News

LESOTHO NATIONAL DEVELOPMENT CORPORATION

We Build Industry

Lesotho National Development Corporation

July–September, 2006

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Delegates at the LNDC/Private Sector Workshop

LNDC Headquarters

We build industry

Growing a Vibrant and Sustainable Private Sector

Building a Vibrant and Sustainable Private Sector through Dialogue and Partnership was the theme of a workshop convened by LNDC on the 2nd August, 2006 at Lesotho Sun, Maseru.

The workshop served as a forum through which the private sector and LNDC engaged in a dialogue and made inputs on LNDC strategies for supporting private sector development in Lesotho including improved service delivery in general.

In his introductory remarks, the Chairman of the Board of Directors of LNDC, Mr. Mohlomi Rantekoa gave a broad overview on the private sector in Lesotho; its role and contribution to the economy, limitations and potential for growth. "The country has to be transformed from a distributive economy to a productive economy", he said. "Basotho should get involved in productive and export-oriented industries like clothing and footwear and engage in joint-ventures with foreign investors to facilitate skills and technological transfer", he continued.

The Chief Executive of LNDC, Mr. Peete Molapo made a presentation on the historical background of LNDC, its past performance, challenges, new vision and strategic responses to the new vision.

"It is obvious that judging by the number and complexity of the different threats and opportunities that LNDC is facing, it would be inconceivable to expect it to achieve everything without support from others", Mr. Molapo said. He identified the major stakeholders as:

Government
Enterprises
Trade Unions
Business Associations
Donor Agencies
Banks
Media
Non-Governmental Organisations

The LNDC strategy to develop the indigenous private sector :

- **Re-orientation of its strategic plan and organisation structure to strengthen capacity for local business support;**
- **Linking local business with the garment industry and regional markets;**
- **Development of a special purpose instrument in the form of an Enterprise Development Facility to facilitate funding for Basotho projects.**

"Before taking its agenda forward, LNDC decided to consult with the private sector and all the other stakeholders for a critique and useful inputs," Mr. Molapo said. He appealed for support from the stakeholders to join LNDC in building a vibrant and sustainable private sector.

Delegates brainstorming during a break-away session

In their breakaway groups the participants deliberated on the following topics:

- **Strengths, Weaknesses and Remedies for Private Sector Development in Lesotho;**
- **Linking the Private Sector with the Local Garment Manufacturing Industry and Regional Markets—Establishing the Value Chain;**
- **Access to Finance, Constraints and Solutions;**
- **The enabling of Private Sector Development: Role of Government, Labour, NGOs, Donors and the Private Sector.**

Summarising and outlining the way forward, Advocate T. Makeka, Executive Director Association of Lesotho Employers and Business, who chaired the plenary asserted that LNDC had extended its hand to the private sector to cooperate in improving the wealth of the country and creating more jobs. Mr. P. Mangoaela, NEPAD Business Group gave a vote of thanks at the end of the workshop.

LNDC / ComMark Lesotho Apparel Project

Launched in June 2004, the LNDC/ComMark Apparel Training Co-financing Scheme has allocated a three-year budget of M7.5 million for training of factory workers.

The scheme provides incentives to textile and clothing companies to train their employees in a range of techniques. These techniques are aimed at increasing productivity and profitability to enable the companies to maintain their competitive edge in the global marketplace.

In order to qualify for co-financing of training fees, a company must be registered with ComMark and use the training providers registered and approved by ComMark.

In this regard, 37 companies have registered with ComMark representing 85% of the garment industry. The main areas of training in the 37 companies are productivity improvement, human resource development, health and safety as well as quality control.

During the training and immediately afterwards, these companies were reporting significant improvement in their levels of

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The key for the success of these training programmes depends on the company's ability to:

- ⇒ *Conduct a training needs analysis*
- ⇒ *Understand clearly, what outcomes it expects from any training programme;*
- ⇒ *Identify a training programme which matches the company's needs;*
- ⇒ *Contract with a competent training service provider who must clearly understand the expected outcomes by the company;*
- ⇒ *Select the right employees to be trained;*
- ⇒ *Show total commitment to the training and implementation thereof by senior management.*

Employees of Shinning Century Limited after receiving their training certificates

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productivity up to 25%. Other benefits included a more consistent daily output, achievement of the production target and reduction in repair rates.

The training also gave the supervisors and line managers confidence in their ability to perform their roles. This confidence improved decision-making skills as well as working relationships between both the local operators and expatriate staff.

Human Resource Development programmes have been conducted in seven (7) companies. In this regard the Employment Relations Improvement, Leadership and Supervisory Skills Development aspects of these training interventions were successful. All participating companies reported a significant improvement in communication between all levels of local employees and the expatriate staff.

One company used this as an opportunity to replace expatriate staff with local employees once they could prove that they were capable of doing the job. Most companies had a positive attitude towards the promotion of Basotho employees and subsequent replacement of expatriates.

The lack of technical training has, however, been identified as a barrier to effect complete replacement of expatriate staff. Companies need to carry out a comprehensive training needs analysis so that any training should form part of a co-ordinated plan rather than the ad hoc basis that currently prevails.

Extending training interventions to all levels of management and employees will go a long way towards building the image of the industry and rendering it as an employer of choice by Basotho with a higher level of education.

Overall the LNDC/ComMark Apparel Training Co-financing Scheme has yielded positive results for the industry. The Scheme has also encouraged companies to identify areas of

training. These companies have gained support through the implementation of various training interventions.

So far, 1,710 employees have been directly trained. The total amount approved for their training is over M2.6 million and of this amount, M1.7 million has been disbursed.

Everunison – Training for Localisation

Employees of Everunison being trained on computers under the supervision of Mr. Vijay Bhagwan, Senior Consultant of Methods Workshop

Through the LNDC/ ComMark Apparel Project, Everunison, a clothing manufacturing company has embarked on training programs which will improve the skills of its Basotho employees and teach them to handle problems at all levels.

Heman Boodia, the Factory Manager at Everunison says, "Both production and administration skills need to be improved to ensure a future in Lesotho for the company and its employees".

"Since we are living in the information era all communication with suppliers, buyers and other network partners is taking place via computers and the internet. To shorten lead times e-commerce plays a major role", he continued.

He points out that the Asian countries, China, Cambodia, and Vietnam, among others; have a huge advantage over Lesotho. Due to their closeness to raw material supplies and proximity to the USA, delivery of their finished goods is quicker.

"To remain competitive, Lesotho needs to turn towards e-commerce and this is why we are training our staff in advance to meet these challenges", Boodia says. Everunison is the first clothing factory in Lesotho to have embarked on training programs to improve this level of communication including basic training in computers.

The company started training 26 of its employees on computers. Training takes place over the weekends and includes a mixture of office and factory floor staff.

Although production in the factory is high, the company needs to concentrate on other key areas to improve its overall productivity.

In this instance Boodia says, "We identified QUALITY as a major area that required our immediate attention. Workers are spending far too much time fixing mistakes! From an analysis of our current quality information, we found out that our repair rate is 40% and this is due to careless workmanship. In this competitive market, quality is NOT NEGOTIABLE!! If we can't deliver high quality products we will not get orders".

A 40% repair percentage means that the company is losing a huge amount of productivity because the workers are correcting mistakes instead of producing additional garments. It has been established that it takes 5 times longer to carry out repair work than to "DO IT RIGHT THE FIRST TIME".

At current operator salaries, the cost of repair work runs into millions of Maloti per annum. This results in higher manufacturing costs, late deliveries and loss of potential sales due to the higher price placed on goods because of the inefficiencies. "The world market is becoming more competitive and we will be in a very difficult position if we cannot improve", says Boodia.

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In this regard, Everunison has contracted the services of Methods Workshop, a South African based consulting company which concentrates only on the Garment Industry. Methods Workshop has been in existence for 25 years and is involved in many productivity improvement projects throughout the world. It has undertaken projects in 14 countries. Its senior consultant, Vijay Bhagwan, has been assigned to the Everunison project and is fully committed to improve the quality status of the company.

Methods Workshop has projects running in South Africa, Sri Lanka and in India. The garment industry is expanding at a very fast rate in the Asian countries.

It is estimated that there are approximately 3 million people producing garments in India, and in 2006 they will export US$7 billion with expansion plans to increase this figure to US$25 billion by 2010. Methods Workshop is a leading garment consultancy company in India and it is involved in the training of 5000 students for the industry every year.

It is important to note that Lesotho is competing in the same market as India, so it must do its utmost to ensure that Basotho are trained to compete, otherwise the industry will loose its advantages and struggle to survive.

Mr. Boodia, continues, "In order to improve our competitiveness we, at Everunison are adopting the following approach:

- *Education of all workers directly involved in production about the effects of poor quality.*
- *Making sure that all levels focus on their responsibilities and understand their role in the necessary improvements.*
- *Developing a Quality Management System which will effectively pinpoint the areas from which problems arise and training people to solve these problems.*
- *Improving communication channels between Management and workers so that all related problems are speedily addressed.*
- *Making sure that all the workforce understand that their contribution to this improvement is vital if the company is to remain competitive.*

Essentially we expect to reduce the overall repair rates to a level of 10% in the next 4 months".

A sewing line in the factory has been identified as a pilot section. Training the workforce in the new disciplines is in progress. A project leader has been identified and assigned to the consultant in order to learn everything as the systems are being implemented. This person will be responsible for maintaining the systems when the consultants have completed the installation.

The new Quality Management System will include bar-coding and scanning procedures to capture data into a central database, this data will be analysed to establish areas for improvement.

In conclusion, Boodia says, "Quality management information will be published daily so that all of our operators can see the improvements that are being made, and feel part of this wonderful program. We are the first company in Lesotho to use these techniques and we have adopted the following slogan:

DO THE RIGHT THING

AT THE

RIGHT TIME

AT THE

RIGHT COST!!!"

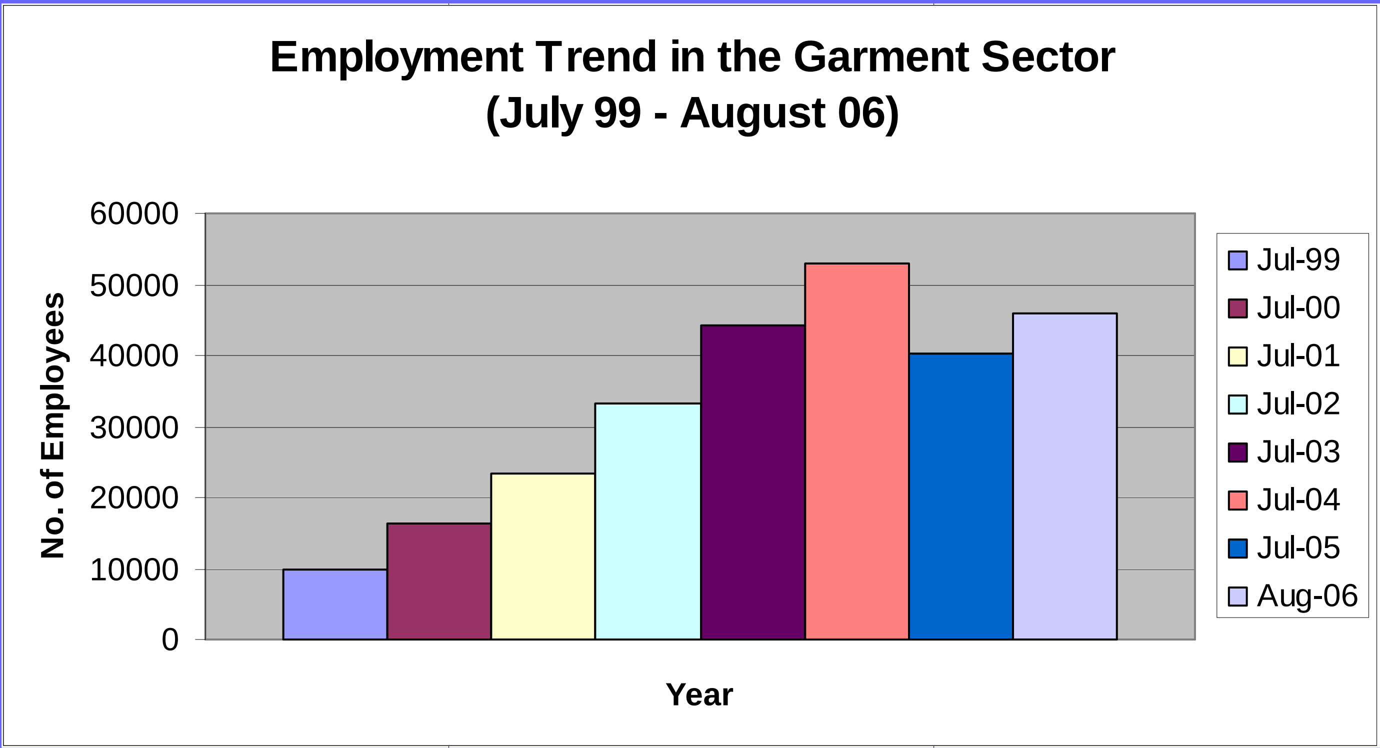
Everunison is a Taiwanese company which was established in 2003 at Ha Nyenye in the Leribe district. It manufactures t-shirts and knitted pants for the United States market. Employment at the factory is 2,000. Its sister company, San Ti Kon Textiles, employs 800 workers and also manufactures t-shirts for the United States market. San Ti Kon is located at the Thetsane Industrial Estate.

Garment Industry Profile

Lesotho's textile and garment sector continues to be the major driving force behind the growth of the general manufacturing industry as well as being the largest employer in the country.

Employment

In early 2006 the Lesotho Government employed 37,580 civil servants while the number of migrant workers employed in RSA mines stood at 50,149 (down from 61, 525 in 2004).



Even though employment in the garment sector dipped significantly in 2005 (40,364) to below its mid-2004 peak (53,087), there was an upward surge in August, 2006 to 45,889. Indications are that by January, 2007 the sector could employ well over 50,000 Basotho. A number of existing firms are currently in the process of scaling up their production while new companies have been allocated buildings and will soon install machinery, recruit and train workers and start production.

Production

It is estimated that Lesotho's 42 garment companies currently manufacture 26 million pairs of jeans and 90 million knitted garments a year.

Supporting the sector are a screen printer and two embroidery companies. Some garment firms have in-house capacities for embroidery, screen printing and heat transfer processes.

The denim mill uses African cotton to make 6,300 tons of denim fabric a year and 10,800 tons of cotton (and cotton blend) yarns which is suitable for knit fabrics.

LNDC, in partnership with a Malaysian company, TLWAY TEXCO, has registered a company, CottonCorp Lesotho to produce cotton in the country. The pilot project was successfully launched in Maseru in 2005 and has now entered its second phase where the cotton will be planted in different districts of Lesotho to test suitability of cotton planting in those parts.

Cotton Pilot Project in Maseru, Lesotho

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Spin-Offs

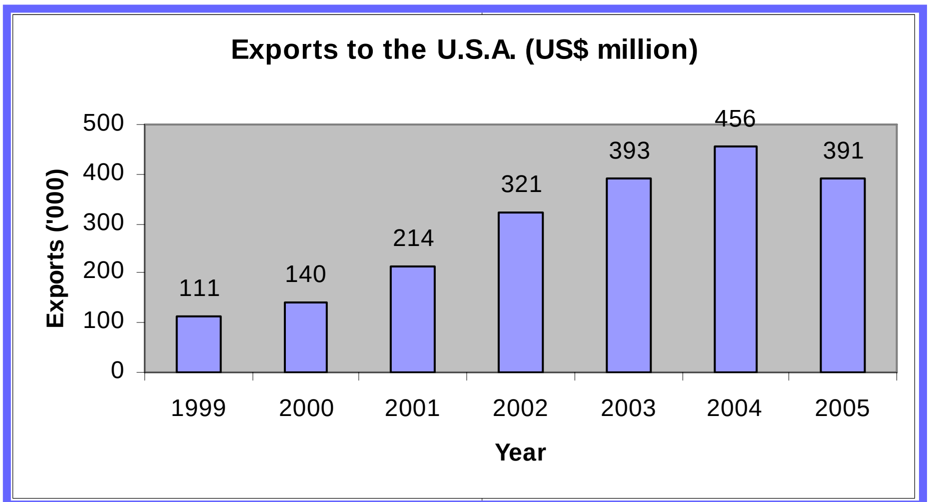
Spin-off benefits from the sector include packaging; road freight transport; courier services; clearing and forwarding agents; security; passenger transport; traders that sell food to the workers; residential accommodation; utilities—water, electricity and telecommunications to mention a few.

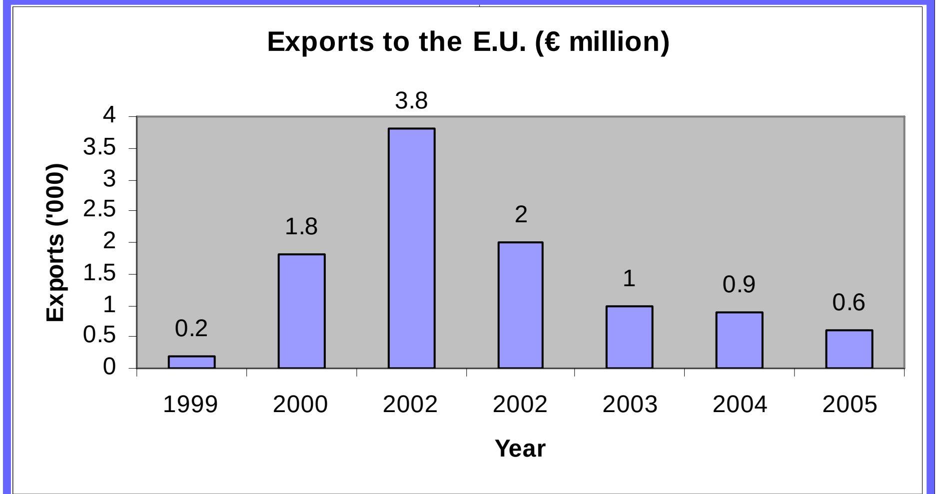
Wages and Working Conditions

It is estimated that employees in Lesotho's garment sector earn over M400 million a year. With effect from the 1st October, 2006 skilled workers will earn a monthly minimum wage of M710 while unskilled workers will earn M660.

Lesotho's labour laws enshrine all aspects of the ILO's core conventions (no child/forced labour, non-discrimination, freedom of association etc), regulate maximum working hours (45 normal hours and 11 overtime hours overtime per week) as well as minimum leave of 12 days per annum.

While the application of Lesotho's labour laws is regulated by the Ministry of Employment and Labour, many of the Brands that source garments from Lesotho also monitor conditions in the factories. The GAP and Levis Strauss (in particular) and also Walmart, Jones Apparel Sears etc. regularly visit Lesotho factories to monitor the situation. LNDC also has an Industrial Relations Office which assists the investors to follow the requirements of the country's Labour Code.





Exports

Despite set-backs such as the expiry of the Multi-Fibre Agreement (MFA) at the end of 2004 and the stronger Rand/Loti, Lesotho remains the largest Sub-Saharan exporter of garments to the USA. It is estimated that more than 93% of Lesotho's textile and garment exports go to the USA. During the period January—June 2006, Lesotho had already exported US$171.6 million worth of garments to the USA.

Canada is the next big market for Lesotho's garment exports. Small volumes also go to member states of the European Union (EU), Dubai, Qatar, Chile, Japan and Taiwan. Lesotho companies are also selling small (but growing amounts) to RSA retailers. The denim fabric mill exports denim fabric and yarns to Botswana, Kenya, Madagascar, Mauritius and Jordan.

Brands

Lesotho supplies well known Brands such as the GAP (about 30% of Lesotho's garment exports), Reebok, Jones Apparel, Edun, Levis Strauss, Walmart, K-Mart, Sears, Gloria Vanderbilt, Ralph Lauren to mention a few. Recently there has also been interest from H&M, Nike and regional retailers such as

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Woolworths, Pep, Foschini and Mr. Price.

Challenges

The downturn of the industry since 2005 can be attributed to the strengthening of the Rand/Loti, expiry of the MFA, impending changes to AGOA rules of origin and further World Trade Organisation (WTO) industrial tariff liberalisation.

In early 2005, seven (7) knit garment factories closed their doors while many others retrenched some of their workforce or put workers on short-time.

Strong Rand/Loti

The Loti which is at par to the RSA currency (the Rand) has significantly strengthened in value since 2002. At the end of January 2002 US$1 would buy M11.44; in January 2003 it was M8.65; in January 2004 it was equivalent to M6.85 and in January 2005 it was M5.93. The strong currency rendered exports from Lesotho too expensive for buyers in the USA. Orders to Lesotho factories were drastically reduced as a result.

Expiry of the MFA

The end of the MFA exposed exports from Lesotho to fierce competition from countries such as China, India and Pakistan. Garment exports from these countries (especially in categories that Lesotho produced) flooded into the US market. Some Brands took advantage of these cheaper exports and stopped or radically reduced their orders to Lesotho. The US has now imposed safeguards on certain Chinese exports until 2008 and some orders have now returned to Lesotho. However, some Brands which previously sourced products from Lesotho have now developed alternative global procurement programmes that do not involve Lesotho.

AGOA Changes

In September, 2007 the third country fabric sourcing under AGOA will expire. This means that Lesotho garments manufactured from third country fabric will not qualify for duty-free access into the US market. It will be mandatory for Lesotho factories to use fabrics made in the US, other AGOA eligible countries or within its own borders. While Lesotho has a ready supply of denim fabric, it does not have domestic access to knit fabric (regionally there are insufficient volumes of price competitive and quality knit fabrics available). Lesotho needs to attract a knit fabric mill but this is conditional on suitable physical infrastructure which is currently not available in the country.

Export Incentives

The Southern African Customs Union (SACU)'s Duty Credit Certificate Scheme (DCCS) rewards exporters with tradable value based financial incentives. In the past two years, the DCCS has kept the garment industry in Lesotho afloat. The RSA has now stated that it intends to review the DCCS and replace it by April 2007. It is possible that such a replacement DCCS might not be suitable for Lesotho's needs.

Buyer Requirements

There is mounting pressure from some buyers for Lesotho factories to improve their capabilities to manufacture more complex designs. These buyers require Lesotho factories to be able to undertake more sophisticated wet and dry washing/finishing processes on denim/knit garments (to add value to basic garments). Lesotho factories are not able to respond to this challenge due to lack of partnerships with globally operative garment finishing companies. In addition, hazardous waste water cleaning facilities are required to support laundering and garment dyeing operations.

Expiry of US/China Safeguards

Lesotho faces stiff competition from China when the restrictions imposed by the US and EU on Chinese products end in 2008. This could result in loss of market share by Lesotho.

Preference Erosion

WTO's proposals to further reduce industrial tariffs on a world-wide basis will seriously undermine Lesotho's preferential market access.

Way Forward

The Government of Lesotho and a range of other stakeholders have worked relentlessly to improve circumstances for the garment and other sectors of the manufacturing industry.

Inter-Ministerial Task Team (IMTT)

IMTT comprising government, the private sector and organised labour was established in 2004 to work exclusively on industry issues. It meets every two weeks to monitor progress in implementation and to address new issues.

Improving Competitiveness

Lesotho firms in collaboration

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News

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with the LNDC/ComMark Lesotho Apparel Project have started to invest in training their staff. This has increased productivity in some companies by about 25% - 35%.

Investment Promotion

LNDC is aggressively undertaking promotion of higher value textile investment as well as export product and market diversification.

Tax Concessions

The Government of Lesotho has implemented tax cuts with effect from April, 2006. Corporate tax has been reduced from 15% to 0% for companies exporting outside SACU and to 10% for exports within SACU. This provides LNDC with a significant tool for investment attraction.

Currency Depreciation

The recent weakening of the Rand/Loti (US$1 = M7.52 in September, 2006) has provided a much needed respite resulting in restoring profitability to exporting companies.

Why Lesotho?

Stability

- A stable social and political environment which is investor friendly.
- A free enterprise and free market economic system which forms the basis for sustained development and growth.

Labour

- A young abundant predominantly English speaking, literate and well motivated labour force with a tradition of manual dexterity at competitive wage rates.

Market Access

- 50 million consumers in Southern African Customs Union (SACU).
- Preferential access to 170 million consumers in the Southern African Development Community (SADC) market.
- The Cotonou Agreement gives access to more than 400 million consumers in the European Union (EU) market.
- Duty and quota-free access to the United States market through the African Growth and Opportunity Act, (AGOA).
- Preferential access (quota and duty-free) to the lucrative Canadian market of all eligible goods manufactured in Lesotho.
- Highly concessionary Generalised System of Preferences (GSP) to: Japanese, Nordic and other developed markets.

Financial Incentives

- 0% corporate tax on profits earned by manufacturing companies exporting outside SACU. 10% corporate tax on profits earned on exports within SACU. Free repatriation of profits.
- No withholding tax on dividends distributed by manufacturing companies to local or foreign shareholders.
- Long-term loans and/or equity participation.
- Unimpeded access to foreign exchange.
- Export finance facility.
- Import VAT credit facility that provides for an input tax credit upon importation and local purchasing of raw materials and capital goods.
- Bank administered foreign currency accounts are permissible.
- Double taxation agreements with R.S.A., Mauritius, U. K. and Germany.
- Export processing zone status for exporters.

Industrial Infrastructure

- Serviced industrial sites and factory shells are available for rental at competitive rates.
- Special incentives for construction of investor-financed factory buildings.
- Easy access to Gauteng and the Durban harbour.
- Full government support on trade and investment issues.
- Backstopping services from the Lesotho National Development Corporation.