

## **LNDC and the Long Walk to Industrial Development**

Lesotho is doing everything in its power to counteract the ripple effects of the removal of quotas on US garment imports from countries such as China, India and Pakistan which have opened up fierce competition for US imports originating from Lesotho and other countries.

In addition, the strengthening of the Rand against the Dollar persists to render exports from Lesotho into the US market more expensive. This has presented daunting challenges for the Lesotho National Development Corporation (LNDC), a Government agency charged with promoting investment into the country.

### ***Brief Historical Background***

From very modest beginnings immediately after Lesotho's independence, LNDC has gone through a number of strategic re-orientations and phases in its relentless quest to best carry out its assigned mandate to "initiate, promote and facilitate the development of manufacturing and processing industries, mining and commerce in a manner calculated to raise the level of income and employment in Lesotho".

The first Managing Director of LNDC, Mr. Wynand van Graan, was not discouraged when he found his office accommodation to be a bedroom of an old house used during the colonial days by the British District Commissioner. He carried on relentlessly, undeterred by the lack of funds and staff; he was a messenger and Managing Director rolled into one. His efforts were rewarded and the Corporation grew from strength to strength.

After he left there were three expatriates who managed LNDC until 1977 when the first Mosotho Managing Director of LNDC, Mr. Sam Montši, was appointed. He was succeeded by four male local Managing Directors until 1997 when the first woman

Chief Executive of the Corporation, Mrs. Sophia Mohapi, took over the reins. The current Chief Executive, Mr. Peete Molapo started his tenure of office in 2004.

### ***Overview of Events***

#### ***1967 - 1979***

At the inception of LNDC in 1967, the modern manufacturing sector was almost non-existent. Its investment portfolio comprised a couple of printing presses; small companies producing handicrafts, light fittings and candles as well as basic commercial services such as garages and a tyre-retreading facility including the hotel industry. These represented a total employment of less than 200 jobs. After 12 years of its establishment, the Corporation held interest in 15 subsidiaries and 14 associate companies with a total of 3,000 jobs.

Under the leadership of its first local Managing Director, the Board of Directors of LNDC adopted an Investment Promotion Programme designed to create more jobs through promotional activities to attract a wider spectrum of investment into the country. The Irish Government through its Industrial Development Authority (IDA) seconded four of its executives to support the LNDC management. This was part of a Development Cooperation Programme for developing countries in terms of an agreement between LNDC and IDA. Four senior Basotho officers were assigned to work very closely with the Irish experts in the various sections of the Corporation.

#### ***1980 – 1985***

During this period, LNDC underwent dramatic changes. It started to divest itself from the small handicraft industries and the hotel trade. The LNDC direct investment expenditure in new manufacturing and strategic commercial projects increased phenomenally from M8.6 million in 1979/80 to M35.3 million in 1985/86. Equally the number of jobs created by the LNDC assisted companies increased by over 100% from 3,000 to 6,600.

#### ***1986 - 1992***

At this point, the structure of the Corporation's ownership changed when DEG, a German Investment Finance Company for Developing Countries, acquired a 10% shareholding through the subscription of DM1 million shares. Ninety (90) percent of the shares remained with the Government of Lesotho.

Achievements during this period as measured through jobs created, growth in exports and in the establishment of new industries, by far exceeded all those realised since the inception of LNDC. As an illustration, in comparison to 14 new manufacturing companies created over the five-year period 1981 – 1985, LNDC successfully set up over thirty-seven enterprises over the seven-year period from 1986 – 1993 with a total capital call of more than M114 million. Jobs increased to 11,000 and expressed in wages, this growth represented no less than M30 million per annum going into Basotho households as a result of the newly established firms.

Investors from the Far East, Taiwan in particular, established several garment factories for export purposes. This led to an increase in garment exports to the United States from US\$16.3 million in 1989 to US\$55 million in 1993. South African companies based in Lesotho largely manufactured for export back into the South African market.

One of the pioneer Taiwanese companies to establish at the Thetsane Industrial Estate was Basotho Jeans which is now known as the CGM Group. The company's factory buildings currently occupy a whole street and part of the opposite side of the same street at Thetsane. It has recorded a phenomenal growth since its inception in 1987, producing jeans. Its contribution, together with another jeans manufacturer, the Nien Group, earned Maseru the name "Jeans Capital of Southern Africa".

In 1991, the infrastructure for a 29 hectare industrial park, Ha Nyenye, 80 km north of Maseru was completed at a cost of M7.4 million and toward the end of 1992, construction started on a 10 hectare extension of serviced land at the Maseru West Industrial Estate. Other industrial estates are located in Maputsoe, Mafeteng and Mohale's Hoek.

In the same year the Government of Lesotho made a strategic move by establishing the Investment Promotion Centre (IPC) as a Division of LNDC. It was set up in conjunction with the World Bank under the Industrial and Agro-Industries Development Project. This new division was aimed at accelerating the already existing attraction of foreign direct investment and contributing towards rapid economic growth through targeted and aggressive marketing in the increasingly competitive global market. At that time, South Africa was still under sanctions and while this presented a distorted situation, Lesotho benefited for as long as it lasted before the sanctions were lifted. It was envisioned that at the end of the project's five-year life under the support of the World Bank, it would have generated employment opportunities for 3,500 Basotho. The actual number of jobs approved as a result of IPC's efforts at the end of the project was 8,100. Since then the division has been fully supported through LNDC's internal resources.

### ***1992 – 1998***

This was a very turbulent time in the history of the Corporation. It was during this time that LNDC was riding the crest of a wave of industrial boom when the political riots occurred that nearly wiped out all the achievements acquired after so many years.

The LNDC was conducting its investment promotion at the highest level ever achieved. Interest in Lesotho as a profitable investment location was fuelled by an enhanced incentive regime, among others, which resulted in a deluge of inquiries and site visits from investors responding to one-to-one presentations by LNDC promotional staff. The LNDC message highlighted permanent long-term benefits to the investor and Lesotho's comparative advantage in the areas of labour, taxation and market access including other incentives.

The performance of the Lesotho IPC was recorded in a study by Coopers and Lybrand and published in **Corporate Location**, a Euromoney publication, as number three (3) in Sub-Saharan Africa and among the top twenty in the whole world. This was corroborated by the World Bank.

However, these achievements were blighted by events in 1992 when the first riot erupted in the capital, Maseru, targeting businesses and some foreigners. In 1993 the first democratic elections in Lesotho took place and investors were a bit jittery, not knowing what to expect (it turned out they had nothing to fear). In 1994 there was an altercation between the soldiers which was peppered later in the year by political unrest and compounded by a “wait and see” attitude from investors while warily eyeing developments in the Republic of South Africa (RSA) which was also holding its first democratic elections – Lesotho being a country completely landlocked by RSA. Lastly, the 1998 Black September political unrest caused unprecedented damage through torching of buildings and reducing them to ashes.

Unfazed by these developments, LNDC went into the damage control mode and worked relentlessly to assure investors, both existing and potential, that Lesotho was still a destination of choice for investment. The Government of Lesotho went ahead and reconstructed some of the affected buildings; notably one of Maseru’s landmarks, the distinguished Basotho Hat, rose from the ashes more majestic than ever before.

The country’s good image was restored and investor confidence rose dramatically to the extent that apparel exports to the United States far exceeded limits; and, entry of Lesotho exports into this market was put under quotas. This was good and bad; bad in that it stunted growth of the industry and good in that it revealed that Lesotho was a force to be reckoned with.

### ***1998 - 2004***

This was the period when garment manufacturing in Lesotho got a major boost ever recorded in its history. Lesotho got an official certification by the United States Government for enhanced trade benefits under the African Growth and Opportunity Act (AGOA) in April, 2001. Lesotho qualified for certification by successfully meeting the prescribed pre-requisites which included good economic and political governance, respect of human rights, lowering trade barriers, among others. AGOA offered duty and quota free access to the huge U.S. market.

Lesotho was the first of the BLNS countries (Botswana, Lesotho, Namibia and Swaziland) the second in the Southern African Customs Union (SACU) and the fifth of the 34 Sub-Saharan countries to qualify for AGOA benefits.

Thanks to AGOA, the door was unlocked. It generated numerous investment enquiries and spearheaded more expansions from existing investors resulting in a surge of exports from Lesotho to the U.S. market by 30%. According to the U.S. – Africa Trade Report of May 2001, Lesotho moved into first place as the largest African supplier of apparel to the U.S. During the first quarter of 2001, it exported 3.9 million m<sup>2</sup> in apparel each month while one of the countries which was among the first to qualify for AGOA had only exported for the same quarter, a quantity below what Lesotho produced in one month.

Employment increased from 20,000 in the year 2000 to over 50,000 in 2004 while exports grew from US\$140 million to US\$456 million in 2004.

### ***2004 Todate***

By now the Corporation has matured and one could say, has seen it all. While the steady strengthening of the Rand against the Dollar and the removal of quotas on US garment imports from countries such as China, India and Pakistan with effect from 31<sup>st</sup> December, 2004 (expiry of the Multi Fibre Agreement – MFA), have shaken the foundations of Lesotho's manufacturing industry, all is not gloom and doom.

It is true that the New Year started on a sad note for some garment workers who lost their jobs due to closure of three (3) companies in 2004 and one (1) at the beginning of the year resulting in reduction of employment by 4,570. Since the beginning of 2005, other companies have suffered job losses while avoiding to pack up and go, but preferring to remain in business and cut costs through retrenchments or to put employees on short time. This demonstrates a commitment not to cut loose and run but rather to work together with all stakeholders to explore other avenues to stay afloat.

Sacrifices are being made on all sides to try and preserve the remaining jobs in industry. For example, some companies requested rental deductions and LNDC has responded by freezing rentals on industrial buildings for a second consecutive year even though the LNDC Amendment Act of 2000 clearly states that the Corporation shall base itself on commercially oriented principles in carrying out its purpose.

Even those employees who remain in their jobs agreed, through their Labour Unions, to forgo annual wage increments last year to keep the industry alive. This is the kind of maturity which encourages all stakeholders to pull themselves up by their bootstraps to meet each other half way.

As earlier mentioned, all is not lost. Investors are taking full advantage of a co-financing training scheme which is administered by the LNDC/ComMark Apparel Project to train their factory workers in productivity improvement, industrial engineering and human resource management. As a result of this training, some factories have reported an increase in productivity of up to 25%. More companies have submitted applications to be considered under the scheme.

Some companies have introduced company wellness programmes and HIV/AIDS interventions at the workplace; it is hoped that others will soon follow suit. In those companies, absenteeism has been reduced and productivity has increased through the provision of nutritional support at reduced prices, easy access to medical services and HIV/AIDS education for both the local and foreign workers in the factories. Last year, LNDC participated in a “Live and Let Live” Aids awareness campaign by sponsoring a prize of M5,000.00 which was won by a factory worker in a T-shirt manufacturing company at the Thetsane Industrial Estate.

Environmental issues have also been taken on board. The denim jean manufacturers, including the denim fabric mill, at the Thetsane Industrial Estate have installed effluent treatment and water recycling plants. One other water recycling plant is under construction.

Not to be outdone, the Water and Sewerage Authority and the Lesotho Electricity Corporation, together with LNDC, have also rallied around and formed a Utilities

Forum to address the needs of industrialists. The industrial sector constitutes a very large part of their clientele and it is important to give them a dedicated service and attend to queries timeously to ensure that operations run smoothly at all times. Meetings between all stakeholders have started and this is expected to enhance communication on all sides.

With all these measures in place, the onus is on LNDC to address diversification of products and markets to obviate over reliance on a single product (apparel) and a single market (the U.S.). Plans are afoot to fully integrate the garment industry and one denim fabric mill is already up and running while more need to be aggressively pursued. The current arrangement under AGOA of sourcing fabric from anywhere in the world will be phased out in September, 2007 and it is crucial to establish additional fabric mills for this eventuality.

In order to accelerate its investment promotion efforts, LNDC has engaged consultants in the United States to market Lesotho in that country. This association has already generated some business; a U.S. retailer requiring polo shirts and shirts has been put in touch with the Lesotho apparel manufacturers. On request, a shoe company has sent prototypes of shoes to buyers in the U.S. who will make a decision to place an order if they are satisfied with the samples.

In its quest for development of industry, LNDC has not forgotten the local business community. To this end it has a dedicated division, the Entrepreneurial Development to support local entrepreneurs. The division continues to market itself to local associations and cooperatives and is a representative in various forums organised by the private sector. It also lobbies international organisations to support Lesotho's own local investors. In the short existence of the division, it has already successfully registered funding for a locally-owned concrete block-making business.

The division facilitated the launch of a Southern African International Business Linkages (SAIBL) programme in Lesotho. The programme provides linkages between Small Medium Enterprises (SME's) and international firms. More than 40 entrepreneurs attended the launch and nine (9) of those that attended registered with SAIBL. Local companies that have benefited in various ways through this

intervention are in the areas of computers, sandstone mining, gems, mohair products, screen printing, building materials and paving bricks.

Currently, LNDC is working on its medium-term strategic plan to articulate strategies and actions it intends to undertake in response to the challenges faced by Lesotho's industrial sector, in particular, the manufacturing and commercial sub-sectors.

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