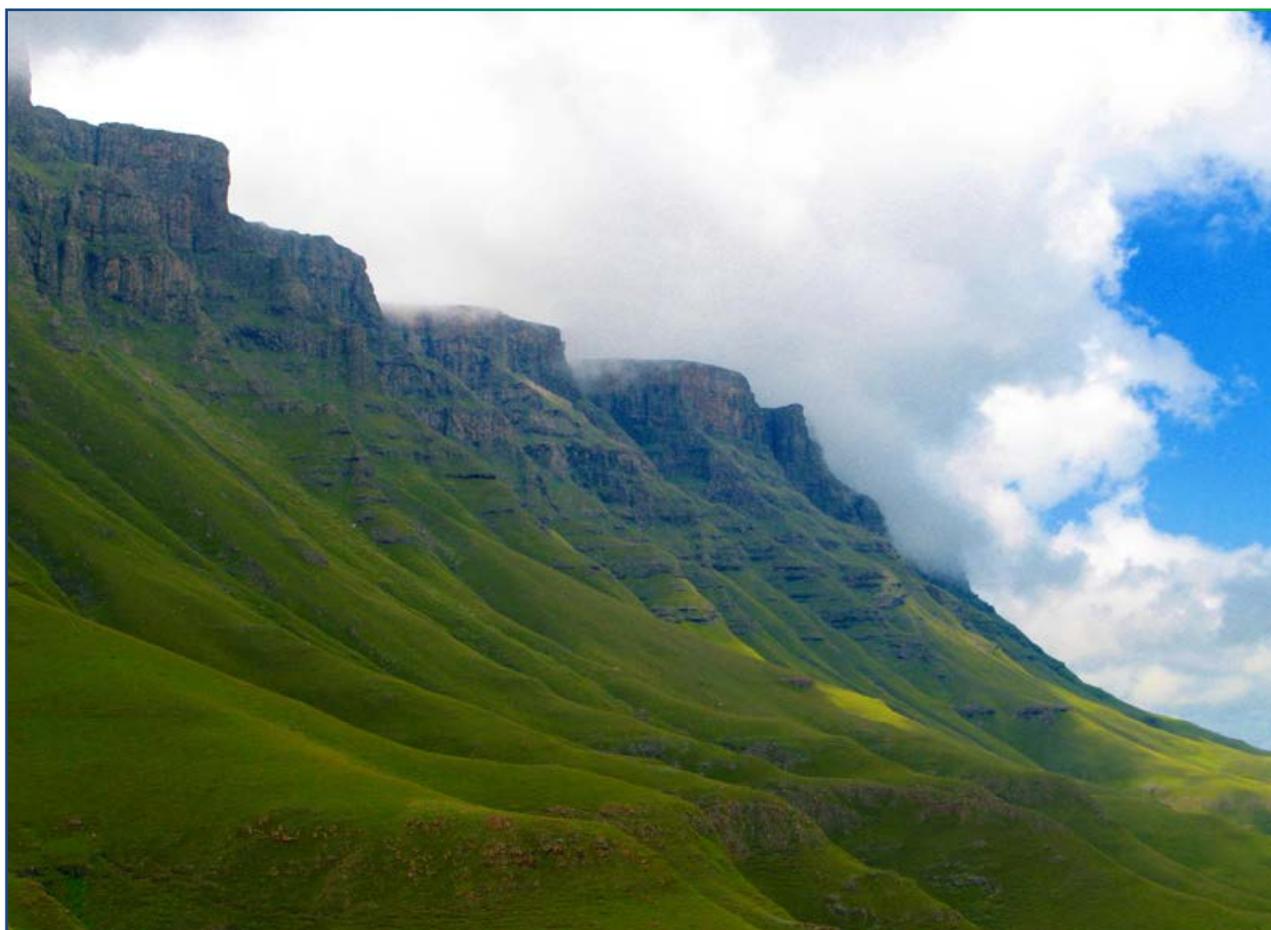
Strategic objective 2. Achieving appropriate infrastructure, business skills and a national environment conducive to development in horticulture.			
Operational Objective	Activity	Executing agency	Timeframe
2.1. To simplify requirements and making pertinent information accessible for efficient production and marketing; to mitigate financial risks and incentivise horticulture production.	2.1.1. To simplify compliance with regulatory requirements associated to trade in horticulture.		Short-term
	<ul style="list-style-type: none"> • Creating a “one-stop-shop” mechanism for horticulture production and trade within the Government • Creating an office or agency specializing in the production and trade of horticultural products, including exports, certification, quality control, phytosanitary issues. This directly relates to the point above. • These activities seek to provide logistic support for producers and support the creation of a one-stop-shop for matters related to horticulture development. Linkages with activities 1.1.1, 1.1.2., 2.2.2. 	<ul style="list-style-type: none"> • Ministry of Trade and Industry, Cooperatives and Marketing • Ministry of Agriculture and Food Security 	
	2.1.2. To support the creation of finance and insurance lines for horticulture projects.		Medium-term
	<ul style="list-style-type: none"> • Study the creation of credit lines specific for agriculture/ horticulture. • Develop an “Agricultural bank” or an agricultural segment within the financial system providing soft loans, assistance in budget and financial planning, insurance for crops and others.³⁶ <p>These activities are geared at reducing the financial risk that may deter persons interested in this sector from investing and initiating production. Linkages with activity 2.1.1.</p>	<ul style="list-style-type: none"> • Ministry of Trade and Industry, Cooperatives and Industry • Central Bank • Ministry of Finance • Central Bank 	
	2.1.3. To review current duties/taxes applicable to agriculture and devise incentives to promote development in the sector.		Short term
	<ul style="list-style-type: none"> • Create a group/ commission that analyses successful programs or situations in other countries and identifies actions that are feasible and convenient for Lesotho. • Review duties establishing specific incentives for horticulture, for example, tax exemptions (or redemptions) for exporters, tax reductions when generating jobs and others. • Analyse programs in place in other countries. • Develop incentives specific to agriculture and horticulture in particular. <p>These activities are especially important for the private sector, to encourage investment in horticulture and incentivise development. Review and analysis is a short term activity and can be conducted by a special interdisciplinary commission. Specific incentives will be developed in the medium term. Linkages with activities 1.1.2., 3.2.1.</p>	<ul style="list-style-type: none"> • Ministry of Trade and Industry, Cooperatives and Marketing • Lesotho Revenue Authority • Ministry of Foreign Exchange 	
2.2. To develop skills and strengthen business intelligence	2.2.1. To improve infrastructure and inputs needed to ensure good quality production and yields and good shelf-life.		Short-medium-term
	<ul style="list-style-type: none"> • Review and consider existent infrastructure (e.g. the Horticultural Market Centre), whether it is in service or not (if not why) and how the situation can be improved. Include water and electricity availability. Develop an overview of the infrastructure needed. • Develop a list of current producers of horticulture products and suppliers of goods and services (the latter should include suppliers above). Identify challenges (e.g. price, availability) and gaps. • Identify specific hurdles and possible solutions to integrate a complete production chain: field (production), packaging and shipping, cold chain, inspection, getting the product from origin to final destination. <p>This activity will help characterise the current and potential competitiveness of the horticulture sector in Lesotho and identify ways in which emerging hurdles can be overcome. Linkages with activities 1.1.4., 1.2.1., 1.3.1., 3.2.1.</p>	<ul style="list-style-type: none"> • Ministry of Trade and Industry, Cooperatives and Marketing • Ministry of Agriculture and Food Security • Land Administration Authority 	

36.– (Note: it should be noted that Lesotho had an agricultural development bank in the past, which was liquidated in 1999 due to gross mismanagement).

Strategic objective 2. Achieving appropriate infrastructure, business skills and a national environment conducive to development in horticulture.			
Operational Objective	Activity	Executing agency	Timeframe
2.2. To develop skills and strengthen business intelligence	2.2.2. To address phytosanitary issues (SPS) and quality certification standards directly (or potentially) impacting the success of the horticulture sector.		Short term
	<ul style="list-style-type: none"> Develop and disseminate good knowledge about plant health threats specific to horticulture, phytosanitary requirements and standards and how they should be met to avert crop losses and avoid possible interceptions is critical. Develop educational materials to help disseminate information on phytosanitary issues, pest and disease prevention and control. Create a group/commission that analyses current certification schemes relevant to horticulture and their requirements (for example FAIRTRADE, GLOBALGAP). 	<ul style="list-style-type: none"> Ministry of Agriculture and Food Security Plant Protection authorities Ministry of Tourism, Environment and Culture Ministry of Health, Public Health Section 	4. 6.
Good knowledge of certification schemes, standards, phytosanitary issues and food security requirements is essential for successful exports, avoid delays and avoid product rejections. Linkages with activities 1.1.1., 1.1.4., 2.1.1.			

Strategic Objective 3: To promote horticulture exports from Lesotho.			
Operational Objective	Activity	Executing agency	Timeframe
3.1 To identify products best suited for export and characterise potential markets	3.1.1. To narrow down the list of horticulture products and markets with the best potential for export from Lesotho.		Short-term
	<ul style="list-style-type: none"> Form a working group to study and select a range of products that can be successfully produced in Lesotho and have good potential and advantages for export. Use tools available to analyse market potential, for example, ITC (International Trade Centre) tools. Identify key growers/ producers to gauge interest in producing or strengthening production of the selected products. Explore business relationships with countries other than South Africa. Identify/ attract strategic investing partners, local or foreign to spear development. The government can help with tax incentives, soft loans. <p>This activity is aimed at selecting a limited range of products that can be successfully produced in Lesotho and have the best potential for export to the markets identified. Linkages with activities 2.1.1., 2.2.2., 3.1.2.</p>	<ul style="list-style-type: none"> Ministry of Trade and Industry, Cooperatives and Marketing Ministry of Agriculture and Food Security Growers Associations of cooperatives Producers (local and foreign) 	
	3.1.2. To improve access to updated technical and market information and its impact on crop production and planning.		Short-term
	<ul style="list-style-type: none"> Develop a functional, regularly updated website providing information on input prices, where inputs can be acquired, potential markets and opportunities, updated production techniques. Upgrade and further develop the Lesotho Trade Portal to include the horticulture sector for easy access to trade and business information/data with links to specific sector and institution information. Create technical working groups specific to horticulture, promote and support cooperative efforts. Use tools available to comply with requirements, for example, ITC (International Trade Centre) tools can be used to achieve compliance with rules of origin more easily. <p>These activities aimed at creating awareness about (and develop) the skills and business intelligence necessary to develop horticulture and provide tools to achieve this. Linkages with activities 2.1.1., 2.2.1., 3.1.1.</p>	<ul style="list-style-type: none"> Ministry of Trade and Industry, Cooperatives and Marketing Exports authorities Ministry of Agriculture and Food Security Ministry of Trade and Industry, Cooperatives and Marketing Ministry of Education Ministry of Agriculture and Food Security 	

Strategic Objective 3: To promote horticulture exports from Lesotho.			
Operational Objective	Activity	Executing agency	Timeframe
3.2. Tapping trade and funding opportunities to their fullest	<p>3.2.1 To make full use of trade agreements and funding opportunities (international aid) benefiting Lesotho.</p> <ul style="list-style-type: none"> • Explore and document trade agreements and funding options available to Lesotho for developments in horticulture. • Explore options to create or expand linkages with other sectors already taking advantage of trade agreements. • Identify and understand the sources of international aid specifically aimed at developing horticulture. Consider programmes and projects already under development. • Design a scheme to fully benefit from these advantages, in view of the products selected for export and the potential markets identified. 	<ul style="list-style-type: none"> • Ministry of Trade and Industry, Cooperatives and Marketing • Ministry of International Affairs 	Medium-term
	<p>This activity is geared at ensuring that Lesotho benefits fully from the incentives and help offered by the international community. Linkages with activities 1.1.1., 1.1.4., 2.1.3., 2.2.1.</p>		
3.3. Promoting horticulture exports from Lesotho	<p>3.3.1. To use Basotho diaspora and diplomatic representations abroad to generate information and promote the consumption of fruits, vegetables and ornamentals produced in Lesotho.</p> <ul style="list-style-type: none"> • To encourage business links between domestic companies and the diaspora as a way of promoting Lesotho's exports of horticultural products. • To involve Lesotho's foreign diplomatic missions in promoting Lesotho's exports. 	<ul style="list-style-type: none"> • Ministry of Trade and Industry, Cooperatives and Marketing 	Long-term
	<p>This activity will help promote and strengthen Lesotho's place in international trade scenario of horticultural products. It will also help establish and promote a national brand by which importers and consumers identify Basotho products. Linkages with activities 1.2.1., 3.1.2.</p>		



Textile & Apparel

GLOBAL TRENDS IN THE TEXTILE & APPAREL (T&A) INDUSTRY

Growing Global Apparel Markets. The current global apparel consumption is approximately \$1.9 trillion and is projected to grow at a rate of 5% (CAGR) to reach \$2.6 trillion by 2025. This means that in the next 6 years, there will be an additional demand for apparel worth \$700 billion. Europe and the US are the largest apparel consumption hubs with 23% and 18% share in global consumption, respectively.

Supply Chain Shift. Textile and apparel manufacturing has not always been concentrated in low-cost manufacturing destinations. Mass production of textiles and apparel initially started in Europe and the US during the industrial revolution and started spreading to other low-cost manufacturing destinations. Eventually, the

cost differential between developed countries and developing Asia caused a major shift of manufacturing to the latter. The combined global exports share of the US, major European countries and developed Asian countries decreased from 45% in 1995 to 22% in 2018. During the same period, the export share of China, India, Bangladesh and Vietnam increased from 27% to 49% (see Table 2).

But lately, manufacturing costs have been rising in Asian countries (China, India, Vietnam and Bangladesh) indicating the possibility of another wave of mass relocation of the manufacturing industry. African countries with their lower wages and duty-free access to large markets can position themselves as alternatives provided that they are able to match the quality, cost and service requirements of large buyers.

Table 2: Change in global T&A exports share of major supplier countries

	1995	2018	
Group 1	China	23%	35%
	India	3%	5%
	Bangladesh	1%	5%
	Vietnam	0%	4%
	Sub-total	27%	49%
Group 2	Italy	9%	4%
	Germany	8%	4%
	USA	6%	3%
	S. Korea	6%	2%
	France	4%	2%
	Belgium	3%	2%
	UK	3%	1%
	Japan	3%	1%
	Turkey	3%	3%
	Sub-total	45%	22%

Source: UN Comtrade

Growing Competitiveness of Africa: Most of the African countries have duty free access to the EU and/or the US. North African countries have successfully leveraged their proximity to continental Europe and emerged as leading apparel suppliers. However, Sub-Saharan African countries are yet to realize their full potential.

Recently, some African countries (e.g. Ethiopia) have received significant FDI in the sector and are expected to emerge as major players.

Table 3 below presents the export value of leading African exporters and their major markets.

Table 3: Leading African exporting countries and their key markets (2018)

S. No.	Country	Exports (\$ Million)	Major Markets	Share in Exports
1	Morocco	5,736	Spain	39%
			France	19%
			Germany	8%
2	Tunisia	3,863	France	32%
			Italy	18%
			Germany	13%
3	Egypt	3,446	USA	31%
			Turkey	13%
			Italy	7%
4	South Africa	1,167	China	26%
			Namibia	14%
			Botswana	10%
5	Madagascar	841	USA	25%
			France	24%
			South Africa	12%
6	Mauritius	799	South Africa	20%
			USA	19%
			France	12%
7	Lesotho	566	USA	58%
			S. Africa	34%
			China	4%
8	Kenya	495	USA	82%
			Uganda	2%
			S. Arabia	2%

Source: UN Comtrade

Consolidation of Sourcing. Leading brands and buyers across the globe are looking for full package suppliers so that they have to interact with fewer entities. This not only simplifies the sourcing process for them but also proves inexpensive. As such, buyers encourage suppliers for backward and forward linkages as well as capacity expansions. They are also willing to support such initiatives through strategic tie-ups.

Changes in Fibre Mix. Global fibre consumption has increased from 29 million tons in 1980 to 97 million tons in 2018 wherein there has been a gradual shift from natural (e.g. cotton) to manmade fibres. Polyester fibre consumption, especially, has been growing rapidly due to continuous improvement in fibre properties, scalability and economical production. The global polyester fibre consumption is projected to increase from 58 million tons in 2018 to 78 million tons by 2030.

Emergence of Industry 4.0 Concepts. Textile and apparel is a labour-intensive industry where manpower cost has a large share. In fact, rising manpower cost is the most important reason behind industry relocation. Industry 4.0 concepts can help in manpower reduction thereby making it viable to produce in high-cost countries as well. Intense research and development are currently undertaken on Industry 4.0 application in the apparel industry with the potential to reshape the entire industry in the near future.

Growing Importance of Sustainability. Adopting sustainable business processes are no longer an option for manufacturers. Brands and buyers are looking for sourcing partners who adhere to global sustainability standards and compliances. The end consumer is also embracing the concept of responsible consumption increasingly. The principles of the circular economy i.e. Recycle, Reuse, Resale, and Rentals are redefining the ways in which people consume fashion.

LOCAL PERSPECTIVE

Lesotho's textile & apparel industry value chain comprises of 64 companies out of which 52 companies are engaged in garment manufacturing. All the large factories are FDI projects, mainly from China and Taiwan. The T&A industry of Lesotho has a few large manufacturing players which are located in and around the capital city Maseru. Local firms are all SMEs manufacturing for local consumption, most of which are not registered with the authorities.

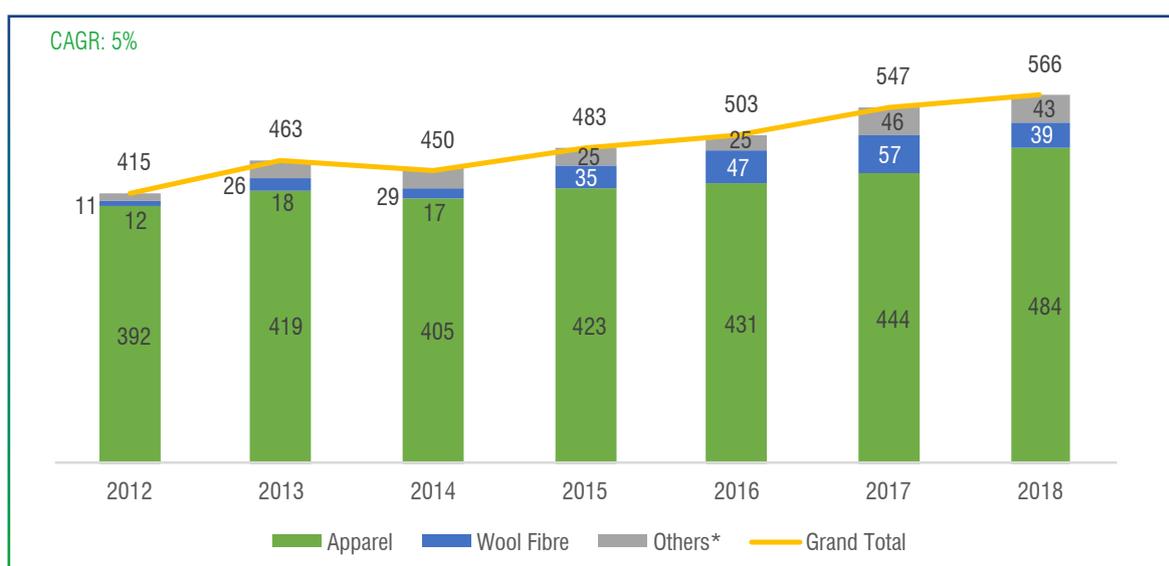
Apparel manufacturing is the key economic activity in the country accounting for 85% of the total exports of the country. The total textile and apparel exports in 2018 was \$566 million, which has grown from \$ 415 million in 2012, at a CAGR of 5%. Apparel is the largest exported category with 86% share followed by wool fibre with a share of 7%. The historic trend of Lesotho's T&A exports is depicted in Figure 20.

Table 4: Domestic T&A Industry of Lesotho

Sector	Number of Firms	Employment	Approx. Annual Production (2017)	Units
Yarn			18,000	MT
Fabric	1	1,220	15.6	Mn. Meter
Apparel				
Denim (woven bottoms)	9	13,124	23.30	Mn. Pieces
Non-denim woven apparel	4	1,580	6.36	Mn. Pieces
Industrial work-wear	6	4,696	11.00	Mn. Pieces
Knitted garments	33	24,513	115.14	Mn. Pieces
Total Apparel	52	46,604	155.81	Mn. Pieces
Supporting Industry	11	218	-	

Source: Lesotho Textiles, Apparel & Footwear Manufacturing Industry, 2017 published by Trade Law Centre (Tralac), South Africa

Figure 20: Historic Trend of Lesotho's T&A Exports (\$ Million)



*Others include yarn, fabric, home textiles, accessories etc.

Source: Comtrade data

The break-up of Lesotho's T&A exports to major markets along with growth rate is given in Table 5.

Table 5: Top-5 Markets for Lesotho's T&A Exports (2018)

S. No.	Major Markets	Value (\$ Million)	Share	CAGR (2012-18)
1	USA	329	58%	1%
2	South Africa	191	34%	16%
3	China	25	4%	173%
4	Canada	7	1%	-3%
5	Netherlands	4	1%	93%
6	Others	10	2%	-9%
	Total	566		5%

Source: UN Comtrade

It can be seen that approx. 92% of the exports are destined for the US and South African markets. Exports to both of these markets are duty-free under AGOA and SADC, respectively. In 2000, AGOA was introduced for a period of 15 years, which was again revised in 2015 for the next 10 years. As the US is the biggest market for Lesotho, non-extension of AGOA in 2025 will pose a big threat to the nation's economy and jobs.

Cotton and manmade fibre (MMF)-based trousers are the largest exported categories accounting for 27% and 23% share in the overall T&A exports, respectively. Other majorly exported T&A commodities include MMF jerseys, wool fibre and MMF shirts with a cumulative share of 20% as depicted in Table 6.

Table 6: Top-5 T&A Products Exported by Lesotho (2018)

S. No.	Major Exported T&A Products	Value (\$ Million)	Share	CAGR (2012-18)
1	Cotton Trousers	150	27%	-1%
2	MMF Trousers	129	23%	15%
3	MMF Jerseys	48	8%	9%
4	Wool fibre	39	7%	72%
5	MMF Shirts	31	5%	1%
6	Others	168	30%	3%
	Total	566		-1%

Source: UN Comtrade

One of the key characteristics of Lesotho's T&A industry is negligible upstream capacities. There is only one company engaged in yarn and fabric manufacturing for both internal consumption and export. As such,

the entire yarn and fabric demand is met through imports from South Africa, Taiwan, China, India, etc. A list of major T&A manufacturers in Lesotho is given in Table 7.

Table 7: Major T&A manufacturers in Lesotho

Major Players	Location	Products	Capacity	Major Clients
Formosa Textiles Co. PTY Ltd.	Maseru	Ring Yarn Open End Yarn Denim Fabric	9,600 TPA 8,400 TPA 13MMPA	Levi's, VF, TCP, WOOLWORTHS
C&Y Garment Company PTY Ltd.	Maseru	Jeans	6 MPPA	Levi's, TCP
Nien Hsing International Lesotho (Pty) Ltd	Maseru	Jeans	6 MPPA	VF, TCP
Global Garments Company (PTY) Ltd	Maseru	Jeans	6 MPPA	Levi's, VF, TCP
Glory International	Maseru	Knitwear	0.36 MPPA	IPAS, Giftex
CGM Group (2 units)	Maseru	Jeans	>1 MPPA	-
Tai – Yuan Garments/ J&S Fashions	Maseru	Woven Tops and Bottoms	-	GAP, KOHLS, COSTCO, WAL-MART, KOMAR

Source: Websites of Individual Companies. TPA: Tons per annum. MPPA: Million pieces per annum. MMPA: Million meters per annum

SECTOR DIAGNOSTICS

Extensive stakeholder consultations, field visits and literature reviews have revealed constraints in the country's textile industry that challenge its growth. To ensure that the Strategy is efficient and precise, only the most critical challenges to be addressed in this Strategy are detailed below based on ITC's SME Competitiveness Grid.³⁷

COMPETE

Compete assesses whether current production is efficient and meets market requirements. The competitiveness capacity of exporting sectors in Lesotho is undermined by several factors related to the sectors' capabilities, institutional support and national environment.

Box 8: Competitiveness constraints in textiles and apparel: Compete

Compete in national and foreign markets

Firm capabilities

- o SMEs lack scale to cater to large orders.
- o Limited access to specialized machinery.
- o Lack of knowledge of standardized garments.
- o Lack of awareness of customs clearance procedures.
- o Limited information about standard manufacturing procedures.
- o Low awareness of buyer requirements.
- o Limited market focus.

Business ecosystem

- o Limited access to financial services.
- o Low availability of inputs.
- o High cost of finance.
- o High rental cost.
- o High cost of certification & auditing.

National environment

- o High transportation cost.
- o Inefficient customs and border services.
- o Unreliable access to electricity and water.

Firm capabilities

SMEs lack scale to cater to large orders: Majority of the T&A SMEs are managed by the entrepreneur herself without any professional staff and have very low production capacities. Low management bandwidth and scale prevents them from working with international buyers directly or do job-work for exporters.

- **Plan of Action reference: Activity 1.1.1**

Limited access to specialized machinery: Most of the T&A SMEs do not have specialized garment manufacturing machinery or laundry set-ups, both of which are important to produce export quality products. For instance, the SMEs do not have 'Belt Autoloop' machine, which is an expensive, automated machinery that is used to make belt loops in trousers. Instead, a normal single needle lock stitch machine is used, which produces comparatively poor-quality belt loops and takes more time.

- **Plan of Action reference: Activities 1.1.2 and 1.1.3.**

37.— A two-day workshop was held in Maseru on November 11-12, 2019, which was attended by key stakeholders from private industry, trade or production associations and Government. This allowed for rich discussion and thorough analysis of both opportunities and challenges in the horticulture sector in Lesotho. A meeting was held at the Ministry of Agriculture to gather more information on current production of fruits and vegetables, resources and programmes in place to further the development of the sector, as well as present hurdles.

Lack of knowledge of standardized garments: In T&A industry, there are well established Standard Operating Procedures (SOPs) for every manufacturing process that assist in the optimization of time and resources. For example, frequency, type and process of inspection during the garment production is prescribed to ensure that the production is going as per the specifications. Another example of SOPs is updating the compliance documents on regular intervals to avoid any hassle during exports. T&A sector SMEs of Lesotho do not know such SOPs and as a result, they find it very difficult to be part of the export value chain.

- **Plan of Action reference:** Activities 1.1.4 and 1.1.5.

Lack of awareness of customs clearance procedures: The lack of knowledge among SME entrepreneurs about documentation and procedures involved in custom clearances causes unnecessary delays resulting in higher lead times, hassles and extra costs. This point was stated by multiple participants during the workshop in Maseru. They shared their experience when they did not know which documents were required.

- **Plan of Action reference:** Activities 1.1.5 and 1.1.6.

Low awareness of buyer requirements: The manufacturers have limited awareness about the buyer-specific requirements such as garment size, labelling standards etc. Without such awareness, SMEs cannot work for any of the prominent global buyers directly, or indirectly (job-work for exporters).

- **Plan of Action reference:** Activity 2.1.1.

Limited market focus: More than 90% of Lesotho's export business is concentrated in the markets of the US and South Africa taking duty-free advantage under AGOA and SADC. There is a serious risk in this model as AGOA is set to expire in 2025. If AGOA is not extended further, many exporters will immediately be forced to cut production and hundreds of jobs will be lost.

- **Plan of Action reference:** Activity 2.1.1 and 2.1.2.

Business ecosystem

Limited access to financial services: Majority of the T&A SMEs in Lesotho are unable to take loans or access other financial services such as export credit facilities, insurance etc. One of the key reasons is that SMEs are not formally registered with government authorities. Unregistered firms lack the creditworthiness as per banking standards. In addition, these SMEs also do not have collaterals that could be mortgaged to banks for taking loans.

- **Plan of Action reference:** Activities 1.2.1 and 1.2.2

Reliance on imported input materials: The limited presence of up-stream textile industry in the country makes the garment manufacturers dependent upon imported fabric and other inputs. This proves to be expensive and slow, directly impacting the manufacturer's competitiveness. T&A SMEs usually import fabric from distributors in South Africa who do not provide complete details such as fibre content making it difficult to decide the suitability for a particular end product. Limited supplier base makes these SMEs vulnerable as distributors tend to supply material on their own conditions and choice.

- **Plan of Action reference:** Activities 1.2.3, 1.2.4 and 1.2.5

National level

High cost of finance³⁸: The lending rate of national banks goes as high as 22% per annum, while in the case of individual lenders it ranges from 20% to 30% per month. Such high cost of finance restricts the industry stakeholders in putting up new manufacturing capacities and running day to day business activities.

- **Plan of Action reference:** Activity 1.1.1.

High rental cost: The rent cost of a small shed of say 150 Sq. ft. ranges from R 3,000 to R 10,000 per month depending upon the location. Such high rentals prevent SMEs to expand in an organized manner and instigate them to operate from their homes or in sub-optimal size sheds.

- **Plan of Action reference:** Activity 1.2.6.

High cost of certification & audit: To cater to international buyers, the manufacturer needs to have certain certifications, such as Sedex, Worldwide Responsible Apparel Production (WRAP), Fair Wear Foundation (FWF), ISO 9001, SA8000 etc. to assure buyers about the compliance level of its company. These certifications have a high cost and are not affordable for many T&A SMEs. Similarly, the high cost of third party audits is also a major constraint. There is only one buyer accredited South African auditing agency that charges \$200,000 plus expenses for each audit.

- **Plan of Action reference:** Activities 1.2.7 and 1.2.8.

High transportation cost: The transportation cost plays an important role in deciding the final cost of the end product. The material transportation between Maseru and major ports does not come cheap:

- » Maseru to Johannesburg/Durban port: R 15,500
- » Maseru to Cape town port: R 30,000 (R 35,000 for super linkage).
- » Escort vehicle costs ~R 45,000 per trip additionally

- **Plan of Action reference:** Activity 1.3.1

38.– The lending rates of the banks mentioned in the document have been taken after consultation with the industry stakeholders present during the workshop

Unreliable access to electricity and water: The industry faces the issue of inconsistent supply of electricity and water, which affects manufacturing activities and results in the delay of shipments.

- **Plan of Action reference:** Activities 1.3.2 and 1.3.3

CONNECT

Connect is the connectivity dimension of competitiveness. To be competitive, enterprises must link to customers, businesses, institutions, and be literate in information and communications technologies.

Box 9: Competitiveness constraints in textiles and apparel: Connect

Compete in national and foreign markets

Firm capabilities

- Lack of technological /digital skills.
- Lack of capacity to brand the final product.

Business ecosystem

- Absence of sub-contracting model.
- Limited connects with suppliers.
- Limited penetration of online payment models.

National environment

- Lack of coordination between educational institutions and industry.
- Limited awareness about the support and services available to the SME sector.

Firm capabilities

Lack of technological/digital skills: T&A SMEs of Lesotho have very limited knowledge of modern business models and digital platforms, which are necessary in today's context. They do not possess the digital skills, for example, to find, connect and transact with an Asian supplier which might give them a better price than their present supplier in South Africa. Neither do they have the understanding to promote their products through social media, or on e-commerce websites, which could bring them extra business.

- **Plan of Action reference:** Activities 1.1.4, 1.1.5 and 2.1.2.

Lack of marketing capacity: T&A SMEs do not have the management bandwidth or the wherewithal to connect with global brands, large exporters within the country or directly with consumers in overseas markets. As a result, the business remains small and dependent on a limited buyer base.

- **Plan of Action reference:** Activities 2.1.3 and 2.1.4.

Business ecosystem

Absence of sub-contracting model: Majority of large T&A exporters globally engage with smaller companies, providing them business in a sub-contracting model, often for one or two distinct processes. In Lesotho,

however, this type of sub-contracting model is absent. Large exporters state that they are not able to find reliable SMEs who can work for them while SMEs are of the opinion that large exporters rarely engage with them.

- **Plan of Action reference:** Activity 2.2.1.

Limited connection with suppliers: Majority of the SME sector is not aware of the suppliers of different input materials who are based outside Lesotho and South Africa. This lack of awareness makes the SME sector dependent upon a few suppliers who sometimes exploit this situation. Also, unavailability of dedicated online portals or market places to meet and deal with suppliers/vendors affects the manufacturing activities of the SME sector.

- **Plan of Action reference:** Activities 2.1.1, 1.1.5, and 2.2.2.

Limited penetration of online payment models: Limited presence of online payment models and gateways increases the payment cycle for manufacturers. In online mode, payments get credited instantaneously but in the absence of such system, manufactures have to wait for physical movement of banking documents, which increases the time for payment realization. Sometimes, the absence of online payment models also becomes a deciding factor for the buyer while selecting its vendors.

- **Plan of Action reference:** Activities 1.2.1, 1.2.2 and 1.1.4.

National level

Lack of coordination between educational institutions and industry: Currently, the educational institutions running in the country have limited interaction with the industry. These institutions have an outdated course curriculum and old machinery. Also, there are limited provisions for conducting student training programmes in the factories and limited placement linkages.

- **Plan of Action reference:** Activity 2.3.1.

Limited awareness about the support and services available to the SME sector: There are several public departments with special schemes and support

services available for the SME sector of the country. But as there is very limited awareness about the supports, the majority of the SME sector is not able to avail the benefits of these schemes.

- **Plan of Action reference:** Activity 1.1.6.

CHANGE

Change is the dynamic dimension of competitiveness. It assesses whether enterprises have the capacity to make human and financial investments and to adapt to fast-changing markets. Lesotho's export sector currently has a limited capacity to innovate and to tap into emerging trends and markets.

Box 10: Competitiveness constraints in textiles and apparel: Change

Compete in national and foreign markets

Firm capabilities

- Limited training capacity.
- Lack of skilled manpower with exposure to new technology/machinery.

Business ecosystem

- Low focus on adopting new technologies.
- Insufficient research and innovation activities.
- Low exposure of local entrepreneurs to business systems and models.

National environment

- Absence of a dedicated policy for the textile and apparel sector.
- Non-existent technology, innovation and R&D culture in the country.
- Outdated Intellectual Property (IP) Policy.

Firm capabilities

Limited training capacity: The low skill level of manpower is a major issue in the T&A sector in the country. The World Bank funded an apparel training centre with a training capacity of 30 persons per batch. Apart from that, there is no other training facility. For a sector that generates more than 40,000 direct jobs, this is a very low training capacity. In addition, the training centre is almost non-functional.

- **Plan of Action reference:** Activity 3.1.1.

Lack of skilled manpower with exposure to new technology/machinery: The manpower engaged in manufacturing activities of SME sector have limited exposure to the latest technology/machinery, which results in poor productivity and low-quality products.

- **Plan of Action reference:** Activities 3.1.1 and 3.1.2.

Business ecosystem

Low focus on adopting new technologies: Most of the SMEs have very basic and age-old pieces of machinery due to lack of availability of finance and unawareness about modern/upgraded machinery.

- **Plan of Action reference:** Activities 3.2.1, 3.2.2, 3.2.3 and 3.2.4

Insufficient research and innovation activities: There is no R&D and innovation institutes in the country which can support the T&A industry in process and product upgradation.

- **Plan of Action reference:** Activity 3.2.5.

Low exposure of local entrepreneurs on business systems and models: The local entrepreneurs have limited information and knowledge about the different business practices and models followed globally.

- **Plan of Action reference:** Activity 3.1.3.

National level

Absence of dedicated policy for the textile and apparel sector: There is no dedicated policy for textile & apparel sector of the country to support the manufacturers in both fiscal and non-fiscal aspects. Most of the major T&A manufacturing countries have their own dedicated textile policy or a dedicated section in their national exports or industry policy. Since Lesotho's majority of foreign exchange earnings and jobs are generated by T&A industry, it is pertinent to have a policy stating the future vision and roadmap to achieve the same.

- **Plan of Action reference:** Activity 3.3.1

Non-existent innovation and R&D culture: T&A SMEs do not focus on research and innovation, which results in limited product portfolio, low margins, lack of separate identity and inability to cater to buyers' requirements etc.

- **Plan of Action reference:** Activities 3.2.1, 3.2.2, 3.2.3 and 3.2.4

Outdated IP Policy: The Intellectual Property policy launched in 1989 has become outdated and needs to be updated as per the modern standards focusing on licenses, management and partnership facilitation.

- **Plan of Action reference:** Activity 3.3.2

THE WAY FORWARD

This section is based on the analysis of the key aspects of Lesotho's trade competitiveness constraints, its national economic framework and institutional landscape. The "way forward" lays down the key strategic framework of the NES comprising the strategic and operational objectives as well as the Plan of Action.

Strategic objectives

To guide the implementation of the NES in the next five years, the strategy presented was formulated and agreed by stakeholders who participated in the consultations for the design of this NES. It represents the ambitions of the country as well as a consensus among stakeholders over the role of exports in the economy today and in the near future.

The sector strategy is structured around three strategic objectives. The implementation of the three strategic objectives will enable the government to secure some "quick wins" – produce immediate and visible results with minimum resources. The three strategies are interlinked and mutually reinforcing so that progress in one component could feed into the others in the right policy environment.

Strategic Objective 1: To enhance the textiles and apparel industry's global competitiveness

In order to increase textile and apparel exports, Lesotho needs to enhance the global competitiveness of its firms, particularly amid growing competition from low-cost Asian producers. The industry's competitiveness is influenced by constraints both at the firm and business ecosystem levels. In order to pursue progress in this area, this objective focuses on reducing production, testing and certification costs for companies, easing access to finance, developing capacity building activities and support infrastructure, and creating awareness about standards and certification.

A number of initiatives are required at the operational level to address this challenge. These include:

- **1.1 Enhanced Cost Competitiveness of the Manufacturing Companies:** This activity aims to make the sector's products more attractive to buyers by reducing the cost of manufacturing. It highlights access to finance, fiscal incentives and establishing common infrastructure as crucial elements for companies to increase their production capacities and expand to new markets. Becoming a part of the formal sector and forming co-operatives is one way to ease access to finance and fiscal incentives for investment and operations will encourage SMEs to expand. It is also important to establish support infrastructure such as raw material banks at a competitive cost.
- **1.2 Better Manufacturing Lead Times:** This activity aims at capacity building of SMEs so that they can cut down on avoidable delays such as unawareness of customs procedures, and also increase their bandwidth through a collective approach.
- **1.3 Adherence to Global Standards and Certifications:** This activity emphasizes the need to create awareness among manufacturers about the different standards and certifications required to cater to global fashion brands and retailers. It will help manufacturers understand such requirements and ways to achieve them so that they can tailor their business accordingly. This activity will help reduce the cost of mandatory certifications, which SMEs see as an extra burden. It will also reduce the cost of audit that is very high currently. There is only one buyer accredited South African agency that charges \$200,000 plus expenses for each audit. This activity will also encourage the establishment of local offices of testing and certification agencies within Lesotho which will prove cheaper.

Strategic Objective 2: To improve industry linkages with markets, suppliers and institutions.

Strong linkages across buyers, suppliers and institutions are critical for firms' growth. Lesotho's textile and apparel sector is mainly driven by global exports. Therefore, companies need to keep informed about changes in the competitive environment (suppliers, markets, technologies and government policies) and actively reach out to provide information about the firm or its products. Under this objective, creating awareness about market development and marketing strategy, facilitating businesses for efficient sourcing of inputs and cooperation with institutions for training and knowledge transfer are pursued.

Several initiatives are required at the operational level to address this challenge. These include:

- **2.1. Linkages with Markets and Customers:** This objective aims to help SMEs identify market opportunities and ways to tap them. It will focus on training businesses about the entire market development process and then provide an online repository of critical data and analysis. In addition to it, the activity will promote the concept of subcontracting, which is currently non-existent in Lesotho. It also aims at creating a global image of Lesotho's textiles and apparel companies.
- **2.2. Linkages with Suppliers:** This activity will enable SMEs to connect with various suppliers and evaluate them as per their requirements. It will also promote the establishment of distribution centres within the country, making it easier and faster for SMEs to procure critical inputs. In addition, it will focus on enhancing digital skills so that businesses can undertake sourcing activities online.
- **2.3. Linkages with Institutions:** The goal of this activity is to promote collaboration between industry and training or education institutes. Such collaboration will aid both the parties as institutes can customize their courses and develop placement linkages while companies will benefit from manpower trained on their specific requirements.

Strategic Objective 3: To establish a policy framework for creating a conducive business environment.

Many of the challenges faced by firms in the sector do not stem from their own capabilities but are linked to the local and sectoral business environment. To ensure a friendly business environment, this strategic objective focuses on investment promotion in the sector,

increasing productivity and inculcating best practices by engaging industry experts, providing high-quality training programmes for both employees and employers, supporting innovation and facilitating the establishment of incubation centre for start-ups, creating a legal framework for intellectual property and license management among others.

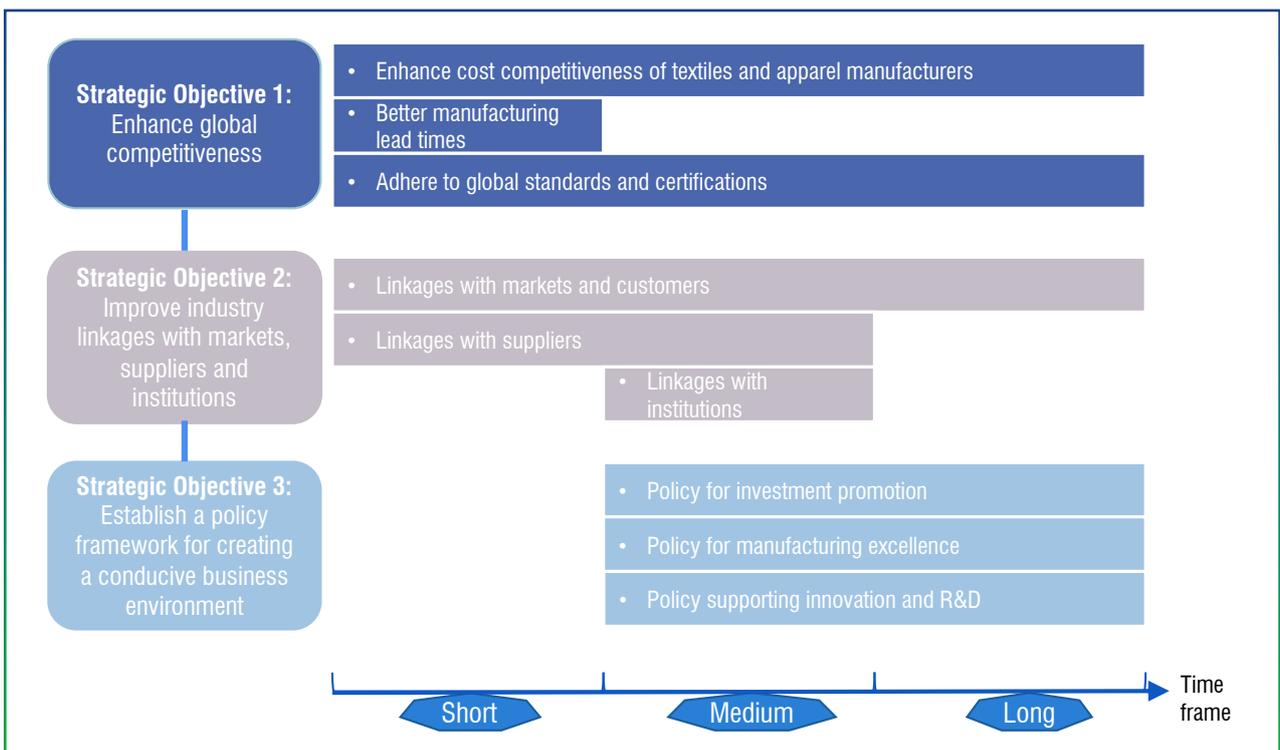
A number of initiatives are required at the operational level to address this challenge. These include:

- **3.1. Policy for Investment Promotion:** A dedicated textiles and apparel sector policy will enhance the predictability in the business environment giving investors confidence to invest in Lesotho. The policy should also address key points such as planned wage increases, common infrastructure development for the sector, etc. so that comprehensive growth is discussed. The Policy should prioritize attracting investment in non-traditional products to help diversify the exports basket. With one of the objectives being the development of industrial parks and factory sheds, the activity will garner investment from international investors, some of whom have already expressed intent to rent them once available.
- **3.2. Policy for Manufacturing Excellence:** This activity will aim at bringing Lesotho's' textiles and apparel companies at par with global standards and benchmarks. As the current level of know-how available with investors is low, engaging consultants and industry experts will be required. Further, bringing international expertise to Lesotho's companies will help globalize Lesotho goods. This activity also intends to increase the competency of the workforce at all levels. With a focus on continuous learning about international developments, the activity will help in increasing productivity and boost innovative developments in the sector. It also aims at encouraging companies to start investing in the training of their current employees and explore the e-learning options available.
- **3.3. Policy supporting Innovation and R&D:** The activity aims to promote R&D and innovation culture in the sector. The development of incubation centres will develop a business ecosystem for innovation and new technology. The activity can also be extended to incentivize companies adopting new technology and incentives can be provided under the Textiles and Apparel Policy as discussed above. The activity will boost innovation and provide an updated legal framework to start-ups and incubation centres. The new IP laws will strengthen the business ecosystem and provide assurance to global investors.



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Figure 21: Logical framework of the textile and apparel sector strategy



Source: ITC and stakeholders' consultations

PLAN OF ACTION

Strategic Objective 1: To enhance the textiles and apparel industry's global competitiveness.			
Operational objective	Activities	Executing agency	Timeframe
1.1. Enhanced cost competitiveness of the manufacturing companies	<p>1.1.1. To ensure that the companies have access to finance to meet operational and expansion costs.</p> <ul style="list-style-type: none"> Encourage Small and Medium-sized Enterprises (SMEs) to register and become part of the formal sector through training and awareness campaigns. Promote collaboration of SMEs to form co-operatives as this will improve their creditworthiness and enable them to access grants and schemes collectively. Making formalization procedure quick and easy by creating a one-stop-shop or a single form to register with all concerned administrations. This is also important at the national level as the procedure for formal registration can be daunting for micro and small-sized enterprises. Create awareness and provide instructions to SME managers on the availability of financing alternatives other than banks such as equity finance. <p>This activity is an initial step towards ensuring that companies have access to finance to meet their operational and expansion costs. Access to finance is very crucial for companies to increase their production capacities and expand to new markets. One of the key reasons that most SMEs have limited access to financial services including credit i.e. export credit facilities, insurance, and other Government support (or risk management) services is that these SMEs are not formally registered with the Government. Becoming a part of the formal sector and forming co-operatives will improve their creditworthiness and provide them access to finance via banks and other financial institutions.</p>	<ul style="list-style-type: none"> Lesotho National Development Corporation (LNDC) 	Short-term
	<p>1.1.2. To provide fiscal incentives to companies to help reduce their cost of manufacturing.</p> <ul style="list-style-type: none"> Provide interest and/or capital subsidy to companies for expansion or greenfield projects, linked to the deployment of new technology and generation of large-scale employment. Subsidize the rate of the working capital loan availed by companies for executing export orders. Undertake awareness programme about special support and schemes available for the sector. <p>The cost of finance in Lesotho is very high (around 22% per annum from banks and 20-30% per month from individual lenders) which is prohibiting the industry expansion, especially of SMEs. Fiscal incentives for investment and operations will encourage SMEs to expand, and their linkage with employment will promote job creation in the country. It is also important that information dissemination about various Government support schemes is done regularly in partnership with industry associations.</p>	<ul style="list-style-type: none"> Ministry of Trade and Industry LNDC 	Medium-term
	<p>1.1.3. To promote the development of industry support infrastructure in the country.</p> <ul style="list-style-type: none"> Establish "Raw Material Banks" in the country that would keep stock of commonly used items (yarn, fabrics and accessories) and make them available to SMEs at competitive costs. Entrepreneurs who are looking to establish such distribution businesses can also be provided with fiscal support. Encourage and support entrepreneurs to establish Common Facility Centres (CFCs) in the country wherein expensive, specialized garment manufacturing machines and laundry set-up are made available to SMEs on a pay-per-use basis. Ensure availability of sufficient factory sheds at a competitive cost to exporters and non-exporter SMEs. Opening of markets to allow more logistics agencies in the country. Expand water & electricity distribution networks, explore rainwater harvesting and use of solar energy. 	<ul style="list-style-type: none"> LNDC / Ministry of Trade and Industry 	Medium/long-term

Strategic Objective 1: To enhance the textiles and apparel industry's global competitiveness.			
Operational objective	Activities	Executing agency	Timeframe
1.1. Enhanced cost competitiveness of the manufacturing companies	<p>This activity aims to promote the establishment of “missing links” in the country's textile and apparel supply chain and provide the industry with common infrastructure at a competitive cost. Absence of upstream textile operations in Lesotho causes existing players to be dependent upon yarn, fabric and accessories imports (mainly from South Africa). This dependence, along with the high cost of logistics (Maseru to J'burg/Durban – R15,500; Maseru to Cape town – R30,000 & 35,000 for super linkage and additional \$3,000 per trip for Escort vehicle) impacts the industry's competitiveness. There is an urgent need to facilitate the establishment of support agencies within the country so that the cost of manufacturing and lead times improve. Further, the high rental cost (R3,000 to 10,000 per month for 150 sq. ft. area depending upon location) and the high cost of establishing specialized machinery are a big deterrent for SMEs. The above measures will aid in reducing the cost of manufacturing for the companies and make Lesotho's products more attractive to brands and buyers globally.</p>		
	1.2.1. To undertake capacity building activities.		Short-term
1.2. Better manufacturing lead times	<ul style="list-style-type: none"> Conduct training programmes for capacity building of local entrepreneurs in areas of supply chain management, customs procedures, sourcing strategy, etc. 	<ul style="list-style-type: none"> LNDC 	
	<ul style="list-style-type: none"> Promote collaboration between SMEs to form co-operatives which can collectively engage resources for some common activities thus increasing the management bandwidth. <p>Certain sub-activities of 1.1.3 mentioned above like establishment of raw material banks and CFCs will also have a positive impact on lead times. In addition, these specific sub-activities aim at capacity building of SMEs so that they can cut down on avoidable delays such as unawareness of customs procedures, and also increase their bandwidth through a collective approach.</p>		
1.3. Adherence to global standards and verifications	1.3.1. To create awareness about product standards and certifications .		Short-term
	<ul style="list-style-type: none"> Organize standards and certification awareness workshops and coaching programmes. Create an online repository of global standards & certifications and requirements to take them. Mandate labelling of fabrics stating the fibre content and other basic parameters (e.g. width, construction, finish and country of origin) sold in Lesotho. <p>This activity aims to create awareness among the manufacturers about the different standards and certifications that are required to cater to global fashion brands and retailers. The activity will help manufacturers understand such requirements and ways to achieve them so that they can tailor their business accordingly.</p>	<ul style="list-style-type: none"> LNDC / Ministry of Trade and Industry 	
	1.3.2. To reduce the cost of testing and certifications for local SMEs.		Medium/long-term
	<ul style="list-style-type: none"> Subsidize a part of certification cost for a specific number of factories each year to help them establish a business foothold. The support can eventually be phased out as and when orders with such factories stabilize. Provide special encouragement & support to international certification agencies to establish a business within Lesotho. Provide training to a group of locals to specialize in conducting product testing and certifications for the T&A sector. <p>This activity will help reduce the cost of mandatory certifications, which SMEs see as an extra burden. The activity will also reduce the cost of audit that is very high currently. There is only one buyer accredited South African agency that charges \$200,000 plus expenses for each audit. This activity will also encourage the establishment of local offices of testing and certification agencies within Lesotho which will prove cheaper.</p>	<ul style="list-style-type: none"> Ministry of Trade and Industry 	

Strategic Objective 2: To improve industry linkages with markets, suppliers and institutes.			
Operational objective	Activities	Executing agency	Timeframe
2.1. Linkages with markets and customers	2.1.1. To create awareness about market development, marketing initiatives, merchandising processes, etc.		Short/medium-term
	<ul style="list-style-type: none"> Provide training programmes to businesses on various aspects of export market development e.g. market analysis, marketing & merchandising, digital marketing, sampling, trend analysis, etc. 	Ministry of Trade and Industry	
	<ul style="list-style-type: none"> Upgrade Lesotho's trade portal (or create a dedicated portal for textiles & apparel sector) to cover information including major buyers, global trade data, competing countries information, global trade fairs, etc. 	Ministry of Trade and Industry	
	<ul style="list-style-type: none"> Strengthen public relations offices to improve information dissemination by organizing periodic forums. 	Chamber of Commerce or UMAL	
	<ul style="list-style-type: none"> Initiatives to promote interactions between large exporters and SMEs through various forums aimed to generate sub-contracting opportunities for SMEs 	Ministry of Trade and Industry	
	The activity aims to help SMEs identify market opportunities and ways to tap them. The activity will focus on training businesses about the entire market development process and then provide an online repository of critical data and analysis. In addition, the activity will promote the concept of subcontracting, which is currently non-existent in Lesotho.		
	2.1.2. To create a branding strategy at a national level.		Medium/long-term
	<ul style="list-style-type: none"> Create a branding strategy at the national level. 	Ministry of Trade and Industry, LNDC	
	<ul style="list-style-type: none"> Encourage group branding where possible for SMEs (including packaging, websites, brochures, etc.). 	Ministry of Trade and Industry, Ministry of Small Business Development, Cooperation and Marketing	
	The activity aims at creating a global image of Lesotho's textiles and apparel companies.		
2.2. Linkages with suppliers	2.2.1. To facilitate businesses for efficient sourcing of inputs.		Short/medium-term
	<ul style="list-style-type: none"> Upgrade Lesotho's trade portal to include listings of yarn, fabric, accessories, machinery and spare parts suppliers. This may be incorporated as a part of 2.1.1. 	Ministry of Trade and Industry, LNDC,	
	<ul style="list-style-type: none"> Support domestic and international businesses looking to set-up supply base or online marketplaces in Lesotho. 	Ministry of Small Business Development, Cooperation and Marketing	
	<ul style="list-style-type: none"> Undertake awareness programme for SMEs about digital market place payment models and gateways. 		
	This activity will enable SMEs to connect with various suppliers and evaluate them as per their requirements. The activity will also promote the establishment of distribution centres within the country (in addition to 1.1.3 above) making it easier and faster for SMEs to procure critical inputs. In addition, it will focus on enhancing digital skills so that businesses can undertake sourcing activities online.		
2.3. Linkages with institutions	2.3.1. To facilitate cooperation between industry and institutes for training and knowledge transfer.		Medium-term
	<ul style="list-style-type: none"> Facilitate industry-academia interface to help streamline course curriculum, explore industrial training & apprenticeship programmes, placement linkages, machinery donation to institutes, etc. 	Ministry of Education, Ministry of Trade & Industry and TVET institutions	
	The activity is aimed at promoting collaboration between industry and training or education institutes. Such collaboration will aid both the parties as institutes can customize their courses and develop placement linkages while companies will benefit from manpower trained on their specific requirements.		

Strategic Objective 3: To establish a policy framework for creating a conducive business environment.			
Operational objective	Activities	Executing agency	Timeframe
3.1. Policy for investment promotion	<p>3.1.1. To promote investment in the sector.</p> <ul style="list-style-type: none"> • Formulate a dedicated textiles and apparel sector policy covering: <ul style="list-style-type: none"> o Growth targets for the next 10 to 15 years; o Incentives for capacity expansion and employment generation for the existing businesses; o Investment incentives for new domestic and international projects; o Investment promotion plan to attract FDI in the sector. • Expedite development of industrial parks and factory sheds that can be made available to international investors. 	Ministry of Industry and Trade	Medium/long-term
	<p>A dedicated policy will enhance the predictability in the business environment giving investors confidence to invest in Lesotho. The policy should also address key points such as planned wage increases, common infrastructure development for the sector, etc. so that comprehensive growth is discussed. The policy should prioritize attracting investment in non-traditional products to help diversify the exports basket. With one of the objectives being the development of industrial parks and factory sheds, the activity will garner investment from international investors, some of whom have already expressed intent to rent them once available.</p>		
3.2. Policy for manufacturing excellence	<p>3.2.1. To increase productivity and inculcate best practices in manufacturing by engaging industry experts.</p> <ul style="list-style-type: none"> • Engage external consultants to help local manufacturing companies re-engineer their operations by the implementation of benchmark best practices. • Incentivize a productivity enhancement programme where the government co-funds along with the beneficiary company. 	Ministry of Industry and Trade	Medium/long-term
	<p>This activity will aim at bringing Lesotho's' textiles and apparel companies at par with global standards and benchmarks. It is a very crucial activity as Lesotho's companies can compete with their global counterparts only if they are as efficient. As the current level of know-how available with investors is low, engaging consultants and industry experts will be required. Further, bringing international expertise to Lesotho's' companies will help globalize Lesotho's goods. The activity may be further expanded to include marketing and strategic support as well.</p>		
3.2. Policy for manufacturing excellence	<p>3.2.2. To provide high-quality training programmes for both employees and employers.</p> <ul style="list-style-type: none"> • Develop a comprehensive plan to increase the training capacity in the country for the textiles and apparel sector • Refine the training curriculum to suit the requirements of large exporters and SMEs. This should include a survey of the companies to understand the skills that are currently lacking in manpower • Ensure access for all women entrepreneurs to training. • Establish a framework to educate the entrepreneurs and investors with a focus on digital skills, technological advancements, international development, business systems & models, etc. • Explore expansion of in-service training and experiential learning by collaboration with international institutes • Offer specialized training or scholarships for higher studies related to apparel and textile production skills in engineering, technology, fibre science and management. This can be beneficial to employers, employees and the industry as a whole. 	Ministry of Industry and Trade, Technical and Vocational Training Institutions	Medium/long-term
	<p>This activity aims to increase the competency of the workforce at all levels – workers (or operators), middle management and entrepreneurs. With a focus on continuous learning about international developments, the activity will help in increasing productivity and boost innovative developments in the sector. The activity also aims at encouraging companies to start investing in the training of their current employees as the training capacity in the country is limited (World Bank had facilitated the establishment of a training centre with a capacity of 30 persons). The activity should also explore the e-learning options available.</p>		

Strategic Objective 3: To establish a policy framework for creating a conducive business environment.			
Operational objective	Activities	Executing agency	Timeframe
3.3. Policy supporting innovation and R&D	<p>3.3.1. To facilitate the establishment of incubation centre for start-ups.</p> <ul style="list-style-type: none"> • Introduce a culture of technology, innovation and R&D in the sector by identifying the needs of start-ups and entrepreneurs and support the development of business incubation centres. • Explore the possibility of expanding innovation facilities in universities and private companies. <p>The activity aims to promote R&D and innovation culture in the sector. The development of incubation centres will develop a business ecosystem for innovation and new technology. The activity can also be extended to incentivize companies adopting new technology and incentives can be provided under the Textiles and Apparel Policy as discussed in 3.1.</p>	Ministry of Industry and Trade	Medium/long-term
	<p>3.3.2. To create a legal framework for intellectual property, license management, etc. to support innovation.</p> <ul style="list-style-type: none"> • Review of existing legislation to identify gaps and legislations that are limiting growth or innovation (For example, the IP Order of 1989 needs to be updated to be relevant in the modern and digital economy). • Draft new and investor-friendly legislation to support innovation. <p>The activity will boost innovation and provide an updated legal framework to start-ups and incubation centres. The new IP laws will strengthen the business ecosystem and assure global investors.</p>		Medium-term

Light industry

With the aim of fostering economic, export-led growth in Lesotho, labour should be moved out of low productivity agriculture into higher-productivity light manufacturing. Being a springboard for industrialization, new light manufacturing businesses can be realistically launched by extending on Lesotho's existing capacities and experience in the textile and apparel sector to diversify the economy in other promising light manufacturing segments for which there is a competitive advantage (apparent or latent). This is a promising low hanging fruit with the aim to tap Lesotho's pool of low wage labour and its potentially abundant and inexpensive utilities (water and electricity) – conditional to the current restructuring and expansion of the power sector – to produce items of relatively high value per unit weight.

New activities in light industries can drive structural transformation by producing tradeable goods that can move across borders easily and may be connected to and complementary with existing agricultural input production, etc.³⁹ Additionally, in subsectors where Lesotho does not have a comparative advantage as such but can reap savings due to its low cost of labour and other inputs and short transport linkages, light manufacturing

can serve for import substitution to improve the country's negative trade balance.

GLOBAL TRENDS IN LIGHT INDUSTRY

Successful developing countries in Asia, such as China, Vietnam, Bangladesh and Malaysia have shown the way by kick-starting their economic transformation with light manufacturing that absorbed a large proportion of workers from rural areas. Within a decade, light industries took off vigorously with strong job creation, developing, first, textile and garment industries and diversifying subsequently with other types of consumer products.⁴⁰ Later on, whilst moving up the value chain in the respective business sectors, the cost of production has been increasing (labour, land, utilities, etc.), pushing countries like China to invest in more complex industries and services, and, thus, to leave "space" for other developing countries to step into light manufacturing segments (*"flying geese" principle*).

In China, provincial governments, in particular, have created smaller industrial zones apart from special

39.– ODI-SET (2017), ODI Supporting Economic Transformation (SET) programme, LIGHT MANUFACTURING IN AFRICA, 5 JUNE 2017, ADDIS ABABA, ETHIOPIA Event Report, p. 4

40.– Agence Française du développement, World Bank (2012), pp. 1-18

coastal economic zones, catering to domestic SMEs and building them on local comparative advantages. Systematically, the local government offered packages of cheap and abundant land, predictable and sufficient supply of basic infrastructure (e.g. roads, energy, water and sewage). It has streamlined regulations and procedures in administrative service centres. Moreover, technical training has been organized and low-cost standardized factory shells were provided by the public sector allowing Chinese entrepreneurs to “plug & play” their new businesses there.

As a flanking measure, cheap food, free and decent housing have been provided to workers in the vicinity of the plants, shortening transport links. The incentive to workers to be able to save up to 80% of their salaries and to earn 50% more through extra hours increased labour productivity, together with an efficient organization of the production process. This bundle of measures should be of high interest to African countries, where the lion’s share of workers’ wages goes into housing, food and transportation.

Key to the Chinese success has been offering public goods and opening market intelligence to local entrepreneurs about input providers and international clients, but little or no subsidies were involved. Local competition was encouraged while start-up investment costs and risks for SMEs were reduced. Industrial clusters were developed, allowing high economies of scale and scope, without preselecting industries. They were organically chosen and driven by market forces. Ultimately, local companies became able to compete with foreign businesses and on international markets.

Unlike China, Vietnam has not developed SME oriented zones, relying exclusively on FDI linked industrial zones to develop manufacturing exports. There are only limited linkages between such zones and the vast majority of small, informal SMEs focus on the domestic market and remain small. Export growth does not generate as much manufacturing value-added as in China (in Vietnam 20% on average, compared to 33% in China). One reason is that large Vietnamese firms also suffer from not being plugged into local clusters and value chains, as they are importing most of their inputs from abroad.

Since the emergence and breakthrough of China as the world’s manufacturing base, the share in light manufacturing of Sub-Saharan Africa declined to less than 1% of the global market, the strongest decline compared to other continents.⁴¹ Since the launch of



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liberalization in the 1980s, manufacturers of simple goods in Sub-Saharan Africa that were previously shielded from foreign competition have had trouble competing with foreign producers. However, North-East and East African countries, such as Ethiopia, Kenya, Tanzania, Uganda and Zambia, as well as Ghana, Nigeria, Rwanda have successfully started light industries. They focus on leather, wood and metal products, agribusiness, food and beverages, construction materials, chemicals and machinery. Moreover, there “is increased attention from Chinese investors in labour-intensive manufacturing FDI (e.g. in Ethiopia or Rwanda)”, who bring, in addition to FDI, their know-how in the development of industrial parks.⁴²

Still, in 2005 the crisis shaken economy of landlocked Ethiopia appeared to be a bad bet but it got through the 2008/2009 economic crisis better than many developing countries. Subsequently, the country has shown an impressive development with the creation of a dozen industrial parks that generated, since 2012, strong job creation and ever-growing exports (apparel, leather products, agribusiness, wood and metal products).⁴³ Thriving industry development embedded in practice-oriented policy reform has helped to remove or considerably reduce 6 main constraints which were originally severe bottlenecks: input industries, trade logistics, access to finance, access to industrial land, worker and entrepreneurial skills.⁴⁴

41.– Agence Française du développement, World Bank (2012), p. 25

42.– ODI-SET (2016), DEVELOPING EXPORT-BASED MANUFACTURING IN SUB-SAHARAN AFRICA, p.5

43.– Agence Française du développement, World Bank (2012), 8

44.– See the website of Ethiopia’s INDUSTRIAL PARKS DEVELOPMENT CORPORATION (IPDC) <http://www.ipdc.gov.et/index.php/en/industrial-parks>; Agence Française du développement, World Bank (2012), 12

LOCAL PERSPECTIVE

The structure of Lesotho's economy has changed immensely over the past three decades. Agriculture has been on a downward trajectory since the early 1990s and is one of the pillars of the rural economy. The contribution of agriculture to Lesotho's gross domestic product has been declining between 1985 and 2019 from 11.8% to approximately 5%. According to the International Fund for Agriculture Development (IFAD), only 10% of the total land in Lesotho is arable. Most smallholder farmers live on what they can produce from cultivating an average of fewer than 1.5 hectares of land. Around two-thirds of the cereal utilized is being imported, thereby leaving the economy highly susceptible to exogenous shocks and food price fluctuations. The livestock subsector, which involves wool and mohair production and aquaculture industry, has expanded to make up some 62% of the agricultural sector.⁴⁵ Recent evidence depicts that the garment industry has not only been the main driver of economic growth in Lesotho since the late 90s, but the industry is also the most important source of employment which contributes almost 20% to the country's GDP. At its peak in 2004, the industry employed around 53,000 persons in Chinese, Taiwanese, and South African owned

factories. The industry is made up of approximately 66 firms employing an estimated 46,604 workers in 2017. About half of these firms are engaged in knit garments, employing about 53% of the total workforce. The second major product category is denim (woven bottoms) with 14% of the firms, employing roughly 28% of the workforce. The remaining firms are engaged in various activities like footwear, non-denim woven fashion or engaged in supporting industries and employing industrial workers.⁴⁶

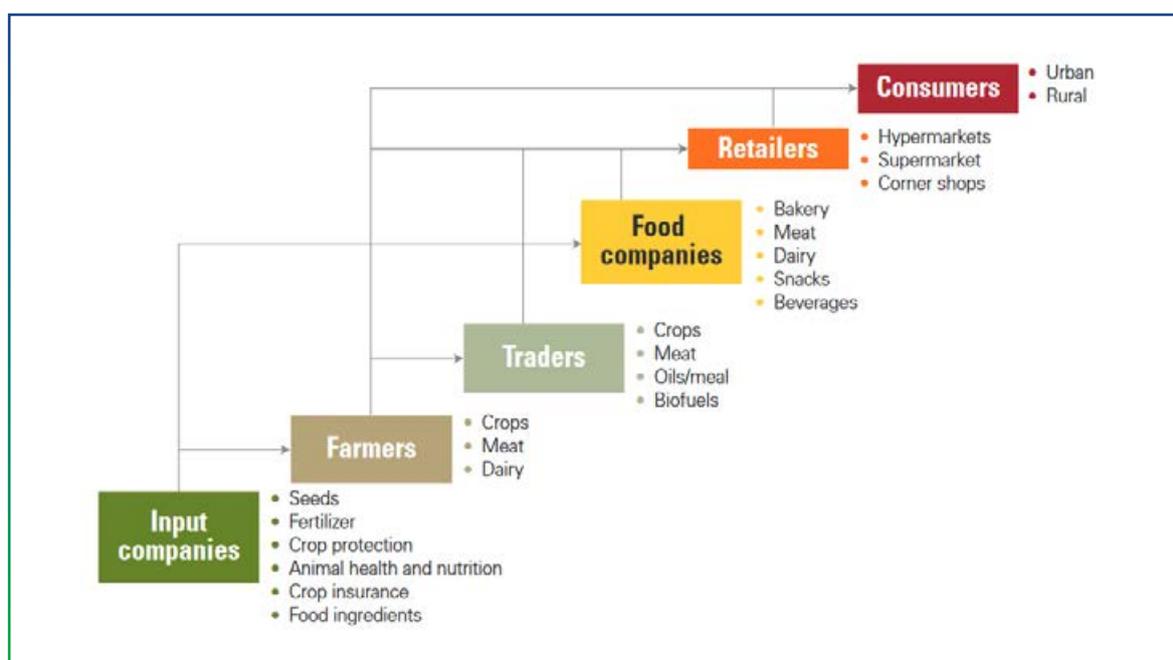
In 2018, industry contributed around 35.48% to the GDP of Lesotho, the services sector 53.23% and agriculture only 6%.⁴⁷ There is a huge potential for low wage labour to be employed in the light industry.

Currently, a twofold objective should be reached:

- The establishment of a critical mass of viable light manufacturing businesses in the non-textile sector;
- Their integration into local and overall supply and value chains.

A second step should be moving up in the value chain, as can be illustrated for the agriculture and food business, for which Lesotho already produces crops and livestock (see Figure 22).

Figure 22: Agriculture and food value chain



Source: KPMG International 2013

45.– The Lesotho Review 2019 Edition https://issuu.com/lyngrandemange/docs/lesotho_review_2019, p.39

46.– Centre for Business and Development Studies. 2019. Lesotho: The garment industry in its economic, political and social context. Special CBDS Working Paper Series Working Paper No. 3, 2019. Retrieved February 24, 2020, from <https://openarchive.cbs.dk/bitstream/handle/10398/9735/Country%20Background%20Lesotho%2004.06.19.pdf?sequence=1>

47.– Plecher, H. 2020. Distribution of gross domestic product (GDP) across economic sectors, Lesotho 2018. 2020, can be downloaded: <https://www.statista.com/statistics/447999/lesotho-gdp-distribution-across-economic-sectors/>

Key takeaways:

- In Europe and North America and recently in developing countries, the development of light manufacturing has been a springboard for industrialisation.
- Pioneers in Asia such as China, Vietnam, etc. have shown the way since the 1990s in starting their economic transformation by developing light industries. They have taken a structured approach in setting up Special Economic Zones (SEZs), smaller industrial zones and, therein “plug & play” industrial shells, creating an enabling environment for business start-ups, i.e. providing a whole set of industrial, infrastructure, regulatory and administrative conditions that have ensured low production cost and efficient launch for local companies. Subsequently, local entrepreneurs have learned to compete with foreigners in export markets. African countries like Ethiopia, etc. are currently following suit.
- Key constraints to be removed are, by experience: the high cost of and limited availability of inputs, lack of information on sourcing and of local input sourcing, outdated technology/machinery and production processes, poor trade and transport logistics, lacking access to finance, limited access to industrial land, low workers’ and entrepreneurial skills.
- The rationale for economic transformation and export expansion is moving low-cost, low productivity workforce from agriculture to light industry activities with higher value creation. The conditions are there in Lesotho, with over 60% of the workforce still in agriculture that only contributes 6% to GDP, whilst industry already generates 35.48% (employing only 10% of the workforce).
- Key aspects of Lesotho’s comparative advantage are abundant low-cost labour, agricultural input production that can be expanded, the potential of abundant and low-cost utilities (electricity and water to be better developed), the potential in developing industrial land (versus the limited availability of arable land, covering only 10% of the country’s surface).

SECTOR DIAGNOSTICS

Extensive stakeholder consultations, field visits and literature reviews have revealed constraints in the light industries sector that challenge its short and medium-term growth. To ensure that the Strategy is efficient and precise, only the most critical bottlenecks to be addressed in this Strategy are detailed below.

Workshop discussions in Lesotho on 12-14 November 2019 reconfirmed that Lesotho is in Sub-Saharan Africa’s trend of light manufacturing promotion and of its prevailing constraints.⁴⁸ A major challenge to structural transformation lies in the fact that the sector “is characterized by a few formal medium-size firms providing products to niche or protected markets and by a vast number of small, informal, low-productivity firms providing low-quality products to the domestic market”, including deliveries to South Africa. Even on

the home market, local entrepreneurs risk being driven out of business by foreign competitors. It is particularly difficult to raise the productivity of small informal players that are using outdated technology and having little IT skills and to make them fit for competition in export markets.

A first constraint that is underlying several others is the secretive and informal “work culture” and the aversion of local businessmen/women to exchange information and to combine forces. The manufacturers of Lesotho’s national crafts can still afford to “function in silos” (i.e. closed business on the family level), as workshop participants reported, and keen on not sharing any know-how with others in order to keep professional secrets – e.g. “how to produce the most authentic Basotho hat”. However, for a broader light manufacturing strategy going beyond niche products, they cannot continue doing so, particularly when bidding for larger orders which require them to extend capacity,

48.– Agence Française du développement, World Bank (2012), 23

collaborating with fellow companies. Also, small producers of simple objects of daily use are reluctant to shape cooperatives or to build up larger production facilities that are needed to generate economies of scale.

Moreover, due to a lack of sectoral organisation and “informal habits”, local entrepreneurs do not obtain information on logistics and export procedures needed to control cost and ensure timely deliveries (in terms of administrative procedures, together with low performance of trade and transport logistics). They also lack information on international markets which prevents them from improving their offer and sales prospects (optimal input sourcing, sales prices, required quantities and standards for their offer). Another bottleneck is training local producers in best manufacturing practices using new, efficient low-cost technology and IT. The problem starts with the scarcity of financial sources needed for acquiring new technology, as well as with the lack of IT equipment and digital solutions. Facing these constraints, national organisations are already devising

solutions providing entrepreneurs with information and assistance to organize the light industry sector: on the government side it is the Lesotho National Development Corporation (*LNDC*); on the private sector side it will be the Private Sector Foundation of Lesotho and Lesotho Chamber of Commerce and Industry.

In the following, this section presents the main constraints and problems limiting the capacity of the sector to compete, connect and change, applying the ITC’s “3C” approach.

COMPETE

Compete assesses why current light industry production is not efficient and does not yet meet market requirements.

The competitiveness capacity of light manufacturing as an exporting sector in Lesotho is undermined by several factors related to the firms’ capabilities, the business ecosystem and national environment.

Box 11: Competitiveness constraints in light industry: Compete

Compete in national and foreign markets

Firm capabilities

- Local producers lack information on access to international export markets, resulting in low diversification of the export basket.
- Cost of inputs, most of which are imported, is high, delivery unreliable and local production of inputs largely insufficient.
- Due to technological and managerial backwardness and lack of bandwidth, local businesses suffer from low productivity and capacity limits.
- Rework rates for light industry products and quality variation in the manufacturing process are too high.
- Changeover times in factories are too long for light industry standards, going up to 5 days.

Business ecosystem

- The lack of affordable industry platforms and factory shells and storage facilities puts a break on industry development.
- Lack of access and excessive cost of financing for MSMEs put a strain on current operations and limit light industry development.
- The lack of national standards and operational standards certification bodies makes it difficult for producers to comply with standards on export markets.

National environment

- High electricity tariffs and unreliable supply impede industry operations.
- High transportation and logistics cost and low performance make exports expensive, and cause non-respect of deadlines of international clients, jeopardizing deals.
- Inadequate road network and lack of alternative modes increases transport times and cost
- The low number of commercialised borders and the inefficiency of customs and border services increase delivery cost and delays.

Firm capabilities

Local producers lack information on access to international export markets, resulting in low diversification of the export basket. The country’s export potential is largely unexploited despite Lesotho’s membership in a number of preferential, duty-free, quota-free trade agreements with the EU, the US – where they offer

only a narrow range of products – and even on the regional level with the Southern African Customs Union (SACU), although South Africa still is the main export destination. Entrepreneurs often ignore the conditions in other market destinations without preferential access, for example in Asian countries (China, Vietnam, etc.) where manufacturers, due to production cost increase (wages, cost of industrial land, utilities, etc.), see

their comparative advantage in light industries erode. There, Basotho exporters could succeed, but fail to offer products where “flying geese” businesses (principle explained above) have moved up into advanced manufacturing. They could benefit from Lesotho's low-wage labour and other advantages generating revenues through manufacturing outsourcing. As businesses are operating without sufficient market intelligence and much needed measures to increase their competitive edge, they miss out on numerous export opportunities.

- **Plan of Action reference: Activity 3.5.1.**

Cost of inputs, most of which are imported, is high, delivery unreliable and local production of inputs largely insufficient. Inputs or raw materials are expensive, delivery times too long, as most of them are imported given a lack of local supplies. Centralised data banks/information sources on foreign input suppliers are not available on the national level. Existing supplier relationships are unreliable, not guarantying the required quality of materials for production or they fail to supply the required quantities. Due to the fragmentation of the community of local producers, they lack bargaining power for negotiating better input deals with foreign suppliers already from South Africa (as to affordable quality materials and resources). Local extraction of natural resources is limited to a few items (diamonds, a few minerals, water, etc.), not just because of their non-existence, but as resource exploration and inventories are still incomplete and unreliable. There seems to be a recent natural resource exploration project executed by a Japanese company. But this re-assessment and its conclusions are kept confidential. Moreover, it is not guaranteed that resource exploration and granting of concessions for their exploitation are kept separate, which bears the risks that private companies charged with both tasks may withhold information in order to keep resources and benefits of their commercialization for themselves. Moreover, local production of basic light industry inputs is largely lacking. As a consequence, the variety of produced goods and services is severely limited.

- **Plan of Action reference: Activity 1.1.1.**

Due to technological and managerial backwardness and lack of bandwidth, local businesses suffer from low productivity and capacity limits. MSMEs are still using out-dated technology and lack information about and access to appropriate technology in light industries (machinery, equipment, production process and new IT developments). Management techniques are not up to date. “Just in time” management is not common. Limited bandwidth of local entrepreneurs poses a significant limitation, as family-based micro-enterprises

are “informal” and owner-driven. Hence, sourcing, scaling of production, marketing and finances are limited, and lead times are rather high. As a consequence, production often fails meeting the requirements of international clients in terms of deadlines, cost and quantities.

- **Plan of Action reference: Activity 3.2.2.**

Rework rates for light industry products and quality variation in the production process are too high. Rework rates (correcting defective, failed, or non-conforming items) range from 5% to over 20% and are too high. Industrial output is still suffering from too high rejection or scrap rates.⁴⁹ Existing manufacturers that are starting as small-scale enterprises, therefore, face the difficulty of either reducing production cost or of failing to meet customer satisfaction as a key driver for boosting their exports.

- **Plan of Action reference: Activity 3.2.2.**

Changeover times in factories are too long for light industry standards, reaching up to 5 days. Within the overall lean manufacturing concept, the objective is to eliminate waste and time loss and to increase operational efficiency. Changeover time (switching products within the same production line) is a key parameter and an indicator for a competitive edge. In light industries, they take for simple processes, from a few minutes to slightly more than a day. However, in Lesotho, changeover times take a multiple of that, going up to five days, and severely impede operational efficiency of local companies to international market requirements in terms of reaction time and batch size.

- **Plan of Action reference: Activity 3.2.2.**

Business ecosystem

The lack of affordable industry platforms and factory shells and storage facilities puts a break on industry development. Rental cost for commercial and production surfaces is high (still lower than in South Africa varying for 150 sq ft between R 3,000 to 10,000 / month, depending on the location), availability is low with waiting times of over a year. Existing industrial zones are insufficiently maintained. There is a lack of new industry platforms with ready-made factory shells in which start-ups can “plug & play” their new activities. Lesotho National Development Corporation (LNDC) does not sufficiently align its offer to the needs of tenants (particularly adapted to the light manufacturing sector). It offers too little bulk storage facilities which increase warehousing cost. This is a priority in the Lesotho National Strategic Development Plan (NSDP II, 2018), but implementation needs to speed up.

- **Plan of Action reference: Activities 2.1.1, and 2.1.3.**

49.– Lesotho Economic Roadmap 2018/19 – 2022/23, p. 8

Lack of access to and excessive cost of financing for MSMEs put a strain on current operations and limit light industry development. Due to their informal nature and lack of proper financial records, the majority of micro and small companies are excluded from bank loans and other funding support. There are too little financing instruments available (types and volumes) to Basotho entrepreneurs, at an acceptable cost to meet their needs in various stages of the production process, and in sales/export operations. The cost of loans is too high (20% pa from banks, 20-30% pa from non-institutional lenders.) Many informal businesses use consumer credits as a way out, badly adapted to their needs. Institutional finance is inadequate, blended finance solutions are lacking: from start-up & seed funding to working capital for current production. There is a lack of export finance, supply chain and input finance.

- **Plan of Action reference: Activity 2.2.3.**

The lack of national standards and operational standards certification bodies makes it difficult for producers to comply with standards on export markets. National standards are lacking in all relevant industry sectors. Lesotho Standards Institution (LSI) set up in 2018 has been operationalised as of August 2020, as the national standards body that represents the country in international bodies (ISO, etc.) to prepare the transposition into national regulation of global standards, starting with classified traded products in light industries. Accredited standard labs and certifying agencies are missing in Lesotho for specific industries or lack know-how and tools or procedures for testing and control measures (consumer safety, quality control measures, etc.). Producers will still to go through the South Africa Bureau of Standards (SABS) which is very costly as currently the LSI in its immediate plan is prioritising publishing standards for fresh fruits and vegetables, health and safety products and bottled water as well as enhancing complementary testing services. Most MSMEs cannot afford certification of their compliance with South African standards, particularly as future orders are not assured. Therefore, their products remain non-compliant which limits their access to export markets. There is no financial provision to support local businesses to acquire accreditation. The cost of audits is very high, international certification agencies are not present in Lesotho. The number of buyer-accredited South African agencies is very low, charging high fee levels (\$200,000 + expenses).

- **Plan of Action reference: Activities 2.2.3, and 3.1.3.**

National Environment

High electricity tariffs and unreliable supply impede industry operations. New connection to utility networks (electricity) is time-consuming, deliveries are unreliable and too costly according to the World Bank's Doing business Index (score of 52.38 out of 100 points for "getting electricity", rank 157 out of 190 countries). The indicator "reliability of supply and transparency of tariff" gives a score of 0. However, local information contradicts the frequency of power cuts.⁵⁰ Lesotho still is a net importer of electricity from South Africa and Mozambique, but has a high potential in potentially low-priced renewable energies (existing hydro-electric, and nascent solar and wind sources). Whilst local generation is limited to 75 MW (600 million kWh/year), covering 70% of local needs, new plans of a 1200 W hydropower extensions and upgrade of transmission and distribution networks may enable the country to improve significantly the availability and cost of electricity. Lesotho should become a net exporter of renewable energy and related services, which could generate urgently needed budgetary resources.⁵¹

- **Plan of Action reference: Activity 2.3.2.**

High transportation and logistics cost and low performance make exports expensive, and cause non-respect of deadlines of international clients, jeopardizing deals.

A competitive transport logistics sector is still lacking. According to the World Bank's Logistics Performance Index (LPI), Lesotho only scores 2.28 out of a maximum of 5.0 points, the country ranking 139th (2018). Particular shortcomings are aspects 3) "ease of arranging competitively priced shipments" (2.21); and 6) the low "timeliness of shipments" (2.70) due to which exporters frequently lose income on deliveries that arrive too late at their destination, or even lose entire deals that are refused by clients. As for transport cost: average quotes are for Maseru to Johannesburg/Durban R15,500; Maseru to Cape town –R30,000 (35,000 for super linkage). An escort vehicle costs additional –\$3,000 per trip. As logistics services are insufficient for short term orders, entrepreneurs often use courier services at an even higher cost that cream off a high portion of their profits.

- **Plan of Action reference: Activity 2.3.1.**

50.– Tariffs are published transparently on the website of the *Lesotho Electricity and Water Authority (LEWA)*, whilst there may be an issue of their practical application. Local sources confirm the long connection time (114 days) for start-up companies.

51.– Energypedia (2018), Lesotho Energy Situation https://energypedia.info/wiki/Lesotho_Energy_Situation#Import_26_Export

Inadequate road network and lack of alternative modes increase transport times and cost. The road network as the country's transport backbone lacks capacity and is badly maintained, causing congestion and delays. Links between lowland urban and rural highland areas, where the majority of the population is living, are underdeveloped and significantly impeded. Air transport as a key connection of a landlocked country to international markets is underdeveloped, rail transport in an infant stage.

- **Plan of Action reference: Activity 2.3.1.**

The low number of commercialised borders and the inefficiency of customs and border services increase delivery cost and delays. The lack of commercialised borders compels businesses in certain areas to incur high transportation costs as they are travelling long distances to reach their destinations. Moreover, the efficient functioning of customs operations and services is undermined by inadequate IT infrastructure, electronic payment systems, unfavourable import and export regulations and weak cooperation between government

counterparts. Furthermore, most Basotho exporters ignore existing procedures, trying to cross South Africa borders without recognized value and contents declaration of their manufactured goods, thus incurring higher than expected taxation, as values are rather arbitrarily fixed by South African agents. This adds to a lack of proficient customs procedures. Another problem lies in transit cargo handling: in South African ports as well as in Lesotho due to inadequate facilities. This range of customs and border service issues puts a major break on export development.

- **Plan of Action reference: Activity 2.3.1.**

CONNECT

The connectivity dimension directly affects the competitiveness in so far as for being competitive, enterprises must link to customers, businesses, institutions, and be literate in information and communications technologies.

Critical factors constrain the ability of Lesotho's light industries from becoming a viable export sector to connect and maintain commercial relationships.

Box 12: Competitiveness constraints in light industry: Connect

Business environment constraints

Firm capabilities

- A lack of local raw material and input suppliers and missing links of light manufacturers to international suppliers severely limit the development of competitive production.
- The reluctance of entrepreneurs to engage in strategic alliances with other businesses significantly limits their expansion.
- Entrepreneurs have insufficient knowledge of buyer requirements and market opportunities abroad.
- The absence of durable relationships of local companies to international clients limits their business prospects.
- Lack of efficient marketing by exporters hampers their international visibility and sales.
- Digital skills and use of ICT tools by businesses are underdeveloped, to market the business towards clients or to organize supplies online.

Business ecosystem

- Activities relating to trade fairs, trade promotion, and export developmental support are not properly coordinated by key stakeholders.
- The Trade support network is dispersed over a number of agencies without proper coordination.
- Lack of connections to Foreign direct investors and the absence of FDI promotion strategy.
- The absence of branding and a dedicated policy impedes international marketing efforts of exporters.

National environment

- There is no organization of light industries in clusters, which hampers the build-up of the sector.
- The absence of an overall industry strategy (*from light to advanced*) is reflected in a lack of intersectoral linkages and prevents the development of local supply chains.
- Almost 90% of local businesses are relying on government tender and do not feel incentivised in developing business relationships on export markets.
- Deficient linkages between academia / educational institutions and the private sector result in poor know-how transfer and a mismatch between the education system and the labour market.

Firm capabilities

A lack of local raw material and input suppliers and missing links of light manufacturers to international suppliers severely limit the development of competitive production. Local supply of inputs and raw materials is generally non-existent except for a few items. Whilst most inputs are imported, local businesses lack comprehensive information sources on buying inputs abroad. For the time being there are no sector-specific platforms linking subcontractors, suppliers and Original Equipment Manufacturer (OEM) businesses. Hence companies have difficulty in identifying the best sourcing (in terms of availability, quality and pricing), and they suffer frequently from costly and unreliable supplies. Lesotho's textile and garment sector is the only business segment linked with global value chains. In other nascent manufacturing segments, these links are still missing. Manufacturers do not combine forces for making joint orders and fail to gain leverage towards South-Africa and other foreign input and raw material providers. Consequently, access to inputs is limited, prices too high, which severely limit the development of a diversified light industry sector.

- **Plan of Action reference: Activities 1.1.1, 1.1.2, and 1.1.3.**

The reluctance of entrepreneurs to engage in strategic alliances with other businesses significantly limits their expansion. Most MSMEs are still functioning "in silos", not willing to combine forces with others: be it with complementary businesses; be it we similar businesses to fulfil larger orders, as entrepreneurs apprehend unfair competition. This hampers the development of business joint ventures. As a consequence, companies fail to secure larger and long-term contracts both in terms of buying raw materials and selling finished products.

- **Plan of Action reference: Activity 3.4.1.**

Entrepreneurs have insufficient knowledge of buyer requirements and market opportunities abroad. MSMEs generally ignore export opportunities in terms of products and their variants, mandatory specifications and standards, required quantities, competitive pricing and deadlines. There is no market intelligence gateway for exporters of light manufactured goods that centralizes the information on services for key sectors and international markets, with such information as major buyers, global trade data, competing countries information, global trade fairs, regional suppliers, certification requirements.

- **Plan of Action reference: Activity 3.5.1.**

The absence of durable relationships of local companies to international clients limits their business

prospects. Most local businesses ignore standard Customer Relationship (CRM) procedures and tools. They do not have formal links with clients simply because they cannot consistently supply their products or render their services due to limited production capacity. Contacts are only developed on a project basis for tiny orders, but not in the long term for Lesotho specific products (arts and handicrafts), and for general manufactured products, the ability is lacking to design to needs of key export markets.

- **Plan of Action reference: Activity 3.5.1.**

Lack of efficient marketing by exporters hampers their international visibility and sales. There are neither Market Intermediaries in Lesotho at present nor are legal frameworks to regulate the sector. Hence, most businesses are struggling to get into global markets simply because they do not have clear guidance in terms of marketing their products and services accordingly.

- **Plan of Action reference: Activity 3.5.1.**

Digital skills and use of ICT tools by businesses are underdeveloped, to market the business towards clients or to organize supplies online. Companies from Lesotho make comparatively low usage of e-mail, web-based services and ICT tools for export development, considerably less than businesses from other lower-middle income countries. Digital skills and entrepreneurship are underdeveloped. For light manufacturers, there are no online platforms or market places to sell to other companies or to connect to vendors. Only a few companies practice e-commerce to attract international customers. The lacking usage of ICT tools puts a heavy strain on industry export development.

- **Plan of Action reference: Activity 3.5.1.**

Business ecosystem

Activities relating to trade fairs, trade promotion, and export developmental support are not properly coordinated by key stakeholders. Participation in trade fairs & exhibitions (mainly by Basotho Enterprise Development Corporation (BEDCO, etc.) is not well coordinated with other government agencies. Information for such events (calendar, logistics and other information) is not sufficiently provided to interested businesses, participation is not organized in a structured approach (trade promotion and export development support). There are no follow-ups from exhibitions and regional/international trade fairs to make business development sustainable. Initial leads with potential clients from South Africa and on markets outside SACU are not properly recorded, neither by government agencies nor by Basotho participants who fail to pursue and conclude deals.

- **Plan of Action reference: Activity 3.5.1.**

The Trade support network is dispersed over a number of agencies without proper coordination (and efficient involvement of businesses). Despite the fact that there is a platform of One-Stop Business Facilitation Centre (OBFC) housed at the Ministry of Trade and Industry, some line ministries are still issuing licenses and permits in their respective ministries. Again, some line ministries offer services only at the national level thereby making entrepreneurs who are based outside Maseru to incur huge transportation costs.

- **Plan of Action reference: Activity 3.5.1.**

Lack of connections to Foreign direct investors and the absence of FDI promotion strategy. Most foreign missions of Lesotho do not have Economic and Trade desks to facilitate trade promotion related matters. Again, Lesotho National Development Corporation (LNDC), which is charged with investment promotion, does not have satellite offices outside Lesotho or representation via foreign missions in order to attract more international investors. The lack of a proper promotion strategy and network for FDI goes with insufficient follow-ups of the few existing leads, resulting in too little FDI in various sectors.

- **Plan of Action reference: Activity 2.2.1.**

The absence of branding and a dedicated policy impedes international marketing efforts of exporters. Consumers across the globe prefer to buy products which have sufficient track record and brand image highlighting more or less objectively what products a company offers that makes them the better choice (in terms of quality, attractiveness, safety, etc.) compared to competitors. At present, most local producers in Lesotho lack track record and industry references and, most importantly, try to sell without appropriate branding. This hampers their efforts to market their products abroad, and, thus, prevents them from boosting exports.

- **Plan of Action reference: Activity 3.5.1.**

National Environment

There is no organization of light industries in clusters, which hampers the build-up of the sector. The Medium, Small, and Micro Enterprises (MSME) Policy is still lacking Cluster Development as one of the key strategies to promote the Industrialisation Agenda and to form a base to expedite business linkages. There is no sub-sectoral differentiation bringing together light manufacturers in similar business segments, be they complementary or competitors. Hence, sharing and promoting best practice information to the benefit of all and spill-over effects are impeded. Manufacturers fail to reorganize their businesses using state of the art

management practice and technology. There is a lack of specialised enabling associations that are needed to offer comprehensive services to the cluster members. It is of particular importance to take care of a vast majority of informal businesses that are excluded from technology adoption, administrative and funding services, or assistance in complying with customs and export procedures. As a consequence, existing manufacturers fail to grow bigger or to a more advanced state or start-ups lack perspectives to take off and thrive – as a prerequisite to export development.

- **Plan of Action reference: Activity 3.1.1.**

The absence of an overall industry strategy (from light to advanced) is reflected in a lack of inter-sectoral linkages and prevents the development of local supply chains. The government has not created an umbrella organisation, in collaboration with cluster associations, to integrate them into a structured approach that uses light industry modules for the build-up of an organic industry tissue. There is no framework for corporate relationships between small businesses and big companies (vertically), neither is there inter-sectoral differentiation (horizontally). The promotion of ancillary sectors such as agriculture/agribusiness, food production, light and advanced manufacturing or business services is lacking. The lack of local industry integration goes with the difficulty to integrate Lesotho-based enterprises with international businesses and their supply and value chains.

- **Plan of Action reference: Activity 3.1.1.**

Overreliance of local businesses (almost 90%) on government tender causes lack of incentives for developing business on domestic and on export markets. The dominance of foreign entrepreneurs is symptomatic in the textile and clothing sector, which constitutes around 40% of Lesotho total exports. It is predominantly controlled by 69.2% of foreign firms. There is a lack of participation of the Basotho entrepreneurship in market-driven product and service development on the national level and internationally. Businesses are used to relying on government support to expand their operations. Combined with a lack of new FDI in Lesotho, a major impediment to develop light industry production that is competitive on the local as well as export markets is the low propensity of local companies to shape joint business ventures.

- **Plan of Action reference: Activity 2.2.2, 3.2.2 and 3.4.1.**

Deficient linkages between academia / educational institutions and the private sector result in poor know-how transfer and a mismatch between the education system and the labour market. There are no two-way linkages

between companies and institutes of higher learning (e.g. with Lerotholi Polytechnic in technical production engineering, LUCT in design and marketing on innovation). The relatively high educational level of the Basotho, particularly in urban areas should be a promising prerequisite for developing a pool of medium and high skilled employees that are urgently needed in most SMEs. However, due to funding shortage and missing links to the private sector the educational institutions in all stages of primary, secondary and academic training, fail to synchronize their training curricula with businesses. The Ministry of Education and Training should reinforce its initial efforts to revamp its Technical and Vocational Education Training (TVET) policy, including a programme for including light manufacturers. Initiatives meant to ensure that curricula match the jobs that are currently being treated should involve newly created innovation & incubation hubs with their vocational training offer.

- **Plan of Action reference: Activity 3.1.2.**

CHANGE

The capacity to change is the dynamic dimension of competitiveness. It assesses whether companies have the edge to make local competitive advantages bear fruit by making human and financial investments which are vital prerequisites for adapting to fast-changing international markets.

Basotho entrepreneurs in the light manufacturing sector are constituting a minority compared to foreign participation. Working with outdated management practice and technology and having a limited propensity to innovate, change management has to address this stumbling block to enable the build-up of a competitive export sector and to tap emerging trends and markets.

Box 13: Competitiveness constraints in light industry: Change

Change, innovate and tap into emerging trends

Firm capabilities

- Limited access to credits and financial services for MSMEs severely limits their development prospects.
- Financial instruments are not adapted to the needs of SME exporters.
- Due to low managerial skills, local entrepreneurs lag behind requirements of the global economy.
- Entrepreneurs fear venturing into new technology ignoring latest trends and lacking exposure and financial resources, which impedes product and process innovation.

Business ecosystem

- The lack of technologically skilled workers puts a break on corporate development and growth.
- Institutions of higher learning are not apt for preparing graduates to the business reality, as they do not match their training curricula with the needs of the labour market.
- Lesotho lacks a culture of innovation, technology, R&D preventing it from keeping abreast with best business practice in global industries.

National environment

- A national industrial development and innovation policy are lacking, gearing light manufacturing towards a digital and 4th Industrial Revolution (IR4.0).
- Lesotho's Investment Code has not sufficiently encouraged joint ventures between local businesses and foreign firms as a tool for promoting technology transfer
- Without a new culture of foreign and domestic entrepreneur participation, the light and general industry sector will have difficulty to thrive.
- Lesotho's Investment Code has not sufficiently encouraged joint ventures between local businesses and foreign firms as a tool for promoting technology transfer
- The enabling environment for Intellectual Property is outdated and fails to address an innovative, digital economy.

Firm capabilities

Limited access to credits and financial services for MSMEs severely limits their development prospects.

Small, informal companies that are prevailing are practically excluded from bank funding as they are not registered and have difficulty in keeping financial records. This gives financial institutions a base not to make any lending to the informal sector because lack of track record on business operations is classified as one of the major risks. Microfinance institutions catering to their needs are lacking and consumer loans to which entrepreneurs resort are insufficient to satisfy their corporate needs. Accredited SMEs often fail to present credible business plans. Their lack of collateral has until now been insufficiently bridged by credit guarantee scheme or by efforts of business associations to provide reference letters. Therefore, many local companies are considered not creditworthy by lenders. Those eligible for loans face excessive cost (20% pa from banks, 20-30% pa from non-institutional lenders). Interest subsidy schemes provided by the government are lacking that could considerably lower financing cost to acceptable levels. As a consequence, SMEs lack financial resources to meet their needs in various stages of the value chain.

- **Plan of Action reference: Activity 2.2.3.**

Financial instruments are not adapted to the needs of SME exporters. There is no Development Financial Institution offering financial products which would meet the needs of SMEs. Furthermore, start-up venture-funds are absent in Lesotho, there are no (foreign) venture capitalists ready to provide business founders with expertise in industry funding together with seed capital. The issuance of letters of credit takes over 1 month, export credit facilities are insufficient and there are little or no insurance services for export operations. There is a lack of government support in terms of risk management services for light manufactured goods. Association of micro and small companies in cooperatives has still to be promoted, which could facilitate creditworthiness. Blended finance solutions are absent.

- **Plan of Action reference: Activity 2.2.3.**

Due to low managerial skills, Basotho entrepreneurs lag behind the requirements of the global economy. A majority of entrepreneurs is self-taught in their business practice and lack comprehensive management skills. Most urgently needed are upgrades in manufacturing business models and systems, financial management, sector relevant technology, international trade and digital skills. High-quality training programmes are not sufficiently available in Lesotho and companies hesitate to mobilize their scarce finances for human resource

development, as firms find it difficult to retain skilled personnel that departs abroad.

- **Plan of Action reference: Activities 3.2.1., and 3.2.3.**

Entrepreneurs fear venturing into new technology ignoring latest trends and lacking exposure and financial resources, which impedes product and process innovation. Most local firms do not use efficient technology and machinery due to the fact that they cannot afford to buy them. There are no financial products to assist local firms to buy efficient technology and machinery. Experts from development agencies and international business associations are insufficiently mobilized to promote technology transfer to local SMEs.

- **Plan of Action reference: Activity 3.4.1.**

Business ecosystem

The lack of technologically skilled workers puts a break on corporate development and growth.

There is a majority of non-skilled labour, but not enough trained workers with exposure to new technology, machinery and digital technologies in manufacturing. In view of the numerous diaspora, mainly in South Africa and Europe, Lesotho should have a pool of experienced migrants available that shall be attracted back to the country by dedicated programmes in sectors with high growth potential. Repatriation strategies are lacking meant to identify Basotho talent abroad with relevant experience in priority light industry sectors, and incentives to make them return.

- **Plan of Action reference: Activity 3.2.1.**

Institutions of higher learning are not apt for preparing graduates to the business reality, as they do not match their training curricula with the needs of the labour market. Educational institutions have no formal collaborations with producers and are not sufficiently up to date in new management techniques and technological innovation, as they are **still using old technology for learning processes and lack resources.** Technical and Vocational Education and Training (TVET) is limited to a few business segments only, and students have little exposure to a practical learning experience in companies. Light industries still have to be included in the academic syllabus, as well as on the primary and secondary education levels. Neither are incubation centres integrated with institutions of higher learning. Basotho Enterprise Development Corporation (BEDCO) in isolation to develop their own training approach. BEDCO has currently two incubation facilities in the areas of carpentry and Knitting & Sewing, thereby neglecting other business light industry segments.

- **Plan of Action reference: Activity 3.2.1.**



(CC BY-NC-ND 2.0) International Labour Organization ILO, lesotho-23.

Lesotho lacks a culture of innovation, technology, R&D preventing it from keeping abreast with best business practice in global industries. The low level of technology adoption, innovation and support for Research and Development (R&D) is reflected in the 2017-2018 Global Competitiveness Report of World Economic Forum that ranks Lesotho 115th on innovation and 125th on technological readiness out of 137 economies (see p. 180; in Sub-Saharan Africa, the report ranks Botswana 90th on both, and Namibia respectively 89th and 78th on both indicators).

- **Plan of Action reference: Activity 3.1.2, 3.2.1.**

National Environment

Lack of a national industrial development and innovation policy gearing light manufacturing towards a digital and 4th Industrial Revolution (IR4.0). Whilst light industry development offers a lower entry-level in terms of technological and managerial sophistication it requires from the start two key focus areas that are still neglected in Lesotho: the sustainable promotion of digital economy and an IR 4.0 strategy that aims at the development of general and advanced manufacturing at a second stage, and to leapfrog Lesotho's rate of innovation and technology use and adoption already in its infant light industry sector. As a consequence, employment and inclusive growth, are lagging behind and competitiveness is too low.

- **Plan of Action reference: Activity 3.1.1.**

Without a new culture of foreign and domestic entrepreneur participation, the light and general industry sector will have difficulty to thrive. The dominance of foreign participation is substantiated by 69.2% ownership of foreign firms in the textile and clothing sector, and goes with a lack of integration of local and foreign business communities. Whilst there is a strong **need to attract more FDI for light industry development,**

it will be vital to foster the participation of Basotho entrepreneurs in new business foundations and joint ventures with foreign partners. For this purpose, the Investment Code needs to be revised, fixing clear participation rules (as e.g. China did with its 49/51% JV regulations) to ensure that local players do have leverage and space for conducting business meaningful in the joint venture setting.

- **Plan of Action reference: Activities 2.2.2, 3.2.2.**

Lesotho's Investment Code has not sufficiently encouraged joint ventures between local businesses and foreign firms as a tool for promoting technology transfer (managerial and technological). There are no rules for capitalizing on and accounting for local assets that Basotho entrepreneurs and their MSMEs can bring into joint ventures with foreign partners to gain leverage (low-wage labour, knowledge of the local market, conditionality of associating Basotho companies in ventures in new industry platforms, etc. As sensible investment regulation is still lacking, unlike the Chinese 49/51% rule for JV creation, Lesotho misses out on co-operation opportunities with foreigners in industries that would create a strong pull factor for the adoption of new technology and innovation by its nationals.

- **Plan of Action reference: Activity 2.2.2.**

The enabling environment for intellectual property is outdated and fails to address an innovative, digital economy. The IP Order of 1989 needs to be updated in this sense (all relevant sections on Patents, Utility Model Certificates, Licences, Industrial Designs, Marks, Collective Marks and Trade Names, Unfair Competition). This impedes the introduction of new technology and innovation in light and general industry sector.

- **Plan of Action reference: Activity (There is no related activity in the action plan. We can add a new activity under 3.1.1 about drafting a new legislation).**

Key takeaways:

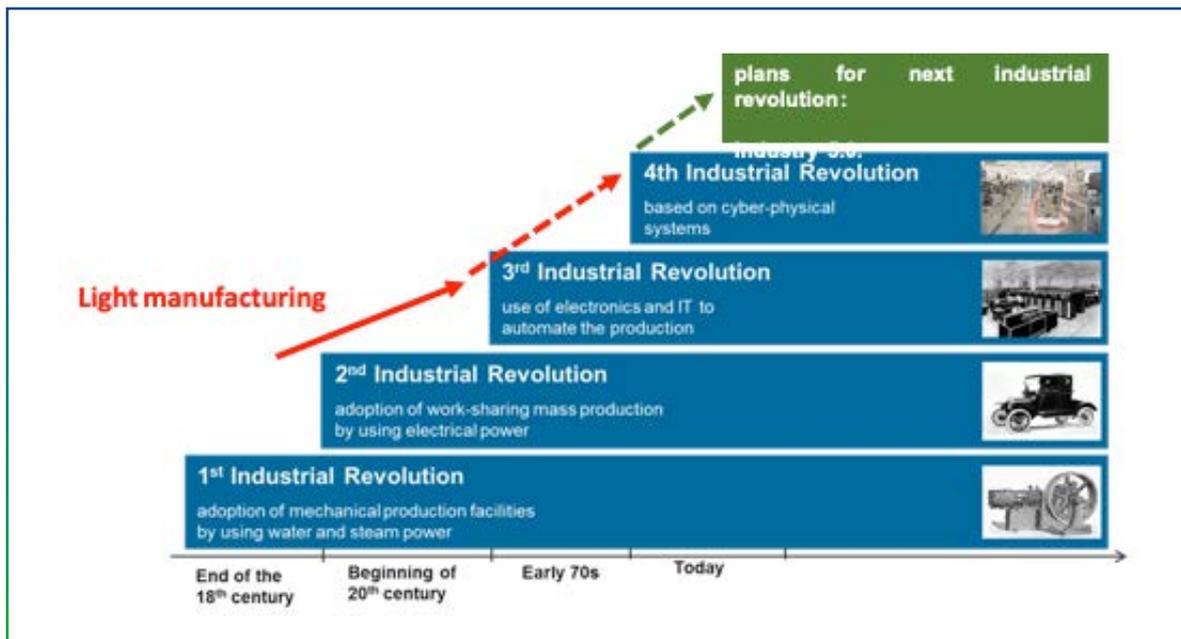
- Local producers lack information on access to international export markets, including buyer requirements and market opportunities abroad, resulting in low diversification of the export basket. Equally: Limited visibility of the sector at national and international level.
- Information on inputs and raw materials is deficient, their cost too high. Most of them are imported, costs high, delivery unreliable and local production of inputs largely insufficient.
- Due to technological and managerial backwardness and lack of bandwidth of Basotho entrepreneurs, their businesses suffer from low productivity and their capacity lag behind the requirements of the global economy.
- There is a lack of affordable industry infrastructure in terms of high electricity tariffs and unreliable supply, as well as industry platforms and factory shells and of storage facilities. Thus puts a break on industry development and operations.
- Lack of access to and excessive cost of financing for MSMEs put a strain on current operations and limit light industry development. Financial instruments are not adapted to the needs of SME exporters.
- High transportation and logistics cost and low performance – including deficient road networks (almost exclusive mode) – make exports expensive, and jeopardize deals due to non-respect of deadlines. The low number of commercialised borders and the inefficiency of customs and border services worsen trade and transport logistics.
- The lack of national standards and operational certification bodies makes it difficult for producers to comply with standards on export markets.
- The reluctance of business owners to engage in strategic alliances significantly limits their expansion. This comes with a total lack of organizing light industries in clusters and with intersectoral linkages, which hampers the build-up of a performing sector.
- The trade support network is inefficient and dispersed over a number of agencies without proper coordination. Moreover, activities relating to trade fairs, trade promotion, and export developmental support are not properly coordinated by key stakeholders.
- Digital skills and use of ICT tools by businesses are underdeveloped to market the business towards clients or to organize supplies online. This goes with a lack of technologically skilled workers, which puts a brake on corporate development and growth.
- Institutions of higher learning are not apt for preparing graduates to the business reality, as they do not match their training curricula with the needs of the labour market.
- Lesotho lacks a culture of innovation, technology and R&D, preventing it from keeping abreast with best business practices in global industries. Entrepreneurs fear venturing into new technology, ignoring the latest trends and lacking exposure and financial resources, which impede product and process innovation in light industries.

THE WAY FORWARD

In the long-term, Lesotho should consider the overall industry development framework that is currently evolving to Industry 5.0, and put its light industry build up accordingly into perspective.

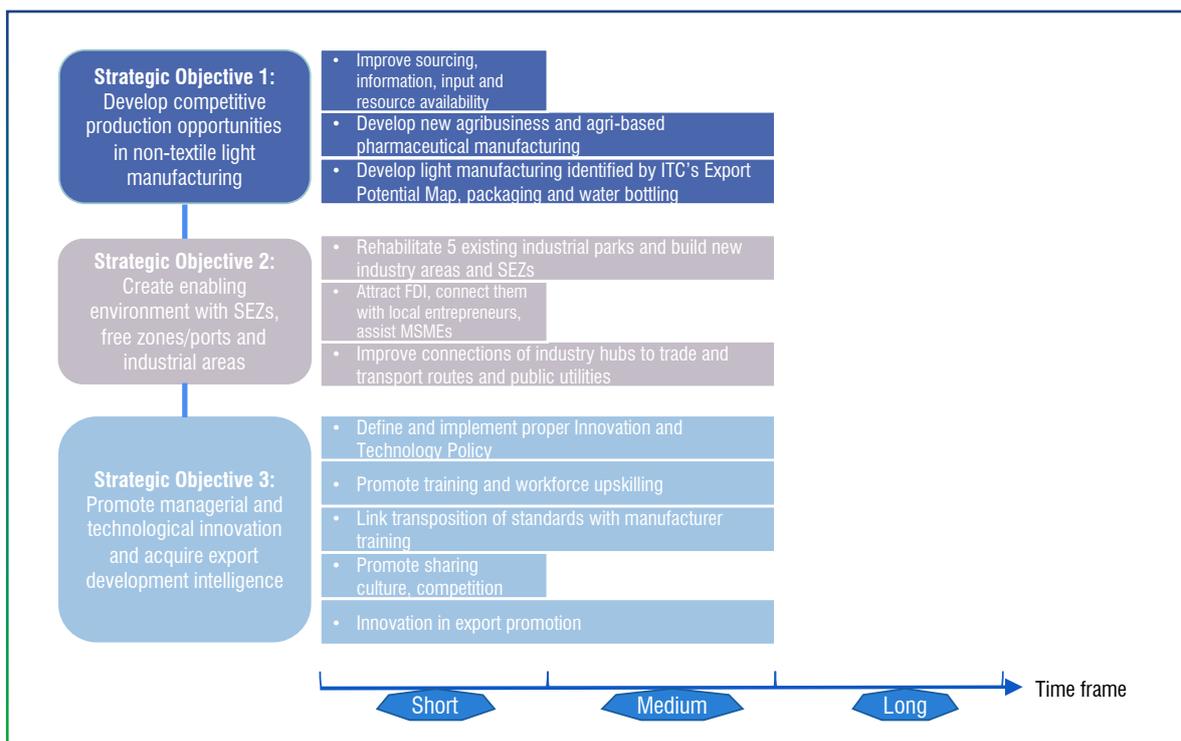
The sector strategy is structured around three strategic objectives. The three strategic objectives reflect a logic of harvesting “low-hanging fruits” first, which require minimum resources and could have more immediate effects. All three are mutually reinforcing and interlinked so that progress in one could feed into the others.

Figure 23: Development framework: from Industry 4.0 to 5.0



Source: Based on industry 4 model with modifications: <https://www.linkedin.com/pulse/what-industry-50-dr-marcell-vollmer/>

Figure 24: Logical framework of the light industry strategy



Source: ITC and stakeholders' consultations

1. To develop competitive production opportunities in non-textile light manufacturing.

Existing light manufacturing sector is dominated by textile and garments (90%). Diversification of the manufacturing base is needed. “Lesotho’s manufacturing activities are largely concentrated in the low-tier and low-value segment of the industry supply chain.”

Moreover, Lesotho should consider import substitution, not only for improving its negative current account balance, but for creating a learning arena for local entrepreneurs to compete first at home to catch up in terms of prices and quality with imports from Asia, the US and South Africa and other African states, and to prepare for breaking through on export markets. As trade and transport logistics performance is still low for this landlocked country, production for the local, though tiny, market should benefit from shorter internal transport links to be upgraded together with links to South African ports.

Light manufacturing is a real stepping stone for industrialization. The manufacturing sector is expected to realise an additional Maluti 10.8 billion in private investments and create 13,787 direct jobs by 2022/2023.

A number of sub-objectives and actions are vital at the operational level to address this challenge. These include:

- **Improving sourcing information and availability of industry inputs and resources** (in terms of quality and pricing). Opportunities for increasing local input production and extraction of natural resources should be assessed. Moreover, a systematic assessment of the availability of inputs abroad is needed, made accessible in a digital information platform for all businesses (input and raw material banks). Also, strategies for increasing bargaining power for Basotho customers shall be devised, e.g. by forming strategic alliances and combined orders (to lower prices). Improved input sourcing information shall be a key parameter for directing light manufacturing product selection.
- **Developing new agribusiness and agri-based pharmaceutical manufacturing.** Locally produced crops, livestock medicinal plants should be processed, moving up in the value chain. For this purpose, ITC’s Export Potential Map has already identified local crops (fruits, cereals and vegetables, etc. according to seasonality and climate) as well as inputs from the livestock sector for which production capacity is existing and should be extended. The significant domestic market for pigs, poultry and dairy should be exploited increasing production. Instead of exporting locally generated raw inputs, such as

mohair wool or leather, businesses should process them in Lesotho to higher-value products that are currently re-imported. In this context, “greater emphasis should be placed on cultivating other high-valued crops to maximise diversification efforts and returns” and their transformation.

Another product category concerns Cannabis and other plants for agri-based pharmaceutical manufacturing. The already tolerated large cannabis production should be processed locally to products that have already been legalized on international markets. Other medic-agricultural commodities, high value agri-medical pharmaceutical products and agri-medicinal perishables have been identified. Dedicated production facilities are to be set up in industrial precincts. Partnerships, e.g. with Indian pharmaceutical industry producing generic medicines should be explored.

- **Developing other non-textile light manufacturing identified by ITC’s Export Potential Map, as well as packaging and water bottling.** Products identified by ITC for the export sector mainly concern machinery, footwear, electronic equipment, paper production, automatic circuit breakers ≤ 1.000 V, reception apparatus, miscellaneous manufactured projects (such as parts of seats and other items to be identified). The packaging industry shall be developed as an ancillary activity to manufacturing (plastic, carton, paper) and the existing water bottling industry expanded, in so far as commercialization abroad promises to boost sales volumes and margins. As water resources are largely untapped the potential is huge with 18 springs commercially utilised out of 137 documented sources. To boost sales on export markets branding and improved marketing of bottled water is needed.

2. To create an industrial enabling environment with Special Economic Zones (SEZs), free zones/ports and industrial areas platforms.

Industrial and economic zones shall be designed in a way to provide the whole set of vital conditions for company foundation and build-up, particularly by providing factory shells for light manufacturing start-ups. They will not only render production cost-efficient and performing, but also host incubation centres with know-how transfer for building up competitive light and later on advanced manufacturers. For the design of industry hubs and parks, the integration of companies into international supply and value chains merits equal consideration as the promotion of local supply chains and industry clusters.

The existing 5 industrial parks shall be extended by offering new ones, as well as SEZs. NSDP II foresees the creation of SEZs to promote domestic direct investments in addition to FDI. Moreover, access to electricity is largely insufficient in rural areas and concentrated in urban areas, where the infrastructure for transmission and distribution is rather well-developed but connection times too high.⁵² Therefore, the creation of new industrial hubs and SEZs should serve as a fast track for the installation of new distribution infrastructure for electricity and for speeding up new access. Lesotho has the potential to turn its current low score in “getting electricity” (see “Doing Business” indicators) into a comparative advantage combining the efficient distribution of 100% renewable energy and lower tariffs.

A number of sub-objectives and actions are vital at the operational level to address this challenge. These include:

- **Clearing maintenance backlog in 5 existing industrial parks and build up new industrial hubs and SEZs.** The development of new industry platforms and an agri-business hub is needed with factory shells that allow manufacturers to “plugin” at relatively low cost, with shared facilities and basic infrastructure. Equally important is the implementation of newly planned SEZs. Special care should be taken for the settlement of complementary companies in light industry clusters with short distances and integrated supply chains. Workers should be attracted by affordable housing in the vicinity of companies (inspired by the Chinese example). Substantial land requirements by industry developers should be catered for, as well.
- **Attracting international investors, promoting partnerships with Basotho entrepreneurs, providing assistance to Basotho MSMEs.** The whole set of incentives for attracting FDI shall be developed (fiscal, simplified administrative procedures, land acquisition, etc). In view of 69% of foreign ownership of medium-size and large companies, it is important to foster the growth and participation of local entrepreneurship via new joint ventures (learning from the 51/49% regulations used in China). SEZs and industrial hubs should be used as a laboratory for

promoting business joint ventures between foreign and Basotho entrepreneurs. Far more (financial) assistance is needed to support Basotho in Micro, Small & Medium Enterprises (MSMEs). In view of the preponderance of informal private sector, the government should assess if it is more advantageous to provide business support services (administrative, export procedures, etc.) through government agencies or through industry associations, to ensure that informal micro-enterprises, in particular, are not excluded any more from financing and other support.

- **Improving connections of industry hubs to trade and transport routes and to public utilities (renewable energy generation).** Transport routes have to be upgraded and better maintained (given Lesotho's heavy reliance on deficient road links). This should include new links to the border that shorten the routes to South African sea ports (e.g. from a new industry hub in Qacha's Nek to Durban port).⁵³ transport and logistics services shall be improved and adapted to light industry needs. Equally, transport and trade logistics performance shall be increased (see measures recommended by the overall section). It is equally vital to improving availability of utilities (electricity and water) in Industry parks. Lesotho should use its still unexploited water resources, and also sun and wind energy.⁵⁴ In addition to improved delivery of its abundant freshwater resources, it should extend its high potential to put in place clean and sufficient hydroelectric production (1200 MW are already with Lesotho Highlands Power Project (LHPP), Phase II, but not yet implemented, and up to 4000 MW possible (upper limit, subject to cost-benefit analysis). As a net importer of electric power (75 MW capacity of local generation, 66 MW being imported), Lesotho could replace its electricity imports from South Africa and Mozambique and become an exporter.⁵⁵ As mitigation of climate change is a top international priority, industry platforms in Lesotho could develop a locational advantage for energy and water-intensive industries, tapping the country's abundant renewables.

52.– Energypedia (2018), Lesotho Energy Situation, p. 4

53.– Proposal by the national consultant Thabo Qhesi during the first workshop session on 13 November 2019

54.– UNEP (2017), Energy profile of Lesotho 2017, p.1 This report quantifies the upper limit even at 4'000 MW, together with 6'000 MW from wind sources (according to UNEP). Also there are several solar projects underway in the country.

55.– The next stage of the Lesotho Highlands Power Project (LHPP), Phase II that started in 2017 is foreseen to add another 1'000 to 1'200 MW, still subject to government approval. If implemented, production will largely exceed the country's needs and may add an important two-digit portion to national GDP. This impressive prospect has been downgraded by the Lesotho Highlands Development Authority (LHDA), stating that even the 1200 MW upgrade may not be executed, partly due to cost-benefit considerations, although the overall potential has even quantified as representing up to 10'000 MW. So there is a need of clarification, in view of a potentially high, clean and valuable hydropower production as a key national resource. This is the conclusion of a Communication of the national consultant Thabo Qhesi with the Public Relations Manager of LHDP, Masilo Phakoe on 14 December 2019. Moreover, Lesotho's government still feels bound by the 1986 agreement, whilst South African important public utility ESKOM seems to be further exploring the development of Lesotho's hydropower.

3. To promote managerial and technological innovation in light and advanced industries

Managerial and technological backwardness of businesses (in the use of equipment/machinery, digital solutions and ICT) is a major stumbling block on the road to industry development. In this section we cannot develop what is usually understood by the technology and innovation sector in the larger sense, i.e. covering key areas such as Telecommunications; IT and other Information Services activities (Technology); Publishing and Broadcasting activities (Information and Content).⁵⁶

The challenge is twofold in the light industry sector requiring the design of measures that are at the same time low-cost and promote best practice procedures and the use of high standard equipment, with the objective to enable local industries to close the current gap to international competitors. Innovation and technology adoption should be promoted “on the job” in existing and new businesses, by introducing up to date managerial practice, ICT use and new machinery via industry incubation centres, in coordination with other government agencies and by involving new technology champions in the private sector (a proper Technology and Innovation sector is foreseen by the government).

Equally important and in a way the reverse of the coin is the application of international industry and product standards and the currently lacking compliance with them by Lesotho based. This is a key issue when prioritising cost-efficient new technology and their application in light industries.

A number of sub-objectives and actions are vital at the operational level to address this challenge. These include:

- **Defining and implementing a proper Innovation and Technology Policy** (via measures and agencies). The challenge is to devise a step by step approach, gradually making national industry players ready to improve their manufacturing capabilities in non-sophisticated light industries, with the aim to move into more knowledge-intensive and advanced ones. In this context, Lesotho’s NSDP II 2018/19 – 2022/23 recommends to start moving into knowledge intensive industries. Moreover, and “to diversify the sector

by moving into automation and light engineering to generate opportunities for semi and high-skilled labour with quality wages.”⁵⁷ Projects proposals cover the setup of solar panel production, of solar power generation facilities, a light truck assembly plant, a precast concrete factory and aerospace product manufacturing.⁵⁸ Such a strategy requires the structured collaboration of higher learning institutions, industry, and government on learning and research and practical implementation in daily industry practice. Innovation hubs and upskilling centres play a key role. Moreover, institutional and legal frameworks for innovation need to be strengthened.

- **Conducting know-how transfer to Basotho staff by foreign industry partners.** Businesses should benefit from practical skills transfer in various light industry segments provided via internships in light industry sites abroad. Practice-oriented bilateral cooperation is offered by European regions and cities (e.g. by the German city of Gummersbach).⁵⁹ Similar opportunities in other North / South American, Asian, etc. countries should be explored as well⁶⁰ and should be well-coordinated with the upskilling centres that Lesotho intends to set up.

Promoting a culture of sharing and open competition as a catalyst for innovation. It is vital to move Basotho entrepreneurs out of their confinement in silos. The creation of shared facilities in industry platforms and other sites. In view of the lack of affordability of new equipment and technology-shared facilities will play a central role in giving Basotho entrepreneurs access to new technology and machines. They should operate on a pay for use base and go with training offers, thus help companies to lower their innovation investments (current businesses) or start-up cost.

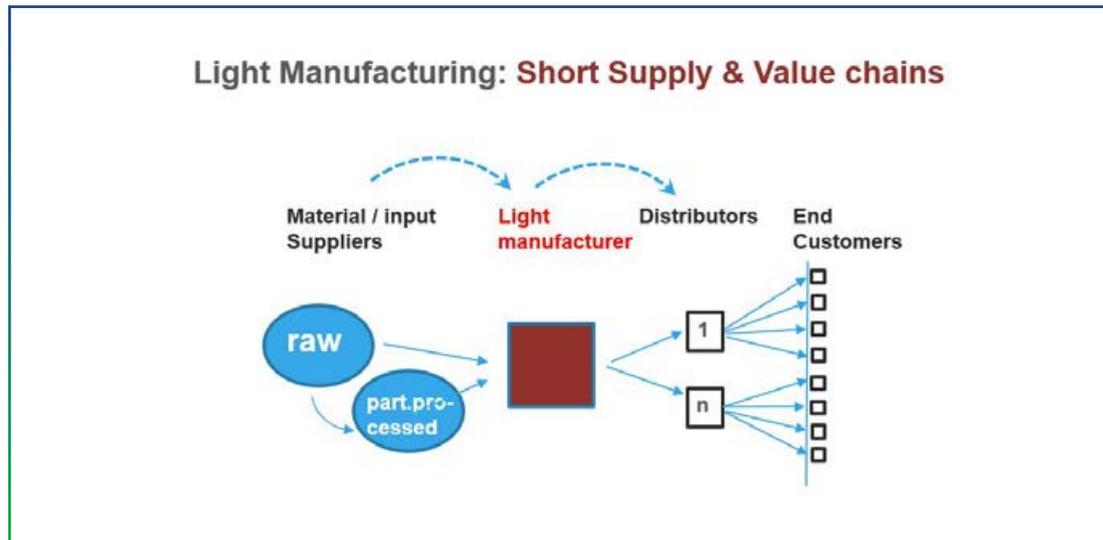
56.– According to Lesotho Economic Roadmap 2018/19-2022/23, p.85, it is “expected to contribute M1.3 billion towards our GDP, M2.1 billion in additional private investments and almost 3,000 new jobs through the implementation of over 10 projects”.

57.– Lesotho Economic Roadmap 2018/19 - 2022/23, p. 84

58.– See some 20 industrial projects, including the textile sector, in Lesotho Economic Roadmap 2018/19 - 2022/23, p p. 93-99

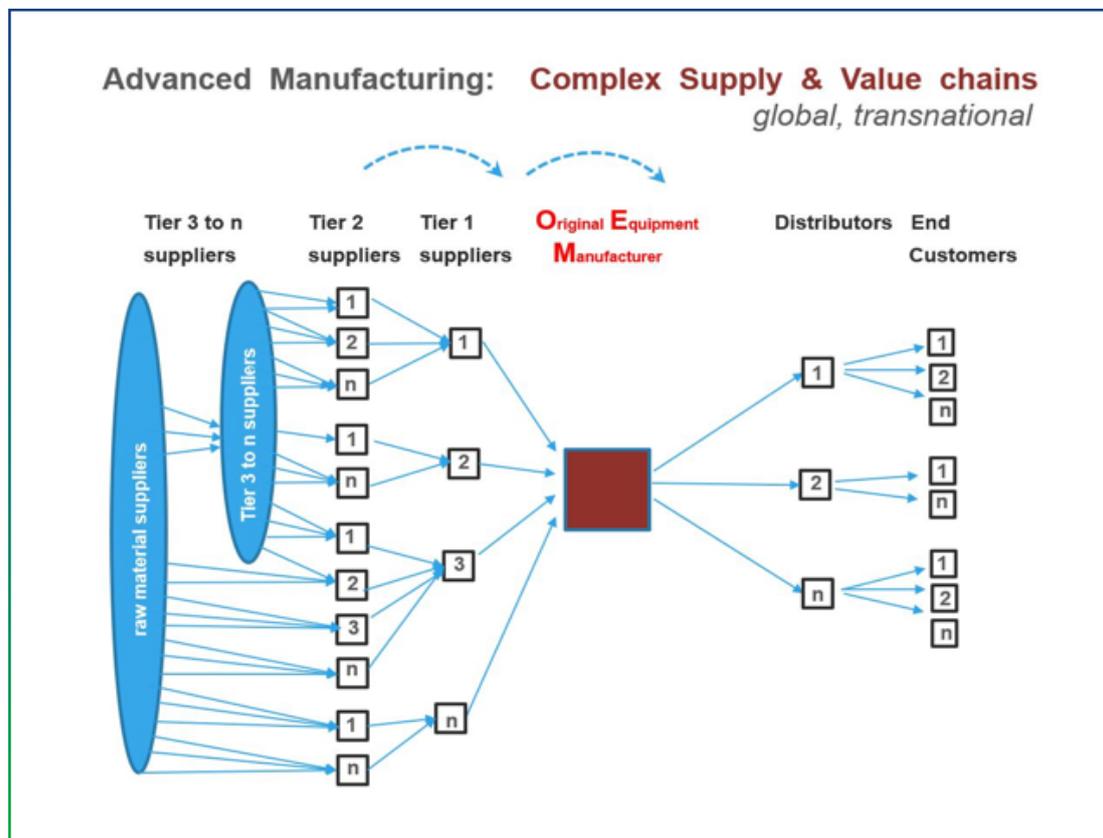
59.– The report Energypedia (2018), Lesotho Energy Situation, p. 22, mentions a bilateral Cooperation Agreement of 2010 that “mainly focuses on supporting the Kingdom of Lesotho on the transfer of skills and knowledge, as well as capacity building through apprenticeship training of Basotho in Gummersbach on hospitality and hotel management, metal works, carpentry and electrical works; support to Kindergartens in Lesotho; support in the health sector through the training of nurses and doctors, support and capacity building in the establishment and management of sustainable self-help projects for enhancing household food security and socio-economic development thereby enhancing self - reliance.”

60.– Teleconference and emails of the international consultant with a city representative in December 2019, based on the above mentioned hint to industry developments in Lesotho in Energypedia (2018), Lesotho Energy Situation, p.22.

Figure 25: Supply and value chains of light manufacturing sector: modules for start-up industries

Supply and value chains in the light industry are considerably shorter and less sophisticated than in advanced manufacturing. For infant industry development they constitute a realistic entry strategy, allowing to develop modular building blocks on the road to building up local industry clusters and to gradually integrating with complex global value chains.

Table 8 situates light manufacturing within the broad range of industry sectors (from primary to quaternary). Being part of the secondary sector, light industries are listed with key product categories that have been identified for Lesotho. In view of the fact that the country's overall industrialization agenda finally aims at general and advanced manufacturing we have listed key product categories belonging to these areas, as well.

Figure 26: Supply and value chains in Advanced Manufacturing (AM)



(CC BY-NC-ND 2.0) International Labour Organization ILO, lesotho-45.

Table 8: Light manufacturing in a broader context

Industry sectors		
Sector	Definition	Subsectors
Primary	extraction, collection, production of natural resources	agriculture (livestock, crops), forestry, hunting, fishing and mining / quarrying
Secondary :	manufacturing and construction using the output of the primary sector to produce finished goods	<div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> <p style="color: red; text-align: center;">light industry</p> <p style="color: red; text-align: center;">general manufacturing</p> <ul style="list-style-type: none"> (- textiles, garments <i>not here!</i>) - leather & footwear - water bottling - small consumer goods - agri-business, pharma agri-business - handicrafts - small electric products / electronics - miscellaneous manufactured goods - etc. </div> <div style="width: 45%;"> <p style="color: red; text-align: center;">// heavy industry / advanced manufacturing</p> <ul style="list-style-type: none"> - electronics assembly - solar panels - automotive / truck assembly - aviation / aerospace - precast concrete - power (hydro, wind & solar) </div> </div>
Tertiary :	production of services ("intangible goods"), instead of end products	<ul style="list-style-type: none"> - waste management - mineral processing (including waste) - paper (including sanitary) - packaging (plastic, carton) & recycling - etc.
Quaternary :	based on pure knowledge and skills, intellectual industries (such as digital/AI, media, R&D)	

Source: developed by light industry team

PLAN OF ACTION

Strategic Objective 1: To develop competitive production opportunities in non-textile light manufacturing.			
Operational Objective	Activity	Executing agency	Timeframe
1.1. Improving sourcing: information and availability of industry inputs and resources.	1.1.1. To assess the availability of natural resources in Lesotho. <ul style="list-style-type: none"> Review existing natural resource inventories and assess their reliability. Consult the latest natural resource inventory undertaken by Japanese partner (not disclosed yet). Separate mandates for resource exploration from concessions for their extraction and commercialization. <p>This activity is key for mobilizing urgently needed natural resource inputs, since existing inventories and survey do not seem to be complete. It is part of the effort to shift to domestic sourcing, whenever possible.</p>	Ministry of trade and industry, Ministry of Mining	Short-term
	1.1.2 To assess opportunities for increasing local input production. <ul style="list-style-type: none"> Assess input production potential in the local crops sector boost it depending on the cost-benefit ratio. Assess input production potential in the livestock sector and cost-benefit ratio to boost it. 	Ministry of Agriculture and Food Security	Short-term
	<ul style="list-style-type: none"> Evaluate non-agricultural input production, including sandstone processing as well as using waste from mineral extraction (e.g. process basalt waste from mining to floor tiles, etc.). <p>This activity will help to refocus the low productivity agriculture sector making it a valuable contributor to agribusiness, one level higher in the value chain. It is part of the effort to shift to domestic sourcing, whenever possible.</p>	Ministry of Mining	
	1.1.3 To improve information on and access to inputs and natural resources imported. <ul style="list-style-type: none"> Compile international information sources and raw material and input banks (origin, availability, qualities, pricing) and create an online portal for light and advanced industry sector in Lesotho. Develop proposals on forming strategic alliances for companies to combine orders for inputs and resources or let business associations play a critical role in establishing strategic alliances within sectors so that they could enjoy the benefits of economies of scales in respect of sourcing materials and servicing certain markets. Establish Supplier Diversity Council which will increase supply chain competitiveness, market share, and loyalty. This shall create opportunities for corporate members and certified suppliers to engage in a local to global network, thereby providing linkages between historically excluded business and corporate buyers.⁶¹ <p>This activity is most vital, as availability of inputs in Lesotho appears to be limited. Subsequently improved information sources on inputs and resources nationally and from international providers will help to create a survey on the availability and pricing of key inputs and offer a key parameter for cost-benefit analysis of new light industry products.</p>	Ministry of trade and industry	Short-term
1.2. Developing new agribusiness and agri-based pharmaceutical manufacturing	1.2.1. To process local crops into higher value-added products. <ul style="list-style-type: none"> Based on ITC's Export Potential Map quantify new agribusiness in the transformation of cereals, vegetal residues and animal feed, wheat and meslin flour, bran, sharps and other residues (of cereals or of leguminous plants). Develop also: Honey and Bee Products, Herb Processing, Fruit Juice and Yoghurt Processing. Place greater emphasis on cultivating other high-valued crops to maximise diversification efforts and returns" including the possibility to process part of the production, moving up the value chain. <p>This activity is meant to identify low value-added crop production that can be processed to products for export markets.</p>	ITC BEDCO incubation center	Short/medium-term

61.– MBEs – The Core of the National Minority Supplier Development Council Network: <https://nmsdc.org/mbes/>

Strategic Objective 1: To develop competitive production opportunities in non-textile light manufacturing.			
Operational Objective	Activity	Executing agency	Timeframe
1.2. Developing new agribusiness and agri-based pharmaceutical manufacturing	1.2.2. To transform inputs from the livestock sector into higher value-added products.		Short/medium-term
	<ul style="list-style-type: none"> Exploit the significant domestic market for pigs, poultry and dairy increasing production and transform raw meat, substituting imports and envisaging exports at a later stage. Instead of exporting mohair wool, as a cheap raw material, processing it locally to higher-value products replacing imports of relevant finished goods. Transform leather as input for the South African auto market and other industry clients, even creating new leather products. Identify additional agribusiness products in the livestock sector. <p>This activity serves to boost import substitution, as well as producing higher-value finished goods that are either imported or can be commercialized with high added value in South Africa or on international export markets.</p>	Ministry of Agriculture and Food Security, Ministry of trade and industry	
1.2. Developing new agribusiness and agri-based pharmaceutical manufacturing	1.2.3 To develop agri-based pharmaceutical manufacturing.		Medium-term
	<ul style="list-style-type: none"> Process the already tolerated large cannabis production locally to products that have already been legalized on international markets. Produce other medic-agricultural commodities, high value agri-medical pharmaceutical products and agri-medicinal perishables, including cosmetic products, such as organic hair care. Create dedicated agri-based pharmaceutical production facilities in an industrial precinct and a medical agricultural zone, in tau tsehla Agri-industrial Zone (Mafeteng SEZ). Explore partnerships with international pharmaceutical companies, e.g. the Indian pharmaceutical industry for producing natural and generic medicines. <p>This activity is intended to exploit the first-mover advantage that Lesotho has in its large Cannabis production and for other medicinal plants. Moreover, partnerships can be interesting for Asian pharmaceutical companies (e.g. from India) because of Lesotho's preferential trade agreements in Europe and North America.</p>	Ministry of Agriculture and Food Security, Ministry of Health	
1.3. Developing other non-textile light manufacturing identified by ITC's Export Potential Map, as well as packaging and water bottling	1.3.1 To develop other non-textile light manufacturing with export potential (e.g. as identified by ITC's Export Potential Map).		Short-term
	<ul style="list-style-type: none"> Expand existing machinery production by 34%. Expand footwear production (leather and rubber) by 93% / 96%. Expand electronic equipment manufacturing as well as automatic circuit breakers <= 1.000 V by 30%, as well as reception apparatus by 90%. 	Ministry of trade and industry, Ministry of Development Planning	
	<ul style="list-style-type: none"> Expand paper production by 60%. Extend miscellaneous manufactured projects (such as parts of seats and other items to be identified). <p>This activity capitalizes on existing production facilities, although limited in size, to boost them by company modernization (in terms of management and technology employed) and improved export development.</p>		
	1.3.2 To set up a packaging industry as an ancillary activity to manufacturing.		Short/medium-term
	<ul style="list-style-type: none"> Reach out for experienced international industry partners to set up production facilities in Lesotho, possibly in a joint venture; Explore the options for packaging manufacturer (eco-friendly packaging like plant-based, carton, paper). <p>This activity is new in Lesotho and the availability of local packaging vital for boosting the broad range of new light industry products.</p>	Ministry of trade and industry	
	1.3.3 To prepare the international expansion of the existing water bottling industry .		Short/medium-term

Strategic Objective 1: To develop competitive production opportunities in non-textile light manufacturing.			
Operational Objective	Activity	Executing agency	Timeframe
1.3. Developing other non-textile light manufacturing identified by ITC's Export Potential Map, as well as packaging and water bottling	<ul style="list-style-type: none"> Identify the most promising water resources to be tapped (the potential is huge with 18 springs commercially utilised out of 137 documented sources). Increase the bottling capacity of existing and new industry players. Boost bottled water sales on export markets thanks to branding and improved marketing of bottled water from Lesotho. 		
	This activity is promising in view of Lesotho's largely untapped high-quality spring resources, recommending that branding and marketing should exploit the country's image as uncontaminated mountain kingdom.		

Strategic Objective 2: To create an industrial enabling environment with Special Economic Zones (SEZs), free zones/ports and industrial areas.			
Operational Objective	Activity	Executing agency	Timeframe
2.1. Rehabilitating 5 existing industrial parks and build up new industry areas and SEZs.	2.1.1. To overhaul the five existing industrial parks (equipped with factory shells and other infrastructure). <ul style="list-style-type: none"> Clear the maintenance backlog. Improve the availability of utilities (water and electricity) and access to transport networks and services. Consider extension of areas and settlement of new light industry subsectors, other than textile, in view of the need to diversify Lesotho's manufacturing base. 	LNDC, Ministry of trade and industry	Short-term
	This activity appears necessary, as a few existing industrial parks in the low technology sector have come of age (90 % textile). They still play a key role in poverty reduction. However, maintenance problems in particular jeopardize the efficient operation of companies.		
	2.1.2. To create Special Economic Zones (SEZs) for boosting high technology industries with foreign partners. <ul style="list-style-type: none"> Create an SEZ regulation introducing special benefits for Foreign Direct Investors. Attract multinational companies (MNCs) in high technology industries which will encourage technology transfer. Prioritize five sub-industries: high-tech industries, high-value perishable agro-processing, aviation support services (e.g. linens, laundry plants and catering services), maintenance, repair & overhaul (MRO) services, training centres. Implement SEZs, such as King Moshoeshoe international airport Special economic Zone (offering industrial, commercial, warehousing and inventory management areas, as well as customs services for a one-stop export clearance for manufacturers) and tau tsehla Agri-industrial Zone (Mafeteng SEZ processing agricultural and pharmaceutical products). 	Ministry of trade and industry, LNDC	Medium-term
This activity is meant to attract international investors and partners that will "enjoy special benefits such as trade incentives and trade facilitation that are distinct from other industrial areas. SEZs are planned, designed and developed by private investors using the "build-operate-transfer" (BOT) model. In turn, the government provides support in the development of basic infrastructure and offers tax and non-tax incentives as well as other facilitating measures." (Lesotho Economic Roadmap 2018/19 – 2022/23, p. 108).			
2.1.3. To create new industrial areas. <ul style="list-style-type: none"> Consider new locations, such as Qacha's Nek. Provide "plug and play" industry shells for new light industry players. Create shared technology facilities to give access to MSMEs on a pay by use basis. 	Ministry of trade and industry, LNDC, LHDC	Medium-term	
This activity shall provide the whole set of vital conditions for company foundation and build-up, particularly by providing factory shells for light manufacturing start-ups and light industry players who do not have the financial strength as global Foreign Direct Investors.			

Strategic Objective 2: To create an industrial enabling environment with Special Economic Zones (SEZs), free zones/ports and industrial areas.			
Operational Objective	Activity	Executing agency	Timeframe
2.2. Attracting international investors, Promoting partnerships with Basotho entrepreneurs, Providing direct assistance to Basotho MSMEs	2.2.1. To attract international investors.		Short-term
	<ul style="list-style-type: none"> Update the investment code to cater to the needs of Foreign Direct Investors. Review experience / best practice for FDI promotion concerning SEZs and industrial areas from Ethiopia and East Africa Provide the whole set of incentives for attracting FDI shall be developed (fiscal, simplified administrative procedures, land acquisition, etc). 	Ministry of Finance, Ministry of trade and industry, LNDC, LHDC	
	This activity is vital in view of below-average levels of FDI in Lesotho (18%). International investors with industrial experience are key players in SEZs.		
	2.2.2. To promote partnerships of foreign industrialists and investors with Basotho entrepreneurs.		Short-term
	<ul style="list-style-type: none"> Create proper joint venture regulation (investment code) to foster the growth and participation of local entrepreneurship (learning from the 51/49% regulations used in China). Assist Basotho entrepreneurs for valuing their assets in Joint ventures and provide government support (subsidies, land, etc.). 	Ministry of Finance	
	This activity aims at increasing the participation of Basotho entrepreneurs in enterprise creation given high levels of foreign ownership of medium and large enterprises		
2.3. Improving connections of industry hubs to trade and transport routes and to public utilities (renewable energy generation).	2.2.3. To provide direct assistance to Basotho MSMEs.		Short-term
	<ul style="list-style-type: none"> In view of the preponderance of informal organisation of most private sector entities, assess if it is more advantageous to provide business support services (administrative, export procedures, etc.) through government agencies or through industry associations. Take any measure needed to ensure informal micro-enterprises, in particular, are not excluded any more from financing and other support. 	Ministry of Finance, Ministry of trade and industry, LNDC	
	This activity is meant to attract foreign industry and investment partners, as FDI is still too low (18% pa), whilst ensuring a healthy balance that allows local businesses to grow, in view of the preponderance of foreign ownership (69%) of medium size and large companies.		
	2.3.1 Upgrade transport route connectivity to industrial areas.		Short/medium-term
	<ul style="list-style-type: none"> Improve maintenance and increase capacity, according to traffic flow (AADT and travel times to be measured). Develop alternative transport modes, where realistic (given Lesotho's heavy reliance on deficient road links, considering the importance of air connectivity for a landlocked country and given future needs of high-value advanced manufacturing). Create new transport links according to demand, e.g. the proposed road upgrade across the border to South Africa opens a shortened road link Durban port (e.g. from a new industry hub in Qacha's Nek to Durban port). Improve transport logistics performance by creating a competitive private transport logistics sector and take any required measure for improving cross border logistics, as outlined in the Plan of Action of the general part of this National Trade Strategy, in particular activity 1.4.4. Remedy to the low number of commercialised borders, and the inefficiency of customs and border services. The government of Lesotho should engage the Government of South Africa to increase the number of commercialised borders, particularly Sani Pass and Tele Borders in order to ease the movement of goods and services. 	Ministry of Public Works, Ministry of Transport	
	This activity is meant to overcome Lesotho's unfavourable situation in terms of transport connectivity and logistics performance, which still weighs as a heavy constraint on the light and advanced industry sector and its contribution to export growth.		
	2.3.2. Improve the availability of utilities (electricity and water) in industrial parks.		Medium-term
	<ul style="list-style-type: none"> Develop Lesotho's unexploited water resources for generating hydroelectricity (e.g. the proposed 1200 MW upgrade of Lesotho Highlands Power Project (LHPP), phase II (2017)). Build up sun and wind energy generation (wind energy of up to 6000 MW, etc.) Explore the costs and benefits of creating a locational in industry platforms thanks to clean renewables for energy and water-intensive industries. 	Ministry of Energy, LHDA	
	This activity is meant to tap Lesotho's abundant and still underexploited renewables, particularly in the water sector, as the government is hesitant to appropriate the country's rich water resources (due to the 1986 agreement governing the Lesotho Highland Water project). This concerns wind and solar energy as well, and the high potential in renewables could become a key locational advantage in view of international mitigation efforts of climate change.		

Strategic Objective 3: To promote managerial and technological innovation in light (and later on in advanced) industry sectors and acquire export development intelligence.			
Operational Objective	Activity	Executing agency	Timeframe
3.1 Defining and implementing a proper Innovation and Technology Policy	<p>3.1.1. To devise a step by step approach from non-sophisticated light industries to more intensive and advanced ones devising a comprehensive industry development strategy.</p> <ul style="list-style-type: none"> Review global best practice in Innovation and Technology Policy for the Industry Sector, with special emphasis on developing countries and the introduction of digitalisation and ICT. Concentrate on low sophistication in light industries as a realistic, practice-oriented starting point. Create light industry clusters for all new production activities. Prepare the future move into knowledge-intensive industries, including automation and light engineering to generate opportunities for semi and high-skilled labour with quality wages (as envisaged by Lesotho's NSDPII). <p>This activity aims at developing light manufacturing activities as modular building blocks that can be assembled to industry clusters, gradually integrating to more complex value chains and finally lead to advanced, complex manufacturing capacities.</p>	knowledge-	Short/medium-term
		Ministry of Communication, Science & Technology Ministry of trade and industry	
	<p>3.1.2 To implement technological and managerial innovation via pilot projects and learning partnerships between government academia and the private sector.</p> <ul style="list-style-type: none"> Assess the feasibility of the proposed pilot projects in advanced manufacturing (NSDPII), notably a solar panel production facility, solar power generation facility, light truck assembly plant, precast concrete factory and aerospace product manufacturing and mobilize foreign and Basotho entrepreneurs to bid for the projects and proceed in Joint ventures. Structure and intensify the currently lacking collaboration between higher learning institutions, industry, and government on learning and research and practical implementation in daily industry practice, so as to bridge the current discrepancy between learning curricula in schools and universities on the one hand and labour market needs (in terms of specialised workers/staff). <p>This activity is meant to ensure the practical success of technological and managerial innovation by industry practice and by know how transfer from experienced foreign partners.</p>		Medium-term
		Ministry of Communication, Science & Technology Ministry of trade and industry, LNDC, BEDCO	
	<p>3.1.3. Develop institutional and funding tools for innovation and technology promotion.</p> <ul style="list-style-type: none"> Provide innovation grants and loans (for purchasing equipment / technology) to light manufacturers. Implement the whole set of company and export financing measures outlined in the Plan of Action of the general part of this National Trade Strategy, in particular activity 3.1.3. A vitally needed solution is the creation of a Development Financial Institution offering various financing products (from microfinance to higher volumes) to meet the needs in various stages of the value chain. Set up innovation hubs and upskilling centres close to SEZs and industrial areas and provide them with the needed resources (funding, personnel, ICT tools). <p>This activity is meant to provide the needed resources for implementing technological innovation in the industry sector.</p>		Short/medium-term
		Ministry of Finance, Ministry of trade and industry, LNDC, BEDCO	
3.2. Promoting training and upskilling of Basotho workforce (on all schooling levels and vocational on the job).	<p>3.2.1. Promote innovation and technological skills training (school, university and vocational).</p> <ul style="list-style-type: none"> Adapt and specify for the light (and advanced) industry sector the general principles on Technical and Vocational Education and Training – TVET for graduates, as laid down in the Plan of Action of the general part of this National Trade Strategy, in particular operational objective 3.3.1. Adapt and specify for the light (and advanced) industry sector the general principles on high-quality training programmes for employers and employees, as laid down in the general part of in the Plan of Action of this National Trade Strategy, in particular activity 3.3.2. This activity seeks to ensure the availability of business-specific training already for students and graduates at all levels of education, and for employed staff vocational training allowing them to upgrade the necessary business and technical skills on the job. 		Short/medium-term
		Ministry of Education and Training Ministry of Communication, Science & Technology, BEDCO	

Strategic Objective 3: To promote managerial and technological innovation in light (and later on in advanced) industry sectors and acquire export development intelligence.			
Operational Objective	Activity	Executing agency	Timeframe
3.2. Promoting training and upskilling of Basotho workforce (on all schooling levels and vocational on the job).	<p>3.2.2. Know how-transfer to Basotho enterprises and JV partners by foreign industry partners.</p> <ul style="list-style-type: none"> Use joint ventures and industry partnerships in Lesotho as a tool for know-how and technology transfer. Train Basotho entrepreneurs in managerial bandwidth as a learning experience in JVs with experienced foreign business partners. Train Basotho entrepreneurs in JVs or dedicated industry workshops: <ul style="list-style-type: none"> – to lower rework rates < 4% – to lower change over times in factories to international standards in LM (between several minutes and slightly more than a day, depending on the production process). Make light manufacturers from Lesotho benefit from practical skills transfer provided via internships in company sites abroad. Practice-oriented bilateral cooperation is offered by European regions and cities (e.g. by the German city of Gummersbach). Broaden the base of company internships and vocational training abroad, including partners from Asia and the Americas. <p>This activity is based on the insight that the most efficient and practice-oriented type of training is provided by business leaders on their company and production sites.</p>	Ministry of Communication, Science & Technology Ministry of trade and industry, LNDC, BEDCO Enterprise Foundation of Lesotho	Short-term
	3.3. Linking transposition of standard in Lesotho with manufacturer training.	<p>3.3.1 Linking industry innovation with introduction of international standards and compliance of manufacturers.</p> <ul style="list-style-type: none"> Implement for light and advanced industries the whole set of measures meant to introduce international standards via the Lesotho Standards Authority and the certification of companies (compliance), as mentioned in the Plan of Action of this National Trade Strategy (operational objective 2.3.). <p>This activity is meant to facilitate trade of industry production thanks to the ability of producers to comply with key standards on export markets and to prioritize innovations in technology and production process employed.</p>	Ministry of trade and industry, LNDC, BEDCO
3.4 Promoting a culture of sharing and open competition as a catalyst for innovation.	<p>3.4.1 Promoting a culture of sharing and open competition as a catalyst for innovation.</p> <ul style="list-style-type: none"> Encourage Basotho entrepreneurs to move “out of their confinement in silos” and cooperate with each other, by promoting the creation of light industry clusters and sub-sector associations that provide information on the latest technology and market trends to the benefit of all. Create shared facilities in industry platforms to give Basotho entrepreneurs access to new technology and machines on a pay for use base. <p>This activity is meant to bring about a mental change fostering urgently needed cooperation between Basotho entrepreneurs: reckoning at least the benefit of the exchange of best industry sector practice in cluster associations; or combining forces for filling in orders for export markets.</p>		Medium-term
	3.5 Innovation in export promotion.	<p>3.5.1 Provide companies with access to latest export development intelligence, institutions and tools.</p> <ul style="list-style-type: none"> Adapt the broad range of Export promotion activities outlined in the general part of this National Trade Strategy (operational objective 2.2) to the light and advanced industry sector. In addition, establish a Trade Point programme with the assistance of UNCTAD. The objective of Trade Point is to facilitate access for small and medium-sized enterprises to the international market, in particular using the most up-to-date technologies in electronic commerce. Train exporters in the importance and use of branding. Train light industry exporters in modern marketing methods using digital tools/ICT. Make Lesotho National Development Corporation a fully-fledged export promotion agency, and organize workshops for national exporters to explore the whole range of activities and benefits to them. Improve coordination between BEDCO and LNDC as to trade fair participation, trade promotion and export developmental support. <p>This activity intends to improve access to relevant trade intelligence.</p>	Ministry of Trade and LNDC BEDCO

IMPLEMENTATION MANAGEMENT FRAMEWORK

The successful implementation of the National Export Trade is based on the ability of all public and private stakeholders to coordinate their activities, monitor progress and mobilise resources. This strategy is the first step to give the strategic orientation of Lesotho's trade development. The implementation of priorities and the maintaining of public-private dialogue are crucial to gain momentum from the design process to the implementation of activities to have a positive impact and tangible results from the Strategy. It is important to create the right environment and framework to enable its successful implementation.

FUNDAMENTAL CONDITIONS FOR THE EFFECTIVE IMPLEMENTATION OF THE STRATEGY

High-level endorsement

Endorsement at the Government level is the first most important step towards the implementation of the Strategy. Only by making this document official will it be possible to mobilize the national and international support required to enable export development effectively, to request national budget funding and to engage relevant implementation institutions with the activities assigned to them in the Plan of Action.

Establishment and operationalization of a public-private coordinating platform

Trade development passes through all national stakeholders including Ministries, government agencies, sector associations and other private sector associations. For their better coordination and successful strategy implementation, it is recommended that the country establishes a platform for public-private dialogue that acts as an advisory capacity to the Government and the private sector over issues related to or affecting roadmap implementation.

This governance mechanism will enable the private sector and government representatives to identify priority issues, help coordinate and monitor the implementation of the strategy by the relevant agencies and institutions and maximizes utilisation of limited resources, monitoring, coordination, resource mobilization, and policy advocacy and communication functions.

This Council can be strengthened and enlarged for example by creating a secretariat to complete the daily operational work related to implementation management of trade and export strategies. The core responsibilities of the secretariat should be to:

- Support and organize the regular meetings of the public-private platform
- Monitor the progress and impact of strategy implementation
- Coordinate strategy implementation partners
- Mobilize resources to implement the strategy.

Effective monitoring mechanism

Efficient coordination and monitoring require precise information gathering of all the activities related to the strategy implementation. Tracking of strategy implementation entails data collection of implementation progress from government agencies and private sector institutions, as well as development partners. The collection of gender-disaggregated data across the strategy implementation is critical to monitor women entrepreneurs' access to and benefit from programmes and incentives. The mechanism of strategy tracking needs to be defined by the private-public platform and agree upon the endorsement of the strategy. The secretariat, mentioned above, has a particular role to play in gathering information about activities and working in close collaboration with government agencies and private sectors associations. It also has a task to prepare yearly progress report and circulate it among the relevant stakeholders, and present success stories of strategy implementation to the public through the media.

PLANNED GOVERNANCE FRAMEWORK IN LESOTHO

Role of the private sector in strategy implementation

The private sector should benefit from strategy implementation through improved productive capacities, reduced costs of doing business, facilitated administrative procedures, enhanced access to finance, etc. It is important to include organisations representative of women entrepreneurs and producers. The private sector clearly expressed during the strategy design process its willingness to contribute, directly or in partnership with public institutions, to the implementation of the strategy. Their implementation efforts can range from providing business intelligence to institutions and contributing to the development of projects to establishing processing and transformation units, advocacy, etc. In brief, the private sector's practical knowledge of business operations is essential to ensuring that the activities of the strategy are implemented and targeted effectively. Currently, there are several strong private sector associations. It is suggested to align their budgets to the strategy which will represent a more cohesive national direction in the strategy implementation.

Sensitization of implementing institutions to build ownership

The key implementing institutions during the design process took an active role in the development of the Plan of Action. After the endorsement of the strategy, the relevant institutions need to be informed of their implications for 2020–2025 programming. This sensitization is essential to programme activities in their Ministries and private sector associations. Such a programming approach will permit better resource allocation within the responsible agencies. This allocation can

be formalized by integrating the activities of the strategy into the programme planning of the institution. While the financial dimension is often required, the human resource element is no less important.

Financial resource mobilization for implementation

While resource mobilization is only part of the solution, it plays a crucial and indispensable role in supporting strategy implementation. An integrated resource mobilization plan should be elaborated as soon as the document is adopted. Resource mobilization involves planning the sequencing of communications with institutions, project design, project proposals/applications, and resource collection and management. This should facilitate, leverage and strengthen the impact of diverse sources of finance to support sustainable and inclusive implementation, including national resources and private investment.

National resources through a direct budget and support programmes: the Government will need to validate defined minimum budget support towards the implementation of the different components of the strategy. Subvention already allocated can be redirected to accompany the strategy or its specific component. This support for the strategy's activities will demonstrate the Government's commitment to the initiatives.

National and foreign private sector investment: the strategy should benefit from a solid channel of communication, capable of conveying reliable information to companies about export-related opportunities, and in turn, of communicating to the Government the needs that investors have identified as necessary to operate successfully. Investment flow in Lesotho could serve as a valuable driver for certain specific areas identified in the strategy and requiring support. Even so, it must be targeted at specific prospects in order to benefit the industry's development as detailed in the way forward section of the present strategy.

Key takeaways:

- The successful implementation of the National Export Strategy hinges on the ability of all public and private stakeholders to coordinate activities, monitor progress and mobilize resources.
- Government endorsement, a public-private coordinating platform for the strategy and effective monitoring mechanism are fundamental for fruitful implementation. This platform has to be inclusive of different interests, including women entrepreneurs and producers.
- Private sector's business knowledge is essential to ensure that activities are implemented and targeted effectively.
- Sensitization of implementing institutions will build ownership and produce better resource allocation, notably through integrating the activities into their programme planning.
- Financial resource (both national and private investment) mobilization plays an indispensable role in supporting strategy implementation.

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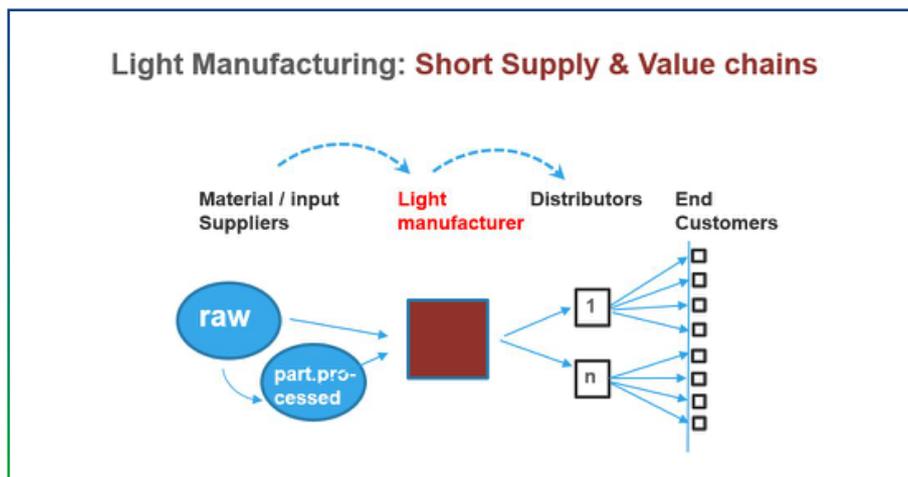
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Appendix 1.

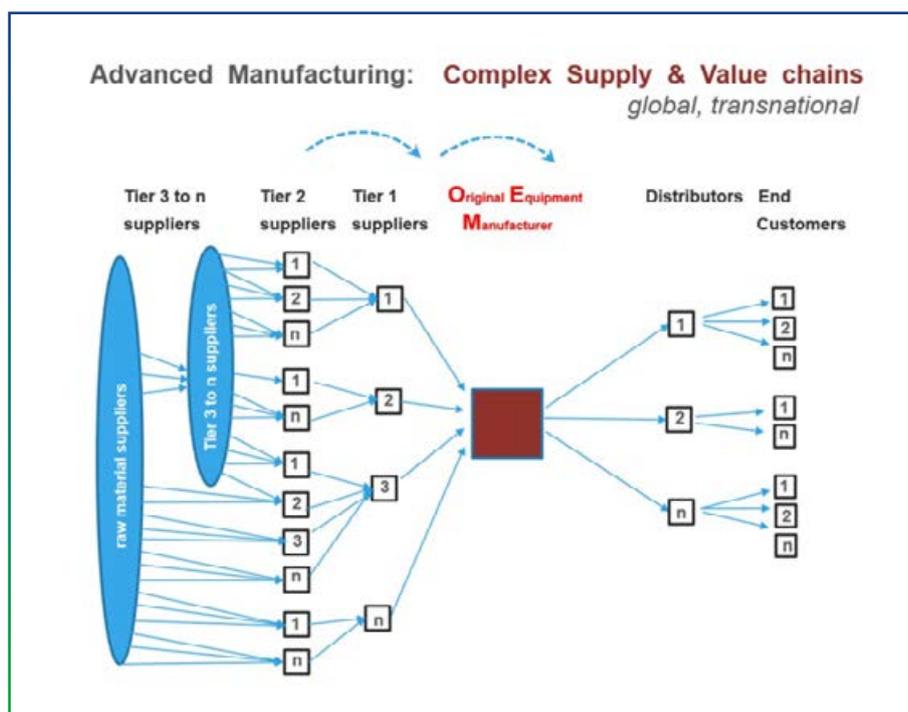
A) Comparison of industry supply and value chains

Figure 1: Supply and value chains in Light manufacturing (LM)



Supply and value chains in light industry are considerably shorter and less sophisticated than in advanced manufacturing. For infant industry development they constitute a realistic stepping stone and can be used as modular building blocks on the road to building up industry clusters, extending gradually local value chains and integrating complex global value chains.

Figure 2: Supply and value chains in Advanced manufacturing (AM)



B) Moving up in the value chain: e.g. Agri – and food business

Figure 3: Agriculture and food value chain, source: KPMG International 2013

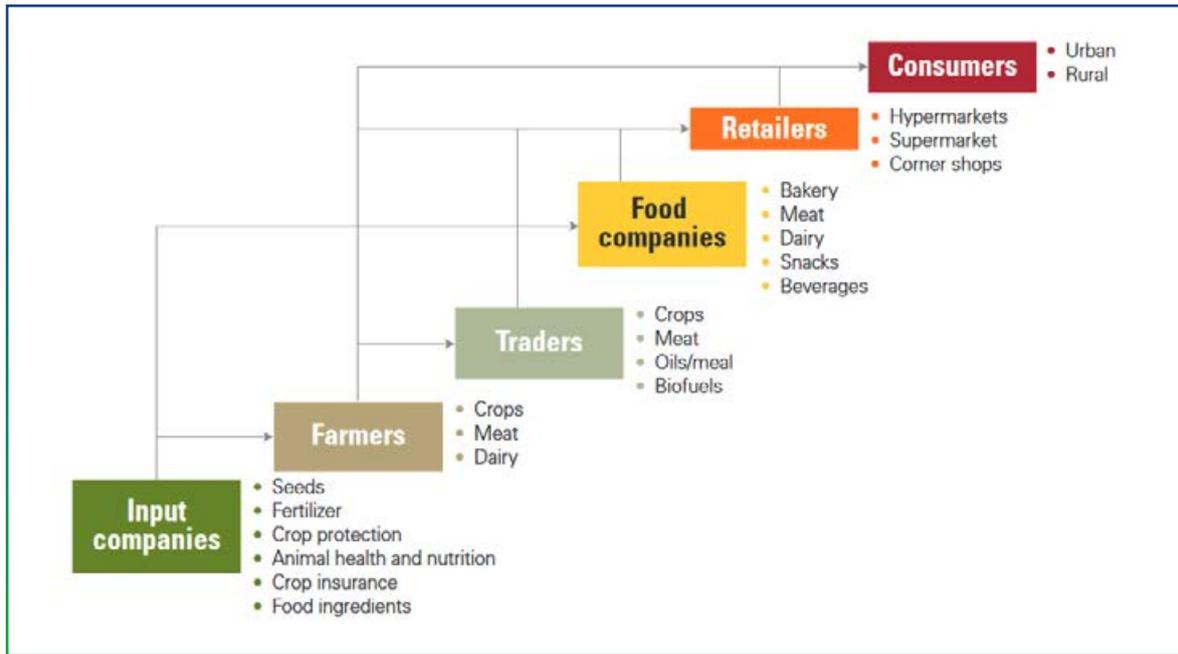


Table 1: Key profitability metrics for the agribusiness value chain (global level, 2013)

Sector	Input	Farmers	Traders	Food companies	Retailers
Sales: US\$bn (approx.)	400	3,000	1,000	3,500	5,400
Number of players	100s	450 million	Tens	Thousands	Millions
EBIT %	15%	Variable	2–5%	10–20%	5%
R&D % sales	<1% (fertilizers) – 10% (seeds)	0%	<1%	1–2%	<1%
R&D spend: US\$bn	10	–	Low	8	Low
Composition/ Sub-sectors	<ul style="list-style-type: none"> • Seed • Fertilizer • Crop protection • Machinery • Animal health and nutrition • Crop insurance • Food ingredients 	<ul style="list-style-type: none"> • Grains • Fruit and vegetables • Meat • Dairy 	<ul style="list-style-type: none"> • Handling • Primary processing • Secondary processing 	<ul style="list-style-type: none"> • Bakery • Meat • Dairy • Snacks • Ready meals • Beverages 	<ul style="list-style-type: none"> • Multiples • Discounters • Wholesalers • Independents
Range	R&D-based majors to generic manufacturers	Smallholders to agrohholdings	Global agribusinesses to local middlemen	SMEs to multinationals	Corner shops to hypermarkets

source: KPMG International 2013

Appendix 2.

A) Existing lengthy transport link from Maseru to Durban port

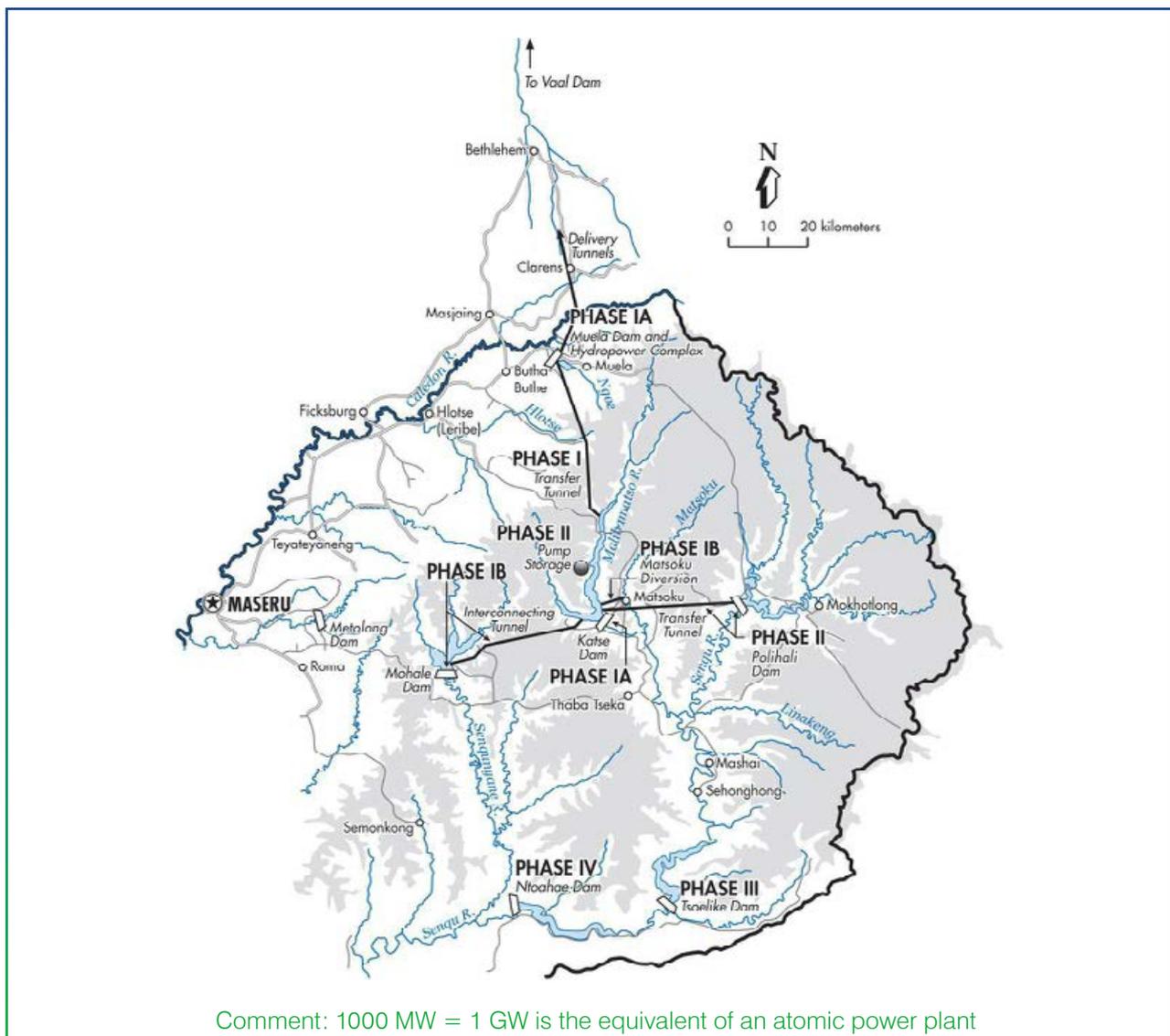


B) Proposal: new shortened, efficient transport link from Qachas Nek to Durban port



Appendix 4. Lesotho's high untapped potential in renewable energies

A) Hydro-electricity



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