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tables
maps

Draft Programme for the Second IDDA

LESOTHO

56

Kevin Manyeli
Helen O'Neill
UNIDO/IDDA Consultants

December 1990

Backstop off. Mr. Kapepula
PPD/AREA/OD/ID

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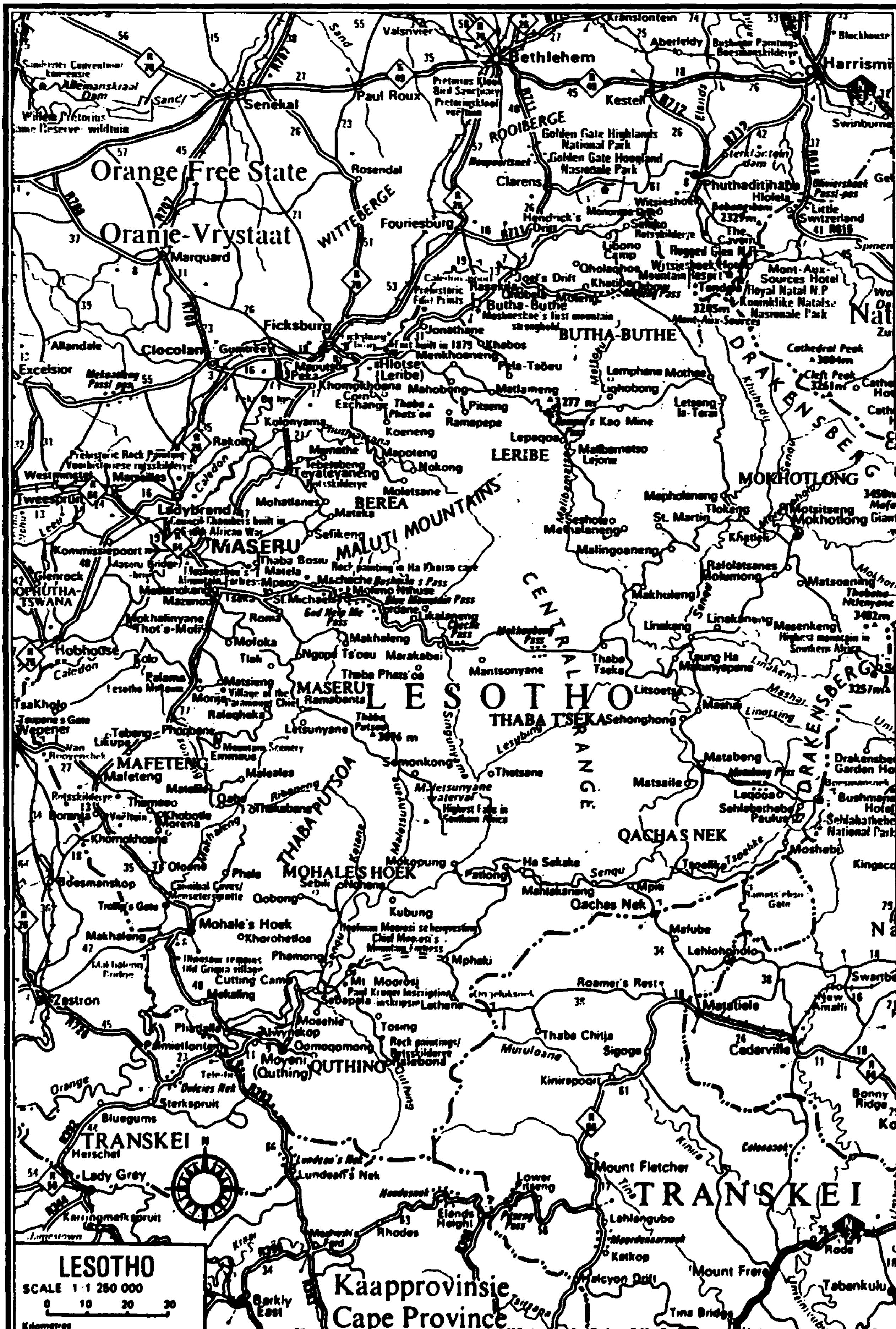
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Elands Heights
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Tina Bridge
Kinirapoort
Thabe Chitja
Sigoga
Roamer's Rest

BASIC ECONOMIC INFORMATION

Indicators	1985	1986	1987	1988	1989
GDP M Mill /a	308.9	311.0	333.3	374.9	382.7
GDP % change	3.3	0.7	7.2	12.5	2.1
GNP M Mill /a	572.4	560.4	597.8	656.9	638.2
GNP % change	-2.4	-2.1	6.7	9.9	-2.8
GDP per capita M	206.0	197.0	206.0	226.0	224.0
Population '000	1502.0	1577.5	1618.0	1670.0	1738.0
Exports fob Mm	50.0	58.0	94.7	144.9	171.5
Imports cif Mm/c	-750.0	-807.4	-954.8	-1292.6	-1243.0
Current Account	-16.4	-20.2	-22.7	-156.2	-49.8 /b
Exports fob Mm /c	50.0	58.0	94.7	144.9	171.5
Imports cif Mm /c	-751.0	-807.4	954.8	-1292.6	-1243.0
Current Account	-15.4	-20.2	-22.7	-156.2	-49.8 /b

a/ constant 1980 prices /b preliminary estimate /c current prices

Lesotho:	Total Land area,	30,355 km 2
	Total arable land area,	300,000 he
	Currency = Maloti, M	1 Loti = 1 Rand = $0.30

ORIGIN OF GDP, 1989 Mm /a

Sectors	% of total
Agriculture	54.7
Manufacturing	47.7
Utility & Constr.	3.3
Transport & Comm.	14.9
Government	99.2
Other	121.5
GDP at factor cost	241.3

COMPONENT OF GDP 1989 Mm /a

	% of total
Private consumption	516.6
Govt. consumption	90.7
Gross fixed capital	147.4
Change in stock	0.0
Net exports of goods	75.0
Imports of goods	356.3
GDP at market prices	382.7

Source: 1989 Annual Report, Central Bank of Lesotho
/a constant 1980 prices

MAIN IMPORTS (1985)
in million maloti, fob

Meat, grains & beverages;	145.2
Fabrics and garment	49.0
Transport equipment	123.6
Misc consumer goods	73.7

MAIN EXPORTS (1985)
in Million Maloti, cif

Diamond	17.9
Mohair	12.8
Hides & Skins	11.3

LIST OF ABBREVIATIONS

ACP	African, Caribbean and Pacific States
BEDCO	Basotho Enterprise Development Corporation
CMA	Common Monetary Area
M	Symbol for the National currency (Maloti)
EP & D	Economic Development & Planning Ministry
GDP	Gross Domestic Product
GNP	Gross National Product
ISIC	International Standard Industrial Classification
LEC	Lesotho Electricity Corporation
LHDP	Lesotho Highlands Development Project
LMA	Lesotho Manufacturers Association
LNDC	Lesotho National Development Corporation
LCCI	Lesotho Chamber of Commerce and Industry
MOF	Ministry of Finance
MTI	Ministry of Trade and Industry
MVA	Manufacturing Value Added
NGO	Non-Governmental Organization
PTA	Preferential Trade Area
RSA	Republic of South Africa
SACU	Southern Africa Customs Union
SADCC	Southern Africa Development Coordination Conference
SSE	Small Scale Enterprises
TA	Technical Assistance
UNCDF	UN Capital Development Fund
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
WB	World Bank
IDDA	Industrial Development Decade for Africa
BLS	Botswana, Lesotho, Swaziland
M2	Broad Money Supply
MDPF	Miners' Deferred Payments Fund
SAF	Structural Adjustment Facility
ESAF	Enhanced Structural Adjustment Facility
IMF	International Monetary Fund
EC	European Community

SECTION 1

OVERVIEW OF ECONOMY

1.1 The Challenge of IDDA

Lesotho is a small country in Southern Africa with a population of around 1.7 million. It is unique in being a geographic enclave completely surrounded by another country, the Republic of South Africa (RSA). Lesotho's dependence on its powerful neighbour is all-embracing and influences every aspect of the country's economy. Its physical resource base is very weak. This is the starting point from which to take any view of the future of Lesotho, a task which is very difficult at the present time, given that the time horizon is 2000 (the end of the second IDDA), and given also that the intervening decade will be one during which fundamental political and economic changes will occur in South Africa.

The fact that the decade of IDDA 2 will be one of change in RSA is known: what is unknown is the exact nature of those changes, whether the transition will be relatively smooth or traumatic, and therefore what the implications of those changes will be for Lesotho's economic development. This degree of uncertainty places great constraints on the production by Lesotho of a national programme for the second IDDA. In terms of providing a vision of the future, the most that can be done is to look at where the economy and the manufacturing sector in particular are now, examine the factors that condition their development, present a reasonable set of objectives for the Decade, and suggest some ways and means that would enhance the chances of realizing them. Since we are designing a programme for IDDA 2, its regional implications also need to be included. This creates especial difficulties since not only will Lesotho's all-embracing neighbour undergo major change in the Decade ahead but so also will the entire southern African region, and indeed the whole of Africa.

This brings us back to our starting point.

1.2 Dependence on South Africa

The main elements in Lesotho's economic dependence on RSA relate to employment, trade, external earnings, and government revenues. Between 120,000 and 150,000 men are normally working in South Africa's mines. Nearly 90 per cent of imports originate from RSA and around 75 per cent of its exports are sold there. Net factor income from abroad - mostly the earnings of the migrant mine-workers - still account for 40-45 per cent of GNP. Over 60 per cent of government revenue is made up of receipts from SACU, the Southern Africa Customs Union, of which Lesotho is a member with RSA, Botswana, Swaziland and, more recently, Namibia. In October 1986 the two countries signed a treaty governing the sale of water from the Lesotho Highland Water Project (LHWP), a massive project whose total cost on completion will be more than five times Lesotho's present GDP and whose viability depends on continuing strong ties between the two countries.

1.3 Resource base

According to current knowledge, Lesotho has almost no mineral resources apart from some diamonds. Non-metallic mineral resources include clay and building stone. Water is a very valuable resource - and much of that importance is derived from its scarcity in the neighbouring industrial areas of South Africa. The LHWP is designed to harness the Senqu river to provide a controlled flow of water to South Africa through a series of dams and tunnels and to generate electricity for Lesotho which currently imports over 90 per cent of its needs from RSA.

The beauty of the mountains and highlands and the friendliness and hospitality of Basotho together create Lesotho's most valuable resource in terms of the development of a specific economic sector, namely, tourism. Already it is a major source of employment and tourists, most of whom come from South Africa, provide the second largest source of "invisible" export earnings after migrants' remittances. Nevertheless, the industry's potential is largely underdeveloped. This constrains many manufacturing activities from benefiting from spin-off effects.

Only 13 per cent of the land is suitable for arable production and yields have been declining at 3 per cent a year on average in the last decade due to soil erosion, poor farming practices, and frequent droughts. Returns to agriculture have typically been far lower than returns to migrant employment opportunities in South Africa. About two-thirds of the land is only suitable for grazing: Basotho value their large herds of cattle and other animals - and not always for generating income. The men are the herders and the women grow the food.

A new Land Act was passed in 1979 creating the possibility of secure tenure for farmers and the inheritance of land - and making it possible for women to be designated as heirs. Nevertheless, over one-quarter of rural households are landless. Pressure on land allied to the herding tradition have led to dangerous lands of overgrazing which in turn has caused the soil erosion problem. Normally, Lesotho imports about 25 per cent of its basic foodstuffs. The Food self-sufficiency Project, under which the government provided loans to farmers and undertook direct farming operations on behalf of village cooperatives, was unsuccessful largely due to its excessive budgetary costs and because of the impact of drought on the sector. The main crop is maize: major wheat and maize milling complexes were established in the 1980s but both depend largely on imported grain. Average yields have declined. The only areas where they have risen significantly have been where expensive capital-intensive techniques have been used. Production of high-quality asparagus, beans, and fruit is being promoted. Lesotho's narrow agricultural resource base would be better employed producing such high-value cash crops. They offer high value-added production and employment opportunities in the manufacturing sector and promote "invisible" export earnings by providing supplies of fresh produce to the tourist industry.

1.4 Population and socio-economic indicators

The population is currently estimated at 1.7 million. The 1986 Census recorded 1.577 million including migrants working in South Africa. The ratio of women to men is unusually high. Of the de jure population of 1,577,000 in 1986, 760,000 or 48 per cent were male and 817,000 or 52 per cent were female.

The de facto population was 1,477,000 in 1986, the sex ratio being 15:55, reflecting the absence of the (mostly) male migrants. About 80 per cent of the population live in rural areas but the rate is falling due to rural-urban migration. Forty per cent of the population is under 15 years. The population growth rate of around 2.6 per cent is a cause of concern, creating as it does a formidable employment and income-generating challenge.

Despite its enormous problems and its classification as a least-developed country, Lesotho has made significant strides since independence under a number of headings. Real GDP per head rose from around US$74 to US$328 in the 20 year period between 1966 and 1986. Enrolment in primary education is virtually universal, though only about 22 per cent of the eligible age group are enrolled in secondary schools and the university is very small. However, the provision of vocational and technical post-secondary education has expanded significantly in recent years. The literacy rate is high by African standards at around 60 per cent but, according to an official source (Bureau of Statistics, <u>Socio-Economic Statistics of Lesotho</u> 1987, p6) the expansion of primary school enrolment "was partly achieved with an increase in an already high pupil-teacher ratio, thereby putting the quality of primary education in jeopardy". This also places maintenance, let alone improvement, of the literacy rate at risk. The level of health is generally good and life expectancy is 46 for males and 52 for females. Women's

economic advancement is still restricted by legal and cultural constraints although the 1992 Land Act gave mature single women access to residential land and their access to credit has recently been improved. Women are involved in significant numbers - though not yet so in positions of power - in administration, in social and health services, and in the informal commercial sector.

1.5 <u>Economic Structure and Performance</u>

For an overall view of the structure of the economy it is useful to look at the percentage contributions of the various sectors to GDP. Table 1.1 shows this breakdown for 1989 and, for comparative purposes, for 1993. As it shows, the main shifts have been in the relative shares of agriculture, trade, manufacturing, and construction. Declines in the first two have been compensated by gains in the other two. The growth in manufacturing has been significant. Indeed if the percentage shares were calculated from Table 1.2 where Manufacturing includes handicrafts, its percentage share in GDP would be 13.9 in 1989 up from 10.6 in 1983. The implication from this is that handicrafts account for between 1 and 2 per cent of GDP now and that this share is growing. It is more important than mining and quarrying in terms of contribution to GDP, and has significant employment potential, particularly if tourism is promoted as a priority sector. Such promotion would also benefit food producers and processors, leatherwork, textiles and clothing, and other manufacturers, small-scale as well as large.

Table 1.1 <u>Sectoral Breakdown of GDP</u>
(in percentage)

	1983	1989
Agriculture	24.4	18.3
Mining and quarrying	0.3	0.4
Manufacturing	9.4	12.0
Building and Construction	10.3	17.1
Wholesale and Retail Trade	12.9	9.5
Government and Services	42.6	12.7
GDP at factor cost	100.0	100.0

Source: Central Bank, <u>Annual Report</u>

Table 1.2 <u>Gross Domestic Product by kind of Economic Activity at Constant 1980 Prices</u>

Maloti Million

Economic Activity	1984	1985	1986	1987	1988	1989*
Primary Sector	54.9	53.7	50.9	53.1	63.3	59.1
Agriculture	53.4	51.1	48.8	51.4	62.4	54.7
Mining & Quarrying	1.5	2.6	2.1	1.7	1.0	4.5
Secondary Sector:	58.8	69.1	65.5	74.9	89.2	100.7
Manufacturing**	27.2	28.3	32.4	36.8	43.7	47.7
Electricity & Water	2.3	2.4	2.5	1.9	2.9	3.3
Building & Construction	29.3	38.4	30.7	36.1	42.7	49.7
Tertiary Sector:	157.6	160.8	175.9	188.1	199.2	218.4
Wholesale & Retail	23.3	24.6	25.4	26.4	28.2	29.1
Catering	3.9	4.1	4.6	5.3	5.7	6.0
Trans. & Communication	7.4	7.7	10.1	12.0	13.5	14.9
Finance & Insurance	15.7	17.2	20.1	24.3	27.4	38.1
Real Estate & Business Services	7.8	7.5	7.6	7.9	8.5	10.1
Ownership of Dwellings	18.5	18.9	19.4	19.9	20.5	21.0
Public Administration	36.3	36.1	40.2	40.7	40.1	40.7
Education	32.0	32.3	34.7	37.6	40.3	43.2
Health	7.6	7.4	8.6	8.5	9.4	9.5
Other Services	4.8	5.0	5.2	5.5	5.6	5.8
Sub-total	273.3	283.6	292.3	316.1	351.7	378.2
Less:						
Imputed Bank Charges	16.0	18.0	20.7	24.6	27.4	37.0
GDP at Factor Cost	255.2	265.7	271.6	291.5	324.4	341.3
Plus:						
Indirect taxes, net	43.8	43.2	39.3	41.8	50.6	41.4
GDP at Market Prices	299.0	308.9	311.0	333.3	374.9	382.7

Source: Bureau of Statistics
*Preliminary estimates
**includes handicrafts

Construction has been growing strongly during the last few years, reflecting in particular work on the Lesotho Highland Water Project. Since the project in all its stages will not be completed until well into the next century (at a total cost of at least US $2.6 billion), the construction sector is set to perform strongly - and spark off significant spin-off activities throughout the period of IDDA 2. The establishment of construction-supportive industries, including cement, is already under active consideration.

1.6 Macroeconomic Policy Framework

Lesotho is a small open economy. Like all small less-industrialized countries which are part of sub-regional arrangements dominated by a large, more industrialized partner and involving linkage at par with the large partner's currency, the use of the major instruments of macroeconomic policy is severely constrained. Although politically the small country is a sovereign independent state, as an economy it is constrained in effect to operate like a disadvantaged region of the combined economic grouping. Free movement of goods and largely unconstrained movement of the factors of production (labour and capital) tend to cause both labour and capital to migrate from one region to another within the combined economic area whenever a sufficiently large gap opens up in the rewards to labour and capital (wages and interest rates) between the countries in the grouping. Since normally it can be expected that wages, at least, (if not interest rates) will be lower in the poorer, less-industrialized country than in the richer country, there will tend to be a net out-flow of labour from the former to the latter. Capital would also tend to move in the same direction unless interest rates in the disadvantaged area are maintained more or less at par with those in the more-industrialized area. Indeed, it might be advisable to keep them at a higher level were it not for the fact that this would discourage borrowing by industrialists - and therefore investment by local and foreign industrialists - in the less-industrialized country.

Another effect on the small open economy in a regional arrangement with a larger more-industrialized country is the effect on prices. Since a customs union or other similar regional arrangement is designed to encourage trade and since that tends to result in the less-industrialized region importing most of its capital and consumer goods from the more-industrialized partner, prices will tend to reflect those in the latter country. Price rises will be transmitted directly from it to the less-industrialized country. The most it can do in terms of controlling inflation, therefore, is to see to it that production and distribution activities in its own economy are as efficient as possible so that local costs do not add on any further inflationary effects.

Another important effect on the small open economy which derives from the mobility of goods and factors is that GNP is frequently significantly greater than GDP because of the inflow of migrants' remittances. (In Lesotho's case its GDP is normally around 50-54 per cent of GNP)
It is against this general background that the operation of macroeconomic policy in Lesotho can be examined.

1.5.1 Monetary Policy and Financial Institutions

Lesotho does not operate an independent monetary or exchange rate policy. With RSA and Swaziland, it is a member of the Common Monetary Area. The 1974 agreement, which was revised in 1986, provides access to the South African capital market for the Lesotho banking system. The Lesotho currency, the loti (plural maloti), was introduced in 1979 and the Central Bank was established in 1982 to issue the currency and to maintain a stable and effective monetary system. Maloti issued by the Central Bank have to be backed by a 100 per cent reserve cover, over 60 per cent of which is in RSA rands. The exchange rate is fixed at par with the rand which circulates freely in Lesotho. As a result, monetary and price developments are basically a reflection of South African monetary policy. Through the pegged exchange rate and the free flow of goods, South African inflation is transmitted directly to Lesotho: in 1989 the average annual inflation rate in Lesotho was 14.9 per cent.

Lesotho is a highly monetized economy for a country of its income level and the degree of monetization grew throughout the 1990s. Over one-third of all households have savings accounts: this is largely a consequence of the way in which miners' earnings are transferred back to Lesotho (through the Miners' Deferred Pay Fund) and the delay between their being earned and spent. The broad money supply (M2) in Lesotho is defined to include not only money in circulation and bank deposits but also the Deferred Pay Fund so the M2/GDP ratio is exceptionally high at 50 per cent. If M2 is related to GNP - arguably a more relevant level of economic activity and purchasing power in Lesotho - the ratio falls to one more normal for low-income countries; if the MDPF is excluded the ratio falls even further to 24 per cent, the lower range for such countries. However, if an estimate for the circulation of South African rand which circulates freely in Lesotho were added back in and if, moreover, Lesotho residents' holdings of bank deposits in RSA could also be taken into account, the ratio of money to economic activity in Lesotho would again be seen to be significantly above average for its stage of economic development. Mobilization of this money through the financial system is essential for providing the resources for investment. Lesotho has been reasonably successful in this regard to date.

In addition to the Central Bank, the financial sector includes two other segments. They are (a) depository institutions, consisting of the three commercial banks (the government-owned Lesotho Bank, and the local branches of two long-established British banks, Standard Chartered and Barclays), two governmentowned specialized banks (the Lesotho Agricultural Development Bank and the Lesotho Building Finance Corporation),and a 73-member rural credit union system, the Lesotho Cooperative Credit Union League; and (b) the insurance sector which includes the Lesotho National Insurance Company in which the government is the majority shareholder, nine brokers and a relatively large agent for an RSA life assurer. In addition, the two industrial development agencies, the Lesotho National Development Corporation and, to a much lesser extent, the Basuto Enterprise Development Corporation, have been involved in promoting economic activity through lending functions, especially to the manufacturing sectors.

The Central Bank determines minimum deposit rates and the prime lending rate for commercial banks. Generally interest rates set by the Central Bank are slightly lower than in the RSA as a means of promoting domestic demand for credit. Other rates are market-determined but are essentially in line with those in the RSA. With the same objective of stimulating domestic utilization of credit, minimum local asset requirements for the commercial banks have also been established. The banking system has tended to be very liquid, partly due to the lack of profitable investment opportunities and - especially in the case of small-scale enterprises (SSEs) - lack of acceptable collateral which has made the banks reluctant to lend. The Lesotho Bank has been exempted from paying company tax in exchange for its support in developing domestic entrepreneurial capacity. Its willingness and ability to lend to SSEs will be enhanced from now on with the deposit at the Central Bank of a grant of US$ 1.5 million from the United Nations Capital Development Fund (UNCDF) which will capitalize a revolving fund for lending to SSEs and whose existence will act as a guarantee to the Lesotho Bank in lieu of collateral.

1.6.2 Fiscal Policy and the Public Finances

In Lesotho, budgetary data, as published for example by the Central Bank in its annual report, does not separate revenues and expenditures into current and capital sub-divisions. Instead, both recurrent revenues (mainly customs receipts and taxes) and grants (for capital and recurrent purposes) are combined under the heading "Total Receipts" and both recurrent expenditures and capital expenditures are combined under the heading "Total expenditures". As a result, a "surplus" and a "deficit" mean an overall (recurrent and capital) balance.

In recent years, total government expenditures (recurrent and capital) have exceeded 55 per cent of GDP and approached 60 per cent in 1988-89. As revenues fell from as much as 48.5 per cent of GDP in 1984-85 to under 40 per cent in 1988-89, the government's overall deficit as a share of GDP rose to around 20 per cent by that date. The major item on the revenue side has been customs receipts through SACU; others include sales taxes, income taxes, and company taxes. As part of the conditions attached to the 3-year structural adjustment facility (SAF) agreed with the IMF, the government has adopted stringent measures to reduce the size of the overall deficit. There has been more success to date on the revenue-raising side than on the expenditure-reduction side. The main contributors to the recent growth in revenue have been customs receipts and sales tax receipts, the latter the result of improvements in the collection machinery and the broadening of its base to include public utility services.

On the expenditure side, the problem which emerged in the 1980s was not just one of increased public spending but also a shift of recurrent expenditure away from economic and social services. Between 1986/87 and 1989/90, interest payments on public debt have almost trebled from M28.4 m to M82 m as Table 1.3 shows.

Table 1.3 <u>Government Expenditure</u>

Maloti Million

	'85/86	'86/87	'87/88	Preliminary Actuals '88/89	Preliminary Estimates '89/90
Recurrent Expenditure	222.7	275.9	302.9	384.0	412.9
Personal emoluments	106.1	112.9	117.2	170.0	180.9
Interest payments	20.7	28.4	29.9	43.4	82.0
Subsidies and transfers	17.0	17.2	26.1	28.1	25.8
Other goods and services	78.9	117.4	129.7	142.5	124.2
Capital Expenditure	100.9	113.1	168.3	200.9	198.2
Total	323.6	389.0	471.2	584.9	611.1
Memorandum Item					
Government Savings	23.8	-1.8	-3.5	-15.5	85.9

Source: Ministry of Finance

Because of the accumulation of debt (itself a result of accumulating deficits and borrowings), interest payments will continue to be large. As already noted, reducing government expenditure has proved to be difficult although the rate of increase has now begun to decelerate. This deceleration is being achieved not only through freezing the size of the civil service and its pay bill, but also by reducing expenditure on economic services (including industry) and even capital expenditure. These last named reductions have implications for economic growth in the years ahead.

Table 1.4 Summary of Government Budgetary Operations

Maloti Million

	'85/86	'86/87	'87/88	Preliminary Actuals '88/89	Preliminary Estimates '89/90
Total Receipts	256.3	301.2	310.7	403.9	535.1
Revenue	246.5	27[illegible].1	299.4	369.5	498.8
Customs	161.1	145.2	157.4	193.2	263.5
Grants	9.8	27.1	11.3	35.4	36.3
Total Expenditure	323.6	389.0	471.2	584.9	611.1
Recurrent	222.7	275.9	302.9	384.0	412.9
Capital	100.9	113.1	168.3	200.9	198.2
Surplus/Deficit(-)	-67.3	-87.8	-160.5	-180.9	-76.0
Financing	67.3	87.8	160.5	180.9	76.0
Foreign, net	30.0	36.7	70.3	71.2	76.6
Domestic, net	37.3	51.1	90.2	109.7	-0.6
Bank financing	30.1	52.7	70.8	91.9	14.1
Other (residual)	7.2	-1.6	19.4	17.8	-14.7
Memorandum Items: In Per Cent of GNP (%)					
Foreign debt service	-6.2	-6.9	-10.6	-9.7	-3.4
Total receipts	23.4	23.9	20.3	21.6	23.9
Total expenditure	29.5	30.9	30.8	31.3	27.3

Source: Central Bank, Annual Report 1989

In 1989-90, as a result of the various attempts to correct the public finances, preliminary estimates suggest that the total deficit will be M76 m, less than half of its 1988-89 level as Table 1.4 shows. According to the SAF estimates, the overall deficit will fall further to M51.7 m in 1990-91. Financing of the government deficit is expected to shift from a heavy dependence on the domestic banking system -the practice over the past four years - to foreign borrowing.

1.7 Recent Economic Plans

Lesotho's first five-year plan ran from 1969/70 to 1974/75. It was largely exploratory, establishing a planning capacity and surveying for minerals. During the period of the second plan (1975/76 - 1979/80), significant progress was made in the construction of a national road network and other physical infrastructure: the growth targets for GDP and investment were largely met but the outturn was well short as regards employment creation. The main objective of the third plan (1980/81 - 1984/85) was the reduction in dependence on RSA while a subsidiary objective was the improvement of planning administration and overall economic management. Actual performance fell short of planned targets mainly as a result of a fall in aid inflows.

The fourth 5-year plan was launched in 1986. Various sectoral objectives were established - including the establishment of resource-based industries - and the need to strengthen the planning, management and administrative machinery was again emphasized. However, by mid-1988 the deterioration in the public finances led to the agreement of a structural adjustment facility (SAF) with the IMF worth SDR 9.6 million (US$ 12.4 million at August 1988 rates) over three years, in support of an economic and financial programme agreed with the government. The principal objectives of the SAF are increasing the rate of economic growth and reducing the overall budget and balance of payments deficits. In a recent review of the programme with the IMF, both it and the government declared themselves satisfied with its implementation and results to date. Following the preparation of a policy framework paper in early 1991, an enhanced structural adjustment programme (ESAP) is expected to be agreed. The funding would be greater but the conditions stricter; thus the correction of the public finances is likely to be tackled with even greater vigour than it was under the first programme.

The Ministry of Planning and Economic Development is currently reviewing performance during the fourth plan and is preparing the fifth plan. One of Lesotho's greatest challenges during the period of the next plan will be, as in former ones, employment creation, given the rate of population growth and continued uncertainty regarding the implications for migrant workers and foreign investment of political and economic developments in South Africa during the nineties. Clearly Lesotho's manufacturing sector will have to play a pivotal role in promoting economic growth and employment during the period of the next plan and throughout IDDA 2.

Lesotho has produced a National Environmental Plan which provides a framework for incorporating environmental considerations into the nation's overall development strategy. The main issues in the environmental field as seen today centre around soil erosion and fertility loss. While existing environmental policies concentrate on agriculture, land use, soil conservation, forestry and agro-forestry, energy, fauna, flora and historical heritage, it has become evident that future environmental policies must concentrate on the impact of the Highland Water Project on the environment. To this end, an impact analysis has already been carried out to determine the direction of future environmental policies.

1.8 The International Accounts and Foreign Debt

Lesotho's international accounts are a reflection of its external dependence on RSA and also the nature of that dependence. In 1989, merchandise imports at M1243 million were 7 times the value of exports: in other words exports of goods paid for less than 14 per cent of the cost of imports of goods. In 1985, merchandise exports paid for less than 7 per cent of merchandise imports. This trade pattern leads to a chronic unfavorable balance of trade. However, as can be seen from examining Table 1.5 which shows the overall international accounts, "invisible exports" (chiefly migrants' remittances) have almost filled the gap every year. When other receipts are taken into account - principally the "unrequited transfers" of Lesotho's share of SACU customs receipts - the overall balance can be positive. This was the case in 1988 and 1989 when small overall balance of payments surpluses were recorded. In the Central Bank's opinion (Annual Report 1989, p.17) these surpluses could be an indication of the progress achieved on trying to restrain, among other things, government expenditure under the SAF.

Table 1.5 Summary of Balance of Payments

Maloti Million

	1985	1986	1987	1988+	1989*
Current Account	-16.4	-20.2	-22.7	-156.2	49.8
a) Goods, Services & Incomes	-191.1	-187.8	-178.7	-338.6	-156.1
Exports f.o.b.	50.0	58.0	94.7	144.9	171.5
Imports c.i.f.	-751.0	-807.4	-954.8	-1292.6	-1243.6
Workers remittances	499.0	583.6	718.5	844.1	958.3
Investment income	15.2	-0.3	-12.6	-9.7	-27.1
Dividents & Profits	(-9.1)	(-14.5)	(-18.7)	(-20.0)	(-33.1)
Interest earnings, net	(24.3)	(14.2)	(6.1)	(10.3)	(6.0)
Other services, net	-4.3	-21.7	-24.5	-25.3	-15.2
b) Unrequited Transfers	174.7	167.6	156.0	182.4	205.9
Long-term Capital, Net	65.5	37.7	79.7	125.5	118.9
Official	54.8	33.1	68.1	86.0	83.9
Private	10.7	4.6	11.5	39.5	35.0
Errors & Omissions	-11.5	-27.6	-75.3	34.4	-165.3
Overall balance	27.6	-10.1	-18.3	3.7	3.4
CBL	(13.8)	(21.5)	(-1.2)	(2.9)	(-9.5)
Commercial Banks	(23.8)	(-31.6)	(-17.1)	(0.8)	(12.9)

+Revised provisional estimates
*Preliminary estimates
Source: Central Bank, Annual Report, 1989.

More encouraging perhaps is the evidence (in Table 1.6) that some success is being achieved in reducing dependence on RSA in the trade sector, especially on the export side.

Table 1.6 Summary of Non-rand exchange transactions

Maloti Million;

	1984	1985	1986	1987	1988	1989
Receipts	27.5	30.6	43.8	45.0	63.1	85.3
Exports	0.1	0.8	4.8	6.2	12.5	21.6
Other	27.4	29.8	39.0	38.8	50.6	63.7
Payments	23.0	30.2	50.9	59.7	67.4	79.9
Imports	4.2	4.3	9.8	15.7	12.0	15.2
Other	18.8	25.9	41.1	44.0	55.4	64.7
Net Surplus/Deficit	4.5	0.4	-7.1	-14.7	-4.3	5.4

Source; as for Table 1.5

Non-rand-denominated exports as a proportion of total exports rose from less than one per cent in 1985 to over 12 per cent in 1989. During the same period non-rand-denominated imports only grew from less than 1 per cent to slightly over 1 per cent. The progress being achieved in diversifying export markets beyond the SACU region - and especially beyond RSA - will if maintained help to widen the options open to Lesotho on the international payments front during the major period of change facing it during the IDDA.

Net inflows of long term capital have supported a consistent surplus on the capital account, with the recent exception of 1984. Drawings on official loans have been the largest element of these flows. Private investment has remained modest by comparison, although foreign inflows have been growing in recent years.

At the end of 1989 total public external debt stood at M811.5 million, having increased by 23 per cent over the 1988 figure of M658.8 Million. As usual, most of this debt was contracted on concessionary terms. Over 70 per cent of loans have a maturity period of 50 years. Lesotho has not borrowed for balance of payments support except at the time when the 3-year SAF was launched in 1988. The debt/GNP ratio has been rising fast. In 1989 it was 58 per cent and although the debt service ratio is still low at 4.7 per cent (as Table 1.7 shows), the government is fully awarethat the foreign debt situation, like that of the public finances in general, needs to be reordered and a system for management of the foreign debt needs to be put in place.

Table 1.7 <u>Outstanding Public Debt at end of 1988 and 1989</u>

(Maloti Million)

	1988	1989
1. **External Debt**	**658.8**	**811.5**
2. Bilateral Loans	37.9	55.6
Concessional	37.5	55.2
Non-concessional	0.4	0.4
3. Multilateral Loans	536.5	662.1
Concessional	472.4	595.8
Non-concessional	64.1	66.3
4. Financial Institutions	20.3	34.8
Concessional	7.5	7.0
Non-concessional	12.8	27.8
5. Suppliers' Credit	64.1	59.0
6. **Memorandum Items:**		
External debt as % of total	67.5	69.5
Domestic debt as % of total	32.5	30.5
Concessional debt	517.4	658.0
Non-concessional debt	141.4	153.5
Concessional debt as % of external debt	78.5	81.1
Debt service ratio	3.2	4.7
Debt to GNP ratio	53.8	57.6
Foreign debt service	34.1	56.4

Source: Central Bank, Annual Report, 1989

1.9 Regional and International Cooperation

Lesotho is a member of three regional economic groupings. They are the Southern African Customs Union (SACU), the Southern African Development Coordination conference (SADCC), and the Preferential Trade Area (PTA) of Southern and Eastern Africa. SACU is a customs union between the BLS countries (Botswana, Lesotho and Swaziland), South Africa and more recently Namibia which allows free movement of goods and services among the member states and has a common external tariff with the rest of the World. Customs duties are collected at the Union"s first point of entry and put into a common pool from which they are distributed among the member states according to an agreed formula. Under article 6, the SACU Agreement allows the less-developed member states, including Lesotho, to levy tariffs on imports including those from South Africa in order to promote infant industries. To date, however, the BLS countries have tended to look on SACU as a source of government revenue and have given little attention to those provisions that could be used to promote industrial development.

The main objective of the Lusaka Declaration of April 1980 which established the SADCC is the acceleration of economic development and achievement of self-reliance, promotion of popular welfare, justice and peace through co-operation, the integration of economies, and the adoption of a concerted approach in soliciting international and financial support and assistance for member countries. For this purpose, member states are committed individually and collectively to pursuing harmonious national and regional policies and programmes in various fields of development.

The origin, letter and spirit and the aims and objectives of the PTA are almost the same as those of SADCC, although the PTA objectives concentrate on trade and aim at creating an African Common Market by the year 2000.

Simultaneous membership of SACU and the PTA is reconciled through the following arrangements. Each of the five SACU members are entitled to have trade arrangements with countries outside SACU. However, the Agreement stipulates that before any member can extend any trade preferences to third countries it will consult with the others and get their concurrence.

Lesotho, Swaziland and Namibia who are members of both trade groupings may extend preferences to and receive preferences from other PTA members according to the provisions of both the SACU and PTA agreements. What is imported into Lesotho under the PTA preference scheme should be consumed in Lesotho and not be re-exported to other SACU members.

Lesotho is also a signatory to the Lome Convention which governs trade policy, trade preferences and aid between the 65 African, Caribbean and Pacific States (ACP) and the 12 states of the European Community.

Within the African regional context, Lesotho is a member of the Organization of African Unity (OAU) and the United Nations Economic Commission for Africa (ECA).

On the international front, Lesotho is a member of the United Nations and has dealings with United Nations bodies and specialized agencies. It obtains technical and capital assistance through the UNDP country programme, which runs concurrently with the National Plan and complements national development efforts. It is a member of the World Bank and the International Monetary Fund. It also has ties with various countries on a bilateral basis. The importance of these associations can hardly be underestimated in view of the country's limited domestic resources and therefore the need for external assistance in support of national development efforts.

SECTION 2

THE MANUFACTURING SECTOR

2.1 Structure and Performance

The Manufacturing sector in Lesotho has grown quite impressively since independence. From less than 1 per cent of GDP and formal employment in the mid-1960s, it accounted for about 12 per cent of GDP and 9 per cent of total formal employment in 1989. Despite this achievement however over the 25 years, the sector's growth performance, when examined year-by-year or subperiod-by-subperiod, has been erratic, being more a reflection of shifting reactions to external events (especially in RSA) rather than a steady performance resulting from the implementation of a coherent set of industrial strategies and policies on the part of government. As the Fourth Plan put it (p.43)

> "The earliest efforts were concentrated on LNDC's activities involving direct investment, usually in import substitution projects. Promotional activities concentrated on locating partners for already identified projects. By the mid-1970s many of these subsidiaries were operating at a loss and industrial production actually fell in 1977/78. In line with Government commitment to involve private enterprise, LNDC stepped up its attempts actively to seek to attract foreign capital and know-how. In recent years, in particular, labour intensive projects, employing up to 500 people, have been located in Lesotho. Such projects are almost entirely export oriented".

One way of classifying the manufacturing sector is on the basis of technology and markets. This produces a sector divided into three distinct sub-groups:

- a food and beverages sub-group which employs capital-intensive technology and is mainly import-substituting (the exception being Basuto Fruit and Vegetable Canners which exports asparagus to the EC market) and is largely parastatal in ownership.

- an export-oriented sub-group dominated by private foreign-owned firms and joint ventures, producing mainly clothing and other consumer goods and employing labour-intensive technology.

- an indigenous small-scale sub-group, employing about 4000 people, about 60 per cent of whom are women engaged in knitting, handicrafts and leatherwork, metalworking, brick and block-making, mainly for the domestic market, with very limited capital and access to credit and employing labour-intensive methods of production.

Another way of classifying the manufacturing sector is by sub-sector distribution of manufacturing value added (MVA).

Table 2.1 shows the structural composition of MVA for various years between 1981 and 1989 while Table 2.2 shows the growth of value added in real terms for the entire sector from 1985 through 1989.

As can be seen from the second table, the growth of real MVA during the second half of the eighties, while in general exceptionally high, has also continued to be volatile.

Table 2.1 <u>Structural Composition of Value Added</u>
(in percentages)

Industry	1981	1982	1983	1984	1985	1986	1987	1988	1989*
Food and Beverages	65.7	56.5	65.0	64.0	61.7	60.2	57.2	46.9	44.0
Textile, Clothing, Leather	11.1	14.7	11.2	14.5	16.2	19.3	25.8	37.7	40.2
Furniture & Fixtures	3.7	4.3	2.3	3.5	3.0	2.7	2.3	1.9	1.9
Printing and Publishing	3.7	4.3	3.8	2.6	3.5	3.1	2.6	3.4	2.9
Other Chemical Products	5.6	2.2	8.5	5.2	6.0	5.2	4.1	3.1	3.0
Non-metal Products	0.9	7.6	2.3	4.1	3.5	3.9	3.3	2.9	3.1
Iron & Steel Products	4.6	5.4	4.2	3.2	3.5	3.1	2.6	2.2	2.0
Other Indust.	4.6	4.9	2.7	2.9	2.7	2.5	2.1	2.0	2.0
Total	100	100	100	100	100	100	100	100	100

Source: Central Bank of Lesotho, <u>Annual Report,</u> 1989 p. 10

Table 2.2 <u>Growth rates of real manufacturing value added</u>
(in percentages)

	1985	1986	1987	1988	1989*
Real MVA	4.0	14.0	13.5	18.8	9.2

*Preliminary

According to the Central Bank, the slowdown in the rate of growth of MVA during 1989 was due to peaking of some manufacturing industries and adverse effects of the SAF programme. It also reports that some establishments indicated that the introduction of the general sales tax in public utilities such as water, electricity and telecommunication services as well as the raising of the sales tax rate from 12 to 13 per cent during 1989, has increased the cost of industrial inputs and overheads quite significantly. It is argued that this has, in effect, reduced the competitiveness of export oriented manufacturing industries.

Measured in terms of total MVA, the most important sub-sectors today are food and beverages, followed by textiles, clothing and leather. It is clear however from Table 2.1 that over time the latter sub-sectors have been steadily gaining on the former. In employment terms, the positions are reversed. 68 per cent of employees in the 137 enterprises licensed to date by the Ministry of Trade and Industry (those employing more than 10 persons using machinery of at least 25 HP) work in textiles, clothing and footwear while 14 per cent are employed in the food and beverages sub-sector. Total employment in licensed firms in 1990 was around 18,200.

In the twenty-year period from the late sixties to the late eighties, employment in manufacturing rose more rapidly than output because of the increasing use of labour-intensive methods.

Although the labour force is considered to be highly trainable, there is an absolute shortage of technical skills and consequently a great need for skills development. The incremental capital output ratio appears to have fallen, from 5:1 to around 3:1 ~~8 to around 3~~ between the mid 1970s and the early 1980s implying a more efficient use of capital.

2.2 Ownership

Private ownership characterizes the manufacturing sector in Lesotho with the exception of the food and beverages sub-sector, as already noted, where a small number of large parastatals are dominant. An examination of a list of 52 LNDC-promoted manufacturing enterprises as at June 1990 shows that, in terms of nationality, RSA was the origin of the largest national grouping of firms. Table 2.3 shows that RSA was on its own the origin of around 30 per cent of the firms (although these firms created only 20 per cent of the jobs). If joint-ventures between RSA firms and others are added in, the total firms and jobs created both rise to around 50 per cent. Of the 25 per cent "other foreign" firms, most are Asian. Lesotho-owned enterprises represented 15 per cent of the total, account for 9 per cent of the jobs, and 13 per cent of the initial investments.

The woven products branch has however attracted European investors although the investment is low and the units are comparatively small. LNDC in its promotional campaign is seeking to widen the network to encourage investors from other countries to come into Lesotho. In view of the changing geo-political situation in South Africa it would appear that Lesotho should widen its investment base.

Table 2.3 Ownership of LNDC - promoted enterprises
(in percentages)

Ownership	Enterprises	Jobs	Initial Investment
RSA	29	20	31
RSA/Lesotho	14	5	12
RSA/Other Foreign	9	23	11
Other foreign	25	36	26
Lesotho	15	9	13
Lesotho/other foreign	8	7	7
Total	100	100	100

2.3 Location of Industry and Employment

Maseru, the political and financial capital, is by far the most important location for manufacturing - in terms of both number of enterprises and employment. Maputsoe is in a very strong second position. Like Maseru, its proximity to RSA is a positive location factor. In the case of the 52 LNDC-promoted enterprises, 37 or 71 per cent are located in Maseru, 14 (27 percent) are in Maputsoe and one of the enterprises is located in Mafeteng. In terms of employment, the distribution by location is 56 per cent in Maseru, and 43 in Maputsoe where some of the enterprises in the garment industry are very large.

In the list of 137 licensed enterprises, 99 (72 per cent) are located in Maseru, 17 per cent are located in Maputsoe, and the remaining 11 per cent are scattered among the smaller centres of Butha-Buthe, Foso-Sekamaneng, Leribe, Mafeteng, Peka, Quthing, and Teyateyaneng as Table 2.4 shows. In terms of employment, the two main centres again dominate the scene with 62 per cent and 31 per cent respectively as can be seen from Table 2.5. Once again, the importance of the garment industry in terms of employment in both centres is evident.

Although there is a dearth of information available on categories of employees in these areas, information available could be used to deduce the following:

- there is a predominance of women in employment in middle management, skilled, and unskilled grades.
- Expatriates control the management of foreign owned enterprises.
- There are many expatriates in the supervisory grades.

As already noted, one of the favorable aspects of labour in Lesotho is that they are trainable. However there is a need for training in management in order to develop leadership characteristics, improve decision-making abilities and managerial skills.

Table 2.4 Locations of licensed enterprises and employment

Sub-sector	No. of ent.	Emp	Location	No.
Stone Quarrying	2	35	Foso Sekamaneng	1
			Morija	1
Food & Beverages	19	2493	Maseru	15
			Maputsoe	2
			Butha-Buthe	1
			Mafeteng	1
Woven Products	11	1683	Maseru	8
			Teyateyaneng	2
			Maputsoe	1
Textiles & Garments	25	8897	Maseru	16
			Maputsoe	9
Leather goods	2	160	Maseru	2
Footwear & Bags	9	1735	Maseru	5
			Maputsoe	4
Wood & Furniture	10	459	Maseru	8
			Leribe	1
			Maputsoe	1
Printing	2	100	Maseru	2
Paints	2	70	Maseru	2
Pharmaceuticals	1	135	Mafeteng	1
Other chemical-based products	6	186	Maseru	5
			Teyateyaneng	1
Non-metallic mineral products	16	729	Maseru	11
			Mafeteng	1
			Teyeteyaneng	1
			Butha-Buthe	1
			Leribe	1
			Outhing	1
Fabricated metal products	16	619	Maseru	15
			Maputsoe	1
Electrical & Electronic	4	270	Maseru	3
			Maputsoe	1
Umbrellas	3	496	Maputsoe	3
Vehicle assembly	2	111	Maseru	1
			Peka	1
Jewellery	1	93	Maseru	4
Other mfs.	3	56	Maseru	1
			Maputsoe	1

Table 2.4 <u>Locations of Licensed enterprises and employment (contd.)</u>

Totals	137	18282	Maseru	99
			Maputsoe	23
			Others	15

In order to promote manufacturing and create employment in the smaller centres a number of industrial estates for small scale industry are to be established around the country. The locations chosen to date are Butha-Buthe, Leribe, Mafeteng, Mapoleng, Mohale's Hoek, Mokhotlong, Qacha's Nek, Quthing, Semonkong, and Thaba-Tseka. This initiative, while positive for these smaller centres, is unlikely to change the geographic distribution significantly and to lessen the relative importance of the two major centres. Indeed, the industrial estates in Maseru and Maputsoe are also targeted for expansion.

Table 2.5 <u>Employment in two main centres</u>

Sub-sector	Maseru	Maputsoe
Food & Beverages	1819	250
Woven Products	1178	110
Garments	5320	3577
Leather goods	160	
Footwear & Bags	509	1226
Wood & Furniture	379	50
Printing	100	
Paints	40	
Other Chemical	164	
Non Metallic	544	
Fabricated Metal	606	13
Electrical & Electronic Products	235	35
Umbrellas		496
Vehicle Assembly	100	
Jewellery	93	
Other Manufactures	51	5
Totals	11298	5747
Percentages	62	31

The present distributions of the 475 small-scale enterprises, by type of activity and location, are shown in Table 2.6. As can be seen there, Maseru is the chief location even in the case of small-scale enterprises.

Table 2.6 <u>Location of small-scale Enterprises</u>

Activity	No of ents.	Location of enterprises
Blocks and Bricks	15	Maseru 3, Leribe 4, Berea 3, Butha-Buthe 2, Thaba-Tseka 2 Qacha's Nek 1
Carpentry	56	Maseru 21, Mafeteng 12, Mohale's Hoek 8, Butha-Buthe 4, Berea 4, Qacha's Nek 3, Leribe 2, Quthing 1, Mokhotlong 1
Electrical repairs	7	Maseru 5, Mokhotlong 2,
Handicrafts	28	Maseru 12, Berea 7, Mafeteng 4, Mohale's Hoek 3, Butha-Buthe 1, Qacha's Nek 1
Knitting and Sewing	274	Maseru 106, Mohale's Hoek 38, Mafeteng 30, Mokhotlong 21, Qacha's Nek 20, Leribe 19, Thaba-Tseka 18, Berea 10, Butha-Buthe 7, Quthing 5
Leatherwork	41	Maseru 31, Berea 2, Mafeteng 2, Mohale's Hoek 2, Mokhotlong 2, Leribe 1, Quthing 1,
Metalwork	44	Maseru 20, Mohale's Hoek 6, Butha-Buthe 5, Mokhotlong 1, Qacha's Nek 1
Other activities	10	Maseru 3, Leribe 3, Berea 2, Mafeteng 1, Qacha's Nek 1

Total	475	

2.4 Linkages

In general, backward and forward linkages are weak within Lesotho's manufacturing sector. There are backward linkages with the agro-industries sub-sector, especially in food processing. Fruit and vegetable canning is linked back to fruit and vegetable growing in the agricultural sector; the abattoir is linked back to the cattle industry; the poultry cooperative to poultry growing; the milk processing plant to the cattle industry; and seed and nursery production to agriculture. The bakery branch is linked with flour milling;and building materials and pottery to clay and stone. Handicrafts have backward linkages to wool and mohair production and clay and stone and forward linkages to final consumers, including tourists. Beyond those, there are very few linkages. Cans for both the brewery and vegetable fruit processing are imported - as are the other inputs for brewing. Leather for shoes and bags is imported from RSA as is the wood for the sawmills, the grain for flour-milling, and the textiles for the clothing industry.

One valuable linkage, as far as small-scale producers is concerned, is the sub-contracting arrangements between large and small enterprises in both knitting and shoe manufacturing. Otherwise there are few linkages between large and small enterprises and very little transfer of technology from the larger (mainly foreign) firms to the smaller ones. There is great potential for significant sub-contracting relationships and they should be investigated and operationalized during the IDDA. Linkage and sub-contracting possibilities also exist between indigenous small-scale enterprises and the Lesotho Highland Water Development scheme. The establishment of a sub-contracting exchange would assist in the exploitation of such potentials by disseminating information among small-scale and large-scale enterprises.

2.5 Trade in Manufactured goods

The value of manufactured exports from Lesotho in 1989 is estimated at M94 million or 55 per cent of total exports. The largest element within this total was "miscellaneous manufactures". Within that heading, in turn, clothing and footwear and umbrellas constituted 90 per cent. Table 2.7 shows total exports by commodity from 1984 through 1988.

Table 2.7 <u>Exports by Commodity</u> (M millions)

Commodity	1984	1985	1986	1987	1988
Cattle	2.1	1.0	0.2	1.4	2.5
Meal & Wheat Flour	0.9	1.3	1.7	3.4	2.3
Preserved fruits & vegetables		1.2	1.2	2.6	3.3
Beverages				2.2	2.1
Wool	7.4	11.8	13.8	15.1	19.1
Mohair	10.1	11.7	6.5	3.3	4.5
Chemical & Pharma. products	0.9	0.8	1.5	1.6	1.9
Diamonds	0.6	1.7	2.0	2.0	0.9
Road Vehicles & Parts	0.5	0.7	1.7	1.9	1.2
Apparel & Clothing	3.7	6.0	7.1	25.1	49.3
Footwear	2.5	3.3	7.4	5.5	21.8
Umbrellas	0.9	1.7	2.5	4.7	7.7
Other Commodities	10.7	8.8	12.4	25.5	28.3
Total	40.3	50.0	57.9	94.7	144.9

Source: Bureau of Statistics

As regards the direction of exports, 75 per cent go to RSA, 11 per cent to the US, and 10 per cent to the EC. Only 1.5 per cent of total exports are sold within the SADCC region. In the case of miscellaneous manufactures, 61 per cent go to RSA, 23 per cent to the US, and 13 percent to the EC. Only a negligible amount is sold to SADCC countries. In the cases of food and beverages, 85 per cent goes to RSA and 11 percent to the EC. Imports of manufactured goods in 1989 amounted to M 853 Million. 86 per cent were sourced in RSA, 5 per cent in the EC, and 2 per cent in the US. Clearly, although the objective of reducing trade dependence on South Africa is understandable, any significant realization of that objective presents a formidable challenge.

2.6 Major Problems and Constraints

At the general level, the major problems and constraints are:

- over dependence on RSA for inputs, markets, technology, and services.

- uncertainty regarding the impact on Lesotho of developments in RSA at the political and economic levels during IDDA 2.

On the supply side the major problems and constraints are:

- poor performance in the agricultural sector limits the availability and quality of inputs to the agro-industries sub-sector.

- high import content in many sub-sectors

- although labour is considered to be highly trainable, there is an absolute shortage of skills at technical, supervisory, and managerial levels.

- low capacity utilization in the parastatal sector

- delays in provision of physical infrastructure to the manufacturing sector

- weaknesses in entrepreneurial ability

- shortage of credit to small-scale enterprises especially women, despite the fact that the banks are liquid. Existence of funds from UNCDF will henceforth provide guarantees in lieu of collateral but the facility needs to be enlarged.

- weaknesses in information systems

- The absence of an industrial advisory and extension service in the Ministry of Trade and Industry for medium and small-scale enterprises slows down project identification, preparation of project profiles, provision of advisory services, and dissemination of project information through seminars, and follow-up advisory and monitoring services.

- weakness of backward and forward linkages constrains spread of multiplier effects from new investments.

- a very serious lack of programmes of preventive maintenance creates a rehabilitation problem which itself constitutes a major production constraint.

On the demand side, the main problems and constraints are:

- small size of domestic market constrains import substituting enterprises

- lack of information on US and EC markets constrains indigenous small and medium-sized enterprises from exploiting their market potentials.

- weaknesses in quality of production and design in medium and small.scale enterprises reduce international competitiveness of manufactured products.

SECTION 3

INDUSTRIAL STRATEGIES AND POLICIES

Since independence, Lesotho's strategy for development of the manufacturing sector has been clearly articulated to be development through the private sector. The government has not generally undertaken industrial production through parastatals nor has it imposed significant regulations on economic activities. It has also been export oriented. In recent years due to government's efforts in support of exports, the export performance has improved significantly.

However, Lesotho still needs imported capital, technology, and assistance in exploiting its many international market opportunities. Foreign investment is perceived to be necessary and is welcomed from all countries.

3.1 Objectives of Industrial Policy

In the government's Fourth Plan (1986/87-90/91) the main objectives of industrial development are stated to be promotion of Lesotho's growth and increase in its self-reliance. These general objectives are consistent with those of the Lagos Plan of Action and IDDA 2.

The plan's subsidiary objectives are the following:

- reducing the unfavourable balance of trade
- creating additional employment opportunities
- promoting Basotho entrepreneurship
- encouraging greater regional decentralization and dispersal of industrial benefits in the country through resource-based and small-scale industries.

The growth target for manufacturing over the period of the plan was set at 9 per cent p.a. which was designed to result in a 7.3 per cent share of GDP in 1990/91. The incremental capital output ratio (ICOR) was assumed to be 5.1. In the event, the ICOR is estimated to be around 3:1 and manufacturing is now 11 per cent of GDP. The sector's job creation target of 7,600 should also be more than realized.

On the issue of strategies and policies, the plan states that despite notable achievements industrial development has been hampered, up until the Plan's launch, by lack of a clearly articulated strategy and strong commitment to supporting policies. It promised that decision-making, monitoring, and executive capabilities in the Industry Division of the Ministry of Trade and Industry would be increased. The government declared its intention to review and modify the inventives system and to give careful consideration to the use of Article 6, the Protection Clause, in the Customs Union Agreement, where this would be beneficial to Lesotho's development. As will be seen below, the incentives system has, in the meantime, been reviewed and modified. However, Article 6 of the SACU agreement has not been activated by Lesotho as a means of promoting infant industries.

In addition to undertaking institutional reforms at the level of the Ministry of Trade and Industry, the plan also promises to improve its services to private entrepreneurs, large, medium, and small-scale through its parastatal investment promotion institutions, the Lesotho National Development Corporation (LNDC) and the Basuto Enterprise Development Corporation (BEDCO) and to support the activities of the private sector agencies involved in the promotion of manufacturing and trading activities. Finally, the plan specifically declared that industries manufacturing inputs for the Lesotho Highland Water Project (LHWP) would be given priority status during the plan period.

3.2 Institutional Support for Industrial Development

Institutional support for Lesotho's industrial sector is provided in the main through two development corporations, the Lesotho National Development Corporation (LNDC) and the Basuto Enterprise Development Corporation (BEDCO). LNDC was the first of the two to be established at a time when there was a need to deal effectively with foreign investors. Later the government realized the need to put more effort into promoting domestic small-scale industry.

3.2.1 Government

The Ministry of Trade and Industry (MTI) is responsible for the formulation of industrial policy. Its task also includes the supervision and coordination of the industrial and commercial parastatals including LNDC and BEDCO. Its staff is weak both in numbers and, for the most part, in professional experience. Recently it has created a Department of Industry which has the services of a UNIDO Technical Adviser.

The Department's staff at the moment consists of 13 professional staff most of whom are inexperienced. With UNIDO assistance it has carried out a survey of small scale enterprises (SSEs) and prepared projects for SSE entrepreneurs to submit to the Lesotho Bank for finance. The Lesotho Bank Projects Unit at the moment looks to MTI's SSE division as its main source of projects.

The Trade Promotion Unit (TPU) of the Ministry of Trade and Industry was established in 1978 to promote, coordinate, and develop the country's foreign trade with a view to expediting realization of the country's industrial and agricultural potential. In general TPU offers technical assistance and advice to the business sector, promotes and publicizes the country's exports abroad, undertakes market research and studies on specific exportable products, and assists foreign buyers.

TPU is an integral part of the Ministry but receives support from the International Trade Centre UNCTAD/GATT (ITC). The Unit needs strengthening but, with ITC assistance and support, has managed to provide essential services to investors. Since its inception TPU has been assisted by the ITC, through a project financed by the Government of Norway. A team of resident advisers is available to assist exporters and foreign buyers. In addition, ITC's world-wide trade information network and contacts are available on request. The EC also provides assistance to TPU in organizing participation at overseas trade fairs as well as other specialized areas of export promotion and development. From time to time assistance is provided by UNCTAD, the Commonwealth Secretariat/CFTC, and other international technical cooperation agencies.

3.2.2 Parastatal Institutions

The two parastatal institutions which operate as investment promotion agencies are LNDC and BEDCO. The LNDC was established in 1967, to initiate, promote and facilitate the development of the manufacturing and processing industries, mining, and commerce in a manner calculated to raise the level of income and development in Lesotho.

The LNDC identifies medium-scale and large-scale projects and looks for potential investors. The arrangement with BEDCO is that LNDC deals with projects involving investment of more than M250,000, (BEDCO with investments below this figure) but this limit has not been adhered to strictly. LNDC invests directly in projects where other investors are not forthcoming and provides funds in the form of both equity and loans to enterprises assisted. The LNDC also provides serviced sites and industrial and commercial premises on a rental basis.

Because in practice LNDC is involved in virtually all new large and medium scale (and even some small scale) industrial development in the country, it has been directly involved in all government plans and strategies for industrial development. For nearly 20 years, LNDC remained completely owned by GOL, reporting to the Ministry of Trade and Industry, and operating under the provisions of the LNDC Acts, as amended from time to time. The West German agency DEG has, however, recently purchased convertible preference shares which entitle it to become a 10 per cent shareholder in LNDC, and is contemplating further equity linked investments.

LNDC has until now relied for its funding on government grants as well as loans from the European Investment Bank, the African Development Bank, and IDA, as well as commercial loans from the Commonwealth Development Corporation (CDC), EDESA, SIDIFA, and the Lesotho Bank. The World Bank/IDA has provided two credits to LNDC, the most recent for US$ 4 million approved in 1980 and closed in 1987.

BEDCO was established in 1975 as a subsidiary of the LNDC with the objective of establishing and developing Basotho-owned business enterprises. In 1980 the BEDCO Act was promulgated and it established BEDCO as a parastatal on its own. The BEDCO Act does not specify the size or nature of the enterprises to be promoted. Despite this lack of specificity BEDCO has regarded its task as assisting local small-scale entrepreneurs in the manufacturing, trading, and service sectors.

From the beginning BEDCO has depended on the support of international donors. The dominant supporting agency has been CIDA - the Canadian International Development Agency - which provided C$ 7.9 million in the period 1975 to 1985 when CIDA support was terminated. CIDA provided funds for the construction of small industrial estate outside Maseru, for equipment for woodworking and metalworking and common facility workshops and also funds for BEDCO's credit line for SSEs. CIDA also provided three expatriates who directly managed BEDCO's main functions. The small estate at Mohale's Hoek was funded by a grant from ODA of the United Kingdom and that at Leribe by a loan from the African Development Bank. The World Bank/IDA gave US$ 300,000 for BEDCO's credit line in an earlier credit. Technical assistance to BEDCO was also provided by a variety of multilateral and bilateral agencies.

In the period 1977-1987 BEDCO approved 271 loans for an amount of M3.6 million. Of this amount, 246 loans for a total of M3.168 million were actually disbursed by late 1988. Average loan size was M12,900 (around US$ 6,000 at the time). BEDCO's loans have never exceeded M100,000 despite the fact that the upper limit was theoretically raised, per arrangement with the LNDC, to M250,000.

As regards BEDCO's other activities, its business extension and advisory service has been virtually non-existent mainly because of lack of qualified staff. Members of the Lesotho Manufacturers' Association (LMA) complain that while BEDCO promised marketing help and technical advice, this was never delivered. There are also charges that whatever marketing help was given was to a favoured few. The LMA, whose members form the main clientele for BEDCO's services (including members who occupy premises on the BEDCO estate) are generally critical of the institution. BEDCO has developed a number of useful courses, however, including an entrepreneurial development training course introduced by a German advisor in 1987.

3.2.3 Private-Sector Institutions

The Lesotho Chamber of Commerce and Industry (LCCI) was registered in 1976 and currently enjoys a membership of some 2,500, mainly in the trade and service sector. The LCCI represents the amalgamation of the two business associations that were active at the time, namely the Lesotho Chamber of Commerce and the Basotho Traders Association. The LCCI is managed by a committee of its members referred to as the National Council. The National Council is made up of representatives from all the branches of the LCCI and meets annually during the Annual General Meeting. To facilitate the management of LCCI business, the National Council appoints an Executive Committee which is mandated to meet at least once every quarter. In turn, the Executive Committee is empowered to appoint a Management Committee to oversee the day-to-day affairs of the LCCI. With support from USAID, the LCCI was able, early in 1990, to secure the services of a highly qualified full-time Executive Director to assist the Management Committee, and take responsibility for office management.

The LCCI works very closely with the Ministry of Trade and Industry on matters relating to investment promotion and facilitation. It is invariably consulted before new laws affecting the business community are promulgated. The bulk of the members of the LCCI are in the small-scale enterprise sector and require services to upgrade their business skills. LCCI runs a number of projects in this area in cooperation with the Business Training Centre, jointly run by the University and the Ministry of Trade and Industry. In addition LCCI promotes skills training in its effort to encourage and assist members to enter more into the productive sector. It is considering a major restructuring exercise aimed at making itself more amenable to the needs of businessmen in the manufacturing sector. Discussions have been initiated with the LMA to see how the new restructured LCCI would operate.

The Lesotho Manufacturers' Association (LMA) was established in 1981. The major objectives of the LMA are to consult with the Government on matters of concern and interest to members, and to initiate programmes that would alleviate the problems facing their members in such areas as finance, marketing, and skills.

One of the major constraints that members of the LMA cite relates to the difficulty of getting bank credit because of lack of collateral. LMA now provides loans to members from its own revolving loan fund. It also sponsors management and skills training with technical assistance from the German Agro Action agency as well as a graduate assistance programme. Under this programme LMA subsidizes salaries of qualified graduates engaged by members for one year. The objective is for businessmen to notice the incremental benefit of employing a qualified graduate, with the hope that this will lead to an improvement in the management and operation of members' enterprises. Other services provided by the LMA to its members include marketing support for their products.

3.2.4 <u>Priority Industries</u>

There are certain types of investments which the government considers to be especially suitable for Lesotho. In offering incentives to investors, LNDC gives priority to them.
They are:

- export-oriented industries
- industries using labour-intensive technologies
- industries which establish or strengthen backward and forward linkages
- certain import-substitution industries.

In its <u>Investment Guide to Lesotho</u>, the LNDC explains its priorities as follows:

(i) In view of the small size of the local market, industrial development is geared towards the establishment of export oriented manufacturing units. In principle, any export oriented project found suitable for Lesotho is encouraged, provided it satisfied established criteria related to employment creation, foreign exchange benefits and importance of technology and know-how introduced.

(ii) Prime consideration is given to appropriate technologies in manufacturing with significant input of manual skills, and manufacturing based on local raw materials. Encouragement is given to manufacturing of labour-intensive consumer goods such as clothing and footwear, bags, furniture, electronic and other light engineering products.

(iii) The textile sector has witnessed an impressive growth, especially the garment manufacturing aspect. However, all of the fabrics are currently imported and therefore the situation is ripe for vertical integration by establishing spinning, weaving and dyeing processes in Lesotho. These types of industries are encouraged together with ancillary industries to the textile sector such as production of zip fasteners, collar supports, trimmings, elastic braids and buttons.

(iv) The government is currently implementing the Lesotho Highland Water Project (LHWP). It has the potential to generate spin-offs in construction and engineering materials and other indirect supplies. The government intends to maximize benefits to industry from the project by promoting industries which would provide it with inputs such as construction materials and processed foods.

In relation to this last-named issue, the government set up a committee in November 1990 to examine how best to exploit the economic benefits arising from the LHWP.

Membership of the Committee, which will be chaired by the MTI's commissioner for Industry, will include representatives from the Lesotho Highland Water Authority (LHWA), relevant government ministries including the Ministry of Works, and relevant agencies such as LNDC and BEDCO.

The LHWP could also be expected to act as a catalyst for tourism development in the Highlands and such tourism activity would itself tend to generate demand for many inputs which could be provided by Basotho entrepreneurs.

3.2.5 Industrial Incentives

The industrial incentives offered by Lesotho include:

- industrial sites and purpose-built factories for rental
- concessionary loan finance and, if required, equity participation
- loan guarantees on finance provided by the banks
- training grants
- free movement of capital, but with profits and interest subject to a withholding tax
- export financing facility
- refunds of customs duties on imported raw materials and components used in the processing manufacture of goods for export.
- guarantee of foreign investments under the World Bank's Multilateral Investment Guarantee Agency.
- a company tax rate which has recently been reduced from thirty seven and half per cent to 15 per cent for manufacturing concerns. (It would also be helpful to industry if the government were to reexamine the disincentive effect which the general sales tax (GST) on capital, raw materials, and intermediate inputs is having on industrial investment).

In the past, investment promotion had been fragmented, with responsibility divided between a number of government agencies. The government is now in the process of establishing the "one-stop shop" facility within the LNDC which has always been at the forefront of investment promotion. In this effort the government is being assisted by the World Bank. The bulk of the support provided under this new initiative is likely to go to foreign investors and to large and medium-sized enterprises covered by the

Industrial Licensing Act. The indigenous small-scale sector is unlikely to benefit much from it. However, the government's objective of increasing job creation in industry can only be achieved if it provides significant and visible support to the small-scale sector. Thus the government needs to give strong support to BEDCO in its efforts to promote the indigenous small-scale entrepreneurs.

3.3 Related Policy Issues

There are a number of other policy issues which impinge directly or indirectly on development of the manufacturing sector in Lesotho. They are:

- wages policy
- resource-based industries
- timely provision of industrial infrastructure
- industrial land
- technology policy
- industrial skills and training needs
- women in industry

3.3.1 Wage Policy

There is a Statutory Wages Advisory Board which was established to fix minimum wages for employees in the commercial and industrial sectors. Minimum wages are reviewed periodically. When this happens, however, employers often suggest that it will lead to a reduction in Lesotho's competitiveness compared with that of its neighbours, especially the South African "homelands". Low wages which undoubtedly act as an attraction for footloose capital in many parts of the world, can act as a double-edged sword in Lesotho's case.

From the worker's point of view, wages that are lower than those in neighbouring areas will tend to drive them out to seek employment in those relatively high-wage areas, thus depriving the sending area of mobile (usually young and energetic) and probably skilled labour. For example, although migrant remittances are obviously beneficial as a major element in the financing of Lesotho's substantial trade deficit, the loss of skilled manpower is a disadvantage for the economy, particularly in the agricultural sector.

Since 1983, there has been a new "brain drain" of professional and government workers from Lesotho to the "homelands" of South Africa in response to substantially higher wages and benefits. It would be wasteful of scarce resources for Lesotho to spend substantial sums on development of industrial and entrepreneurial skills if large numbers of the trained people were later to migrate out of the country because of higher wages elsewhere. There is a conflict to be resolved in Lesotho's case between the twin objectives of low wages and availability of skills for industry or, to put it another way, between competitive wages from the macro viewpoint (relatively low) and competitive wages from the micro viewpoint (relatively high).

3.3.2 Resource-based industries

Although LNDC encourages foreign investment, it makes no practical distinction between indigenous and foreign investors in its award of incentives. However, it appears to be anxious to try to reserve for indigenous entrepreneurs resource-base manufacturing activities (those which process domestic raw materials such as wool and mohair, clay, and so on) which it regards as "strategic". Indeed, if indigenous entrepreneurs are not ready to participate in such activities, LNDC has declared its intention to assume the role of local joint venture partner with 51 per cent equity holding until such time as a local entrepreneur is able to get involved. This has tended to have the effect of slowing down investment in such activities. For this reason, the more recent change of attitude whereby LNDC has declared its intention of being "flexible" by removing the existing requirement that the LNDC retain a majority ownership in joint ventures in resource-based industries is to be welcomed.

3.3.3 Timely provision of industrial infrastructure

As already noted under 2.6 above, there are often serious delays in the provision of physical infrastructure and services to industry such as roads to industrial estates, electricity, telecommunications, and water services. Basically the problem arises from lack of forward planning of major developments. Utility companies need a minimum of three years before major works can be mobilized.

These problems need to be resolved in a country like Lesotho which is competing with neighbouring areas in terms of its incentives package, part of which is its infrastructural facilities.

3.3.4 Provision of Industrial land

The 1979 Land Act creates some problems for foreign investors and companies with majority foreign ownership. They cannot buy or lease land but only obtain sub-leases for limited periods. Such sub-leases, given the terms attached to them by LNDC, are often not acceptable by banks as collateral for loans. Indigenous investors face their own problems in obtaining land from the Land Commission for industrial purposes. The process whereby investors in general obtain land and can use it as collateral for loans needs to be streamlined.

3.3.5 Technology

The more developed becomes the manufacturing sector in Lesotho the more necessary becomes development of a strategy and policy technology. Technological development has to be linked to industrial development. Lesotho has to develop its technological capability so that it can select, acquire, adapt, absorb, and diffuse imported technologies and negotiate better on their acquisition . It is important to choose and utilize appropriate technologies. Its technical training at all levels needs to be upgraded. Lesotho needs to develop a policy on technology and to implement it through appropriate institutions and mechanisms. One of the Fourth Plan's objectives is the establishment of a National Council on Science and Technology.

3.3.6 Industrial Skills

Industrial technology and the skills required to use and manage it are subject to continuous charge. The imparting of skills to suit today's technology is an insufficient basis for the creative adoption, let alone adaptation, of whatever technologies will be used tomorrow. The basis for training programmes in industrial skills and management is thus a sound basic education for all which encourages the search for creative and innovatory approaches. A sustainable indigenous industrial sector - as distinct from one subject to the whims of footloose foreign investors - can be developed if training programmes in production and management skills are based on the realization that skills competencies have to be continuously upgraded and renewed.

The approach most likely to succeed in technical training programmes is one that imparts an understanding of how machines work, why they must be continuously maintained, that there may be better ways of doing the job, and that these ways should be constantly sought.

3.3.7 Women in Industry

For no group in society is education and production and management training programmes that embody the characteristics outlined under 3.3.6 so necessary as in the case of women. The women of Lesotho are strong in terms of numbers and in latest management and entrepreneurial capabilities. They carry the main load in the agriculture sector and in parenting. One of the reasons for low productivity in agriculture and small-scale industry is because women are not receiving training, or are not receiving the right type of training, and sufficient encouragement to realize their business potential because of restrictions on access to credit. Their special needs and experiences need to be taken into account and turned to advantage. Moreover, in the case of all public sector and donor assisted programmes, their direct and indirect impacts on women must be formally assessed at the design stage.

SECTION 4

ASSESSMENT OF THE IMPLEMENTATION OF THE FIRST IDDA PROGRAMME AND CURRENT DEVELOPMENT AID

4.1 Assessment of first IDDA programme

The idea of designating the 1980s as the Industrial Development Decade for Africa (IDDA) arose from the Lagos Plan of Action 1980 and the adoption by the African Heads ofStates and Governments of the concepts of self-reliance and self-sustainment as an objective approach to industrialization on the continent. Both stressed the imporance of viewing the continent as a whole or in sub-regions rather than as "40 to 50 bits and pieces". Only in this way could a reduction in dependance on external inputs and markets be achieved and "internal engines of growth" be constructed. Consequently, as a continental strategy, the deliberate enlargement and consolidation of domestic markets and their combination, through economic cooperation, into markets accomodating economies of scale was to be pursued. According to an independant evaluation of IDDA I completed in 1989 (CAMI 9/20 Add 1 and ICE 1989/20 Add 1, 12 April 1989), the basic strengths of the IDDA approach consisted in its:

(a) defining of goals from the Lagos Plan of Action, namely self-reliance, self-sustainment, and the creation of internal engines of growth;

(b) provision of a framework within which individual countries could design their industrial development strategies; and

(c) the flexibility left to individual countries to prepare their industrialization plans to suit their own circumstances.

The weaknesses were seen to be:

(d) IDDA lacked a programme identity;

(e) it was too diffuse and amorphous to become an operational instrument;

(f) it was over-optimistic in its assumptions of the practical possibilities of major industrial investments in the Decade;

(g) it was equally over-optimistic about the practical possibilities of regional cooperation;

(h) it lacked quantitative targets;

(i) it paid inadequate attention to the economics of investment and to resource availability; and

(j) it lacked a budget (p 119).

Given that the overall objectives set out under (a) above were couched in continental or regional terms, over-optimism regarding the practical possibilities of regional cooperation certainly acted as a major constraint on the achievement of the self-reliance goal. It is also doubtful whether individual countries subsequently produced IDDA programmes as they are now doing for IDDA 2 (certainly Lesotho did not) or even used IDDA as a framework within which to design their own industrial development plans. Nevertheless, it must be acknowledged that the very generality of the IDDA approach (or "diffuse and amorphous" to use the evaluator's words) permits most national industrial programmes to be consistent with it. This is certainly true in the case of Lesotho's approach to industrial development.

The 1930s concided with recession and aid cut-backs in industrialized countries and are generally considered - not only because of such exogenous factors but also for endogenous reasons - to have been "a lost development decade for Africa". With respect to the objectives of IDDA, the evaluators implicity conclude that the Decade was a failure when they state that "the dependency factor has not been reduced (and) the industrialization of Africa has not become a reality." (p 120).

This conclusion that the Decade failed is made explicit in the ninth joint progress report on the implementation of IDDA produced by the secretariats of the OAU, ECA and UNIDO in March 1990. That report provided a list of what it described as "complex constraints" to explain the failure of the Decade. They include:

(a) Structural weaknesses (lack of core industries with backward and forward linkages, small size of the domestic markets and their lack of regional intergration, low capacity utilization, import dependance, lack of important components of basic engineering, concentration on easy import substitution, deficiencies in institutional infrastructure);

(b) inadequate and inefficient industrial strategies and policies;

(c) lack of political commitment to market and resource pooling at the sub-regional level;

(d) lack of major factor inputs, repair and maintenance capabilities, entrepreneurship and financial resources as well as mounting debt and high interest rates; and

(e) exogenous factors such as a deterioration in the terms of trade, falling aid flows, balance of payments deficits, and the impact of operations of both transnational corporations and of structural adjustment programmes.

If this list is meant as an explanation for the failure of Africa (and its individual countries) to make significant progress during the 1980s to increase industrial output, then the list is only in part a description of constraints. To a much greater extent it is a listing of those very conditions which the development process - and especially the development of industry - is designed to overcome. In other words, put in positive terms, most of them become the objectives of industrial development strategy. As a listing which might assist in the design of IDDA 2 it is not very helpful. The main reasons why the Decade made very little progress toward reaching its goals (increasing regional self-reliance and self-sustainment, reducing dependence on external inputs and markets) are the following:

(a) a "top-down" approach: very little involvement of individual governments in the formulation of IDDA; little use, if any, of IDDA by governments as a framework within which to formulate their national industrial development programmes (reflecting a lack of sensitization to the IDDA) and a consequent failure of these programmes to "feed up" into a revised IDDA to any significant extent;

(b) inadequancies in the regional cooperation element of the strategy: a general failure to persuade individual countries to take a complementary rather than competitive approach to selection of potentially regional or sub-regional projects as wellas poor project design at this level and lack of clarity on how projects are prioritized for inclusion in regional and sub-regional programmes or how thei implementation is to be advanced;

(c) deficiencies in the institutional infrastructure to implement objectives and coordinate actors to do the jobs; and

(d) lack of government and donor funds.

These are the most important constraints that will have to be addressed in the formulation and implementation of the second IDDA.

4.2 Development Assistance

Given the need for donor assistance , help realize the objectives of the IDDA, it is relevant in Lesotho's case to examine the recent record in terms of official development assistance (ODA). It is also relevant to try to deduce the reasons for fluctuations from year to year.

In real terms Lesotho's net receipts of ODA declined over 30 per cent between 1980 and 1986. There were signs of recovery in 1987. This increase was consolidated in 1988. Since this increase in inflows over the 2-year period concided with the announcement of the IMF's structural adjustment programme, it can be deduced that a perception on the part of donors that a country's absorptive capacity has improved will tend to lead to increased ODA flows. Of course need is also a powerful determinant and Lesotho's classification as a least-developed country undoubtedly explains the very high grant element in its ODA receipts. Overall, it ws about 82 per cent in 1988 with all the bilateral aid being on grant terms.

After debt service on the non-grant element of earlier support, Lesotho's net receipts of development aid rose by some 20 per cent between 1986 and 1988.

The importance of multilateral assistance continues, but a near doubling of EC disbursements eclipsed the contributions of the African Development Fund and the World Bank's IDA in 1988. Bilateral aid is very diversified, but the USA, West Germany and the UK accounted for about three fifths of the total.

Table 4.1 Gross official development assistance [a]

	1982	1983	1984	1985	1986	1987	1988
Bilateral	57.3	67.4	69.3	55.1	58.2	62.6	70.2
of which:							
USA	25.0	25.0	32.0	19.0	19.0	19.0	21.0
West Germany	9.8	14.8	11.7	8.2	12.0	10.5	10.6
Sweden	2.1	3.4	2.6	6.9	6.7	8.1	9.5
UK	6.6	7.1	7.0	3.1	5.6	6.4	8.7
Multilateral	36.5	40.8	31.7	40.6	34.4	47.1	40.0
of which:							
ADF	7.9	3.5	1.8	4.8	5.4	11.1	7.3
WFP	3.4	10.6	8.3	10.2	8.1	10.6	4.0
EC	6.7	5.5	7.5	7.5	6.2	7.4	14.1
IDA	8.3	8.5	6.0	7.9	6.0	8.6	7.0
Total	93.8	108.3	101.1	95.6	92.7	110.3	110.2
of which:							
grants	73.2	88.1	86.5	76.1	80.0	86.0	90.9

[a] Disbursements. Oficial development assistance is defined as gants and loans with at least a 25 per cent grant element, provided by OECD and Opec member countries and multilateral agencies, and administered with the aim of promoting development and welfare in the recipient country. IMF loans, other than Trsust Fund facilities, are excluded, as is aid from the Eastern bloc.

Source: OECD Development Assistance Committee, Geographical Distribution of Financial Flows to Developing Countries, 1990.

In 1989 total reported external assistance to Lesotho amounted to US$ 86 million. Of that the UN system delivered just over 34 per cent, bilateral donors 31.7 per cent, non-UN multilateral agencies 31.1 per cent, and NGOs 2.7 per cent.

About three quarters of UN aid delivered through UNDP's Fourth Country Progamme (1987-91) is being spent under four main headings: agriculture 31 per cent, general development issues 22.4 per cent, transport 11.6 per cent, and industry 8.9 per cent. Technical assistance to industry is designed to assist the Ministry of Trade and Industry to develop an industrial strategy and coordination mechanism and provide technical support to women entrepreneurs. Under those headings the focus is on 3 key areas: strengthening the planning and economic management process especially in the productive sectors of the economy; training; and promoting export-oriented income generating activities in rural areas.

Among bilateral donors, the top five in 1989 were the US (48 per cent), Sweden (18.7), UK (15), Canada (7.9) and Ireland (7.6). Donors have endorsed the programme approach to aid delivery. This brings them into line with the approach which the UN is using and the approach which the government has declared its intention of using in preparing the Fifth Development Plan. This concidence of approach promises to improve the overall allocation of resources available to government during the next plan period and throughout the IDDA.

SECTION 5

PROGRAMME FOR THE SECOND IDDA

5.1 Objectives, strategies and policies for the second IDDA

5.1.1 Overall IDDA objectives and strategies

The fundamental goal of the second IDDA, as in the case of the first, is the achievement of self-reliance and self-sustainment in the African continent. This calls for an increasing use of local factor inputs, institutionalizing and intensifying integration and cooperation schemes among African countries with the full involvement of indigenous enterprises, both public and private, and the building up of domestic production structures capable of meeting changing local demand.

These objectives at the continental level are to be realized through the following broad strategic approaches:

(a) using industrialization as a means of attaining self-reliance and self-sustainment;

(b) reducing traditional dependence on forces and factors outside the continent;

(c) promoting internal engines of growth;

(d) increasing the use of domestic factor inputs;

(e) promoting the establishment in Africa of core and strategic industries;

(f) developing critical national capabilities, human, institutional and infrastructural, for project design, project execution, negotiating skills, mobilization of financial resources, support services, entrepreneurship and business management;

(g) promoting regional and sub-regional cooperation as a practical means of enlarging markets, establishing multinational core projects, and strengthening the interdependent physical and human infrastructure.

Given the crisis in Africa and unfavorable conditions at the global level in the eighties - which blew the first IDDA off-course - it will be necessary in IDDA2 to strengthen these strategies to include the following pragmatic areas of action:

(a) promoting the consolidation of existing investment, through rehabilitation of existing industries where necessary and the implementation of programmes of preventive maintenance throughout industry.

(b) expanding existing assets and promoting new core investments, keeping in mind national endowments, markets capabilities, and viability based on sound commercial and socio-economic considerations;

(c) promoting the creation and upgrading of all types of human skills required for integrated industrial development;

(d) developing an appropriate supporting physical infrastructure;

(e) improving the quality and range of the institutional infrastructure;

(f) strengthening and extending programmes of regional and sub-regional cooperation.

5.1.2 National IDDA Objectives

The objectives and strategies of the second IDDA are certainly compatible with Lesotho's development goals for the coming decade. However, in terms of objectives, those which will guide the Lesotho programme during IDDA2 also specifically include the following:

- Increased domestic employment, particularly in the industrial sector

- Increased productivity leading to rising real incomes

- Improved urban-rural balance

- Environmental sustainability
- Enhanced socio-economic status of women
- Improving both the balance of trade and the balance of payments positions

The challenge facing Lesotho is to create as much productive employment as possible through growth in the domestic economy. Given the country's limited natural resources and its unique geographical position, Lesotho faces a number of constraints on its future development. The economy faces uncertainties as South Africa moves away from apartheid to full democratic rule, especially with respect to future migrant remittances and the continuation of current economic arrangements in their present form. Soil erosion and general environmental degradation continue to impede growth in agricultural productivity, while the land tenure system continues to be perceived by investors as a problem.

5.1.2.1 The employment creation objective

The employment challenge is brought into sharp relief by examining some demographic and employment data. In 1986, 20 per cent of the total labour force was employed in South Africa: this represented 40 per cent of males in the labour force and 59 per cent of males aged 20 to 44 years. In contrast, the modern sector resident in Lesotho (the domestic labour force) employed 65,000 or just over 9.5 per cent of the total labour force. The residual of 450,000 (or around 70 per cent of the total) was engaged in (mainly subsistence) agriculture and the informal sectors.

As already noted, there are uncertainties regarding the numbers of mining jobs which will be available to Basotho in the years ahead. The probability is that they will decline. If we were to assume that they would decline by around 2 per cent per annum during the Decade and Lesotho-based formal sector employment were to increase by around 3.7 per cent per annum, then the residual labour force would grow to reach 77 per cent of the total by the year 2000.(This is because the decline in the former, although smaller in percentage terms than the increase in the latter, has a bigger absolute effect because of its larger base in absolute numbers). The growth to 77 per cent in the residual would be an unsatisfactory development especially in terms of reaching the priority national objectives of IDDA2. The government's intention is that the size of the residual in 2000 would not only be below 77 per cent of the total but below its present level of 70 per cent. The challenge for employment creation in the formal sector and especially within manufacturing is thus a formidable one especially if the outlook for migrant employment is worse than that already assumed. The total labour force is projected to grow to almost a million by 2000

(from 672,000 in 1986). If the residual is to remain at 70 per cent of the total labour force in 2000 employment in the formal sector will have to reach 17 per cent of the total by that date (compared with 9.5 per cent in 1986). If the residual is to brought below 70 per cent, a reasonable target, than the formal sub-sector will have to expand even more.

Another priority objective is increased labour productivity. Clearly, labour-intensive methods of production are going to have to be widely used if a significant increase is to be attained simultaneously with an increase in the numbers employed in the formal sector, especially in industry. These twin objectives of increasing formal employment and raising productivity can only be reconciled if the general education and skills development programmes are correctly focused.

5.1.3. National IDDA strategies

Strategies being developed by the government of Lesotho are very much in line with those adopted for IDDA2 at the African level. However, in order to reconcile strategies at the national level with the objectives listed at the national level, the continental-level strategies are reinforced by the following specific national list.

1. Strengthening public sector planning, management, and administrative machinery

2. Preparing a programme of sound environmental management

3. Enhancing the role of the private sector in production, including manufacturing, supported by an improved enabling environment and policies provided by government

4. Improving the provision of basic services, including physical infrastructure and communications in the rural areas.

5. Restructuring and increasing support to investment promotion institutions, especially LNDC, BEDCO, and TPU

6. Promoting small-scale and informal sectors

7. Releasing the creativity of the population by providing a sound basic education.

8. Harnessing the latent entrepreneurial talents of Basotho, especially of Basotho women, through increasing policy support for indigenous enterprises.

9. Upgrading technical skills through the promotion of an apprenticeship scheme and apprenticeship training as well as by strengthening formal technical education.

10. Developing maintenance and repair capabilities

11. Gearing agricultural production toward income generation and the provision of increased inputs to industry

12. Exploiting to the full the country's tourist potential

13. Rehabilitating existing industries in order to make them more efficient and profitable

14. Promoting backward and forward and lateral linkages

15. Restructuring the government's procurement system, especially for minor works, so that it supports employment creation in the private sector.

16. Expanding the financial system established to improve access to bank credit by Basotho, especially Basotho women entrepreneurs.

17. Supporting regional and sub-regional cooperation in provision of factor inputs, human resource development, and in the establishment of regional and sub-regional investments.

5.1.4 Assumptions underlying the IDDA programme

As already acknowledged in Section 1, designing a national IDDA2 programme for Lesotho at this time is a very difficult task. It is located in a region which is undergoing irreversable transformation. But the details of the transformation process and their impact on Lesotho are unknown. To produce an IDDA2 programme, however, it is necessary to make a number of assumptions regarding the ways in which some of the major factors influencing the industrial sector in Lesotho are likely to go in the decade ahead.

The assumptions that lie behind this IDDA programme for Lesotho are that during the 1990s political developments in South Africa will be such that:

- RSA's trade and investment links with the rest of the world will be normalized;

- by the end of the decade all the countries of East and Southern Africa, including RSA, will be members of SADCC and the PTA;

- production and trading links throughout the whole continent will be significantly greater than they are at present - in other words that the realization of the main objectives of IDDA, increased self-reliance and self-sustainment in Africa, will have been put in train to an important extent.

Some of these developments will have negative and some positive implications for Lesotho's industrial sector. On balance they should have positive implications. This belief that they will on balance be positive is based on a number of further assumptions, namely that:

- private industrial investment will increase significantly in Africa as a whole and in Southern Africa in particular during the 1990s;

- private foreign investment will be increasingly attracted into the region as a result of positive perceptions of the investment environment (because of the first two assumptions above);

- Lesotho will not lose out on this investment upsurge provided it develops an indigenous economic core based on its comparative advantage within the region;

- aid flows will not decrease significantly and may even be increased provided Lesotho demonstrates to the international community that its absorptive capacity is increasing.

A basic premise of this national programme for Lesotho is that a strategy of industrial development does not have to be approached by focusing exclusively on the industrial sector itself. It is already widely acknowledged that a focused development of the agricultural sector can promote industrialization through processing of agricultural outputs in resource based industries. This approach is already underway to some extent in Lesotho and should be more strongly developed.

The potential of tourism to act as a major contributor to the industrial development of Lesotho has generally not been adequately acknowledged.

The resource base for tourism in Lesotho is very strong. It is being given a large boost through the LHWP. The tourist industry should be viewed as a core activity which could generate activity in the industrial sector. If correctly focused and planned such an approach would be self-sustaining - a key concern of IDDA - since it would be based on a complex set of inter-sectoral and inter-industry linkages.

Agriculture would be linked to industry (for example through processing of food; hides and skins and wool for clothing, floor and wall coverings, bags; clay for pottery and building materials). Tourism would be linked to agriculture and industry through these products and many more, including the production of shoes and clothing, crafts and souvenirs, building and construction, and furniture. Tourism would also greatly enhance the size of the domestic market for these products through the income generated from tourism receipts. In Lesotho income per loti invested in tourism is significantly higher than for other investments.

The service sector would receive a major boost from all these activities. Transport and communications, management and accountancy services, and a host of others would need to be developed and expanded. Improvements of these services in turn would increase the range of investment opportunities in industry and tourism. Improvement in the design input to crafts and construction will spill over into a general raising of design standards in industry.

Lesotho's population will still be very small - around 2 million - by the end of the decade. With its present development strategy the employment creation challenge looks formidable, given its rate of population growth. The correct choice and appropriate promotion of a major core activity - tourism - at the centre of its industrial development programme would make the job creation objective much more achievable.

5.1.5 The policy context

Official development assistance to Lesotho has been declining in the last few years. This has mainly been because there is a perception that the absorptive capacity is weak. This issue has been indicated as a concern in the current 4th Five-Year Development Plan. The plan itself was published after the date on which it was intended to have gone into effect, indicating some weaknesses in the planning process. If Lesotho is to effectively stand up to the challenges posed by the uncertainty of the impact of the regional changes, it is important that the planning, management and administrative machinery of Government is improved. The improvement will have to go beyond an increase in the human resources available for this task and be preceded by a thorough review of the structure, procedures, and the decision-making process associated with this exercise. For example, consideration should be given to the establishment of an Economic Council or National Planning Board which would enable people from outside government to contribute to the planning exercise. As it is, planning is fragmented and the Ministry is not able to exercise full authority over the implementation of plans.

In terms of resource allocation, the Department of Industry has not fared well, compared with other Government Departments. This is probably because the LNDC was established in 1967, before there was a Department of Industry. It is the small-scale industry sector that holds out the greatest promise for industrial development in Lesotho. It needs more official support. Support to this sector is minimal because of the resources, human and material, at the disposal of the Industry Ministry. BEDCO, which is specifically charged with responsibility to support the small scale industry sector, has virtually survived on external donor support, and has shown little vitality since the departure of the main sponsor, CIDA. Thus, the small scale industry sector does not enjoy the support it deserves. Government is aware that this situation will have to change if the sector is to be the spearhead of the new strategy of increasing employment, particularly in the rural areas.

The respective roles of the MTI, LNDC, BEDCO and TPU should be reviewed, clearly defined and articulated without delay. Such articulation will have to involve their actual restructuring and strengthening. With the support of the World Bank, this process is already underway in LNDC. Strong UNIDO, UNDP and World Bank support will be needed for MTI and BEDCO. The LNDC should continue primarily to be responsible for the promotion and facilitation of investment in Lesotho. The Trade Promotion Unit of the MTI, which has - like BEDCO - survived almost exclusively on donor support, should be transferred and merged with the planned Directorate of Investment Promotion at LNDC. BEDCO's role should essentially be to provide support and assistance to the small scale enterprise sector, particularly small scale industry. MTI should concentrate on providing a strong policy support to the sector, providing the needed infrastructure, and soliciting needed support for the two promotional institutions.

5.1.5.1 <u>Development of the private sector</u>

The private sector is recognized as holding out the best prospects for accelerated economic development and employment creation in the country. Lesotho does not lack either the entrepreneurial talent or financial resources for an effective private sector involvement. What is needed is the creation of the enabling environment for the private sector to develop and prosper. The most prominent private sector operators in Lesotho have tended to be expatriate. People in business have tended to be looked upon as rich and capable of holding their own without any kind of assistance from Government. This attitude has tended to create a policy environment that is not supportive of the private sector. The Government now intends to throw its full support behind the encouragement of the private sector as the engine of growth.

Apart from increased support to BEDCO and better resource allocation to the MTI, the administrative infrastructure for the promotion and support of the cooperative movement and company form of business organization will be strengthened. The mechanism for the registration and monitoring of companies and cooperatives will be strengthened and placed under the MTI. This will enable Government to effectively monitor their performance and to include their needs in day-to-day policy considerations. It is recognized that when the legislation relating to companies was promulgated, in 1968, there was no MTI. Again, cooperatives were in the past considered to be rural sector organizations and therefore better housed in the MoA. The potential for building the cooperative movement for private sector involvement in the industrial sector and development of Lesotho is now recognized and will be better exploited.

Access to credit has been one of the major constraints facing the private sector. With the assistance of UNCDF, Government has successfully initiated a programme that effectively deals with this problem. However, due to limited resources the coverage is still rather small. It is planned to expand this facility and to continue to explore other instruments in order to put resources available from migrant remittances increasingly into production rather than the current situation where they go almost exclusively into consumption.

Other actions contemplated for the support of the private sector include the restructuring of the judicial system to provide for small claims courts in the rural areas.

5.2 Programme of consolidation

There are a number of problems and constraints affecting existing enterprises within Lesotho's manufacturing sector. Thus, an important factor in the country's national programme for the second IDDA is the rehabilitation of existing industry.

5.2.1 Programme of rehabilitation

In the UNIDO integrated "top-down/bottom-up" approach to rehabilitation candidate enterprises are studied in relation to their total economic environment. Its diagnostic analysis and remedial action programmes are not confined to a plant's technical problems. They cover the entire range of technical, managerial and technology issues at plant level as well as the overall financial, commercial and structural issues at the branch and macroeconomic levels. The UNIDO approach begins with an examination of the macroeconomic and institutional environment (e.g. government tariff policies, foreign exchange allocation system, etc), descends through the sector, sub-sector and branch levels and finally arrives at the plant level. With this approach, industrial rehabilitation becomes an exercise in securing the optimal use of existing capacities and resources for future, general industrial growth in a country and within Africa as a whole. In Lesotho, the following industries need investigation to determine their rehabilitation needs.

(a) Food and beverages

There are 18 licensed establishments in this subsector. The branches that constitute the sub-sector are: meat processing (2 plants) wheat and maize milling (3), milk processing (1), vegetable canning (1), packaging of fruits and vegetables (3), ice cream production (1), bakery products (6), brewery, beer and soft drinks (1). An oil milling plant, and a plant for processing of malt are under active consideration. The sector contains the largest share of public sector investment. The parastatals in this sector are Lesotho Flour

Mills, Basotho Canners, Lesotho Dairy, and the National Abattoir. Government is currently considering a major restructuring of these parastatals with a view to privatizing them. With reference to the technology in use, the National Abattoir had been equipped with modern machines but due to certain inherent problems in the production lines it has not been able to function as envisaged. Meat is only packaged and no processing as such is undertaken. The cannery, the brewery and the flour Mills use packaged technology. Standards and quality are maintained but the machinery is quite old.

(b) Leather

The manufacture of footwear dominates this sub-sector, where there are 11 manufacturing units. The main products are footwear, sheepskin products, slippers, bags, and shoe components. Hides and skins are exported to the Republic of South Africa (RSA) in the raw form, although a plant was established to semi-process to wet blue stage. This unit in particular, a parastatal under LNDC, is a candidate for rehabilitation in terms of improving its technology and reinforcing its management. Because of the potential of this subsector in terms of backward and forward linkages, and despite the fact that the leather products manufacturing sector does not have a complex technological base, there is a need to undertake a major study of this sub-sector. Such a study would form a basis for future expansion. Currently the sector employs around 10 per cent of the total employment in the industrial sector.

(c) Textiles and clothing

There are 18 establishments in this subsector licensed to manufacture textiles and wearing apparel, and 9 to produce woven products. There are, in addition, a number of small enterprises in the small-scale industry subsector and in the informal sector which do not hold industrial licenses. Woven products include carpets, tapestry, jerseys and shawls. Denims, sportswear, beach wear, T-shirts are the main garments manufactured. Due to the absence of a scouring plant, wool and mohair are exported to RSA and the processed product is imported. Machines are imported from RSA and there is no maintenance facility for most of these machines. Many enterprises in this subsector are operating at sub-optimal levels because of limitations in both capital and management. A survey of rehabilitation needs in this subsector is needed to determine the specific needs of each enterprise. This sub-sector accounts for about 58 per cent of employment in the industrial sector.

(d) Metal fabrication

There are 12 manufacturing enterprises licensed in this subsector, producing grills, gates, door and window frames, corrugated sheets, and grain mills. The equipment used in this sector is old and energy inefficient. As in other areas, heavy reliance is placed on obtaining material from RSA. It is, perhaps, those units in the small-scale and informal sectors that are most in need of rehabilitation. Institutional support to BEDCO will improve capacity to assess and respond to the specific needs of all enterprises in this subsector.

(e) Chemical and allied:

The subsector is made up of 2 paintfirms, 1 pharmaceutical, 1 cosmetic company, and 1 cough syrup manufacturing unit. The raw material for paint is obtained under licence from the RSA, and fewer than 50 persons are employed in this operation. The pharmaceutical corporation is the largest in this subsector employing around 135 people. Its main constraint is access to the PTA and other African markets. In the age of privatization, and within the context of the country's structural adjustment programme, the corporation will need to be restructured to meet the challenges of IDDA2.

(d) Printing and packaging:

There are 2 licensed printing units though there are other small-scale units in operation. There is no packaging industry. The equipment in the printing subsector is aged and in need of rehabilitation. Two of the largest printing units are church-owned and in need of restructuring.

(g) Non-Metallic mineral-based

This is one sub-sector where Basotho entrepreneurship is predominant. It is also based on products available in Lesotho. Bricks are sun dried and consequently the quality is not consistent and there is considerable wastage. There is a great need to upgrade the level of technology in this subsector. The managements of most of the Basotho-owned units require management assistance. Such assistance may be provided through BEDCO.

5.2.2 Programme of preventive maintenance

The country is littered with piles of scrap metal. This is mostly scrap cars but it also includes scrap machines, scrap tractors, compressors, electric motors, and other miscellaneous items. A recent survey by the MTI concluded that in the main there is no maintenance work done in Lesotho. The only maintenance done in most places is emergency maintenance. The MTI survey observed that foreign companies in the main do not employ maintenance personnel but simply call in maintenance contractors from RSA when there is a breakdown. None of the companies or workshops in the survey carried out any preventative maintenance as part of a planned maintenance programme. The vast majority of companies have no specific budget for maintenance purposes. The few companies that do employ maintenance personnel report that graduates of Lerotholi Polytechnic were not trained to the standards required, and therefore had to do on-the-job training. In general no information is kept on machines and equipment; thus there are generally no maintenance records kept.

If Lesotho is to sustain its economic growth by increasing industrialization, then urgent consideration must be given to the very poor state of maintenance. Consideration should be given to setting up an industrial maintenance training centre to train craftsmen and technicians in mechanical, electrical and construction maintenance practices for machines, plant and equipment. A small training unit housed in BEDCO to train maintenance personnel to service machines and equipment used in small businesses such as knitting, sewing, light metal work, etc. should be considered. A full-time maintenance consultant to advise Government on all aspects of plant and equipment maintenance is required. The consultant could also advise on the organization of a common maintenance facility to cater for the small enterprise sector.

5.2.3 Revitalizing public enterprises

There is a very small industrial public enterprise sector in Lesotho. What there is, is concentrated in the agro-industry sub-sector, is generally geared towards import substitution, and is largely under the supervision of the Ministry of Agriculture. Most of these enterprises are operated on management contracts with foreign companies and have their boards dominated by government officials. Naturally they benefit from Government support and protection and some are doing better than others. As indicated earlier, there is need to upgrade the technology and replace some of the equipment in these enterprises. More important, there is need to restructure them with a view to putting them on a firm commercial footing that will see them survive the challenges ahead during IDDA2.

5.3 Programme of expansion

The assumptions made in 5.1 in relation to the impact on Lesotho of changes in the sub-region during IDDA were generally positive. Proceeding from those assumptions and taking account of the national objectives and strategies also outlined in 5.1, the programme of expansion for the industrial sector during IDDA2 should focus on the following areas:

- improvement of key infrastructural facilities

- expansion of resource-based industries

- expansion of the tourist industry and promotion of "industries for tourism" programme

- improvement in the enabling environment within which the industrial sector operates, with particular focus on strengthening the Department of Industry in MTI and the industrial promotion institutions, and expanding and improving training programmes serving industry and tourism.

5.3.1 Infrastructural facilities

To underpin the programme of expansion in the industrial sector and, at the same time, maximize the long-term benefits which will accrue to Lesotho from LHWP, a necessary precondition is expansion of the country's infrastructural facilities. The most important projects which merit consideration in any such expansion programme include extensions to the railway line, expansion of airport facilities, building of an export-processing zone (EPZ) near the airport, and expansion of industrial estates.

The justifications for these infrastructural developments are presented below.

(a) Extensions to railway line

The first extension proposed for the railway line is within the Maseru area.

The RSA railway system has an extension of about 3 km up to Maseru industrial area through a railway-cum-road bridge in Maseru. The other industrial area in Thetsane in Maseru has no railway lines. To enable more efficient movement of goods to and from Thetsane Industrial Area and Maseru Industrial Area, the present road-cum-rail bridge should be modified to allow for rail movement only and a new railway line should be extended to Thetsane industrial area which is about 3 km away from the existing bridge. The Railway lines in due course may be extended to the proposed EPZ. A separate road bridge should be constructed at Maseru border to avoid the existing bottleneck in the movement of road traffic.

The second extension proposed for the railway line is the building of a spur from Ficksburg in RSA to Maputsoe in Lesotho. At present the RSA railway line passes close to the border but has no spur into Maputsoe. In order to satisfy demand by LHWP for cement, it is proposed to build a cement blending and mixing plant at Maputsoe. From there, the product could be transported by road to the highlands. It is proposed to build a Railway spur from Fickburg in RSA to a new Railway terminal in Maputsoe, the construction to involve building of a new railway bridge.

(b) <u>Export-processing zone and commercial airport at Maseru</u>

At present, Lesotho's access to export markets is through RSA's rail, road, seaport, and airport systems which are rated very highly in world terms.

Lesotho also has an international airport which has facilities to accommodate large passenger and cargo aircrafts of the Boeing 707 class. Thus, Lesotho has ready access to an efficient and developed infrastructure system. The Ministry of Trade and Industry proposes that an Export Processing Zone be established close to the international airport in order to attract a variety of light manufacturing industries to locate in this area. As the industries would have to utilize the current facilities of the international airport to bring in raw materials and components to be processed and/or assembled into finished products for export to markets beyond SACU it would be necessary to examine the facilities available and the charges involved to make the operations of the airport commercially viable on its own without any extra costs and inconvenience to the industries located in the proposed export zone nearby. The successful implementation of such a scheme would greatly assist in utilizing the idle capacity of the airport which suffers from low passenger traffic and an almost complete absence of cargo traffic.

MTI now wishes to evaluate the feasibility of such a scheme for Lesotho and to determine and establish the cost of the scheme, the type of industries which could be attracted to locate within the EPZ, the range and type of incentives that Government could extend to such industries, as well the organizational structure and funding needed to establish, operate and manage both the EPZ and the commercial airport.

(c) <u>Extension of industrial estates programme</u>

In order to implement the government's objective of promoting industrialization in small centres and improving rural-urban balance, it is proposed to build industrial estates containing sheds, utilities, and a Common Facility Centre at a number of locations around the country. Technical assistance is needed to select sites and design and produce cost estimates for the various facilities that will be located in the industrial estates.

5.3.2 Resource-based industries

The resource-based industries which hold out the best possibilities for successful expansion are those involved in production of building and construction materials, food processing, textiles and clothing, and crafts.

(a) Building and construction materials

The building and construction industry in Lesotho can be expected to perform very strongly over the next decade - and indeed well into the next century - as a result of LHWP. Lesotho has a wide range of natural resources which can provide inputs to the construction industry. They include aggregates and sands, dolorites and basalts, used in the production of manufactured aggregates; and stone and clay for use in construction of public buildings and housing. At the same time, many Basotho enterprises in the construction industry are too small to get involved in large projects such as LHWP, or other public works and need assistance in gaining access to machinery on terms which do not tie up all their capital or force them to take on major loans. The most important projects which merit consideration in any programme of expansion in the construction sub-sector include cement blending and mixing, manufacture of aggregates, production of galvanized wire and light steel products, and technological upgrading of stone and brick production.

The justifications for these expansion programmes are presented below:

(i) Cement blending and mixing plant

Most of the output for this plant would be produced to meet the demands of LHWP to build its dams and tunnels. The plant can also serve the needs of the rest of the construction industry in Lesotho. Clinkers and gypsum can be imported from other PTA countries, giving this project a regional component.

(ii) Manufacture of aggregates

For the dams and tunnels, apart from cement, flyash and slags, LHWP construction contractors will need aggregates and sand. Lesotho has send in various river beds. It has also vast deposits of dolorites and basalts for aggregates. Although these dolorites and basalts are of the same geological properties as in RSA, it is necessary to source suitable supplies as nearto the dam sites as possible in order to minimize transportation costs. These deposits are to be tested for quality and quantity in cooperation and consultation with LHWP so that the Ministry of Trade and Industry can identify manufacturers to supply aggregates and sands of approved quality to the contractors. To ensure appropriate quality, a testing laboratory will be set up in association with LHWP. Some work has already been done by LHWP in this regard.

(iii) Production of galvanized wire and light structural products

Light structurals can be manufactured from billets in small rolling mills with facilities of coal fired heating furnaces. Light structurals like rods, angles, flats, and tees can be used for various structural requirements in reinforcement, fabrication, window grills, security fencing and for various engineering construction jobs. The biggest demand is in the components for distribution and transmission lines for electric power. Most of the components used in electric poles and pylons are light galvanized structurals. Another line of production starting from rods is to draw wires from them and use them for welded mesh, for various construction and fencing requirements. The wires can be galvanized and used for fencing materials. From the wires, a variety of wire products (galvanized and black) can be made. If a modern galvanizing complex with latest technology is set up, it should be possible to add manufacture of sheet products, both plain and corrugated at later stages. There is a big market for all these products in RSA and in the PTA countries so this project has a regional component.

(iv) Stone and brick production

There are very large deposits of stone but it is not as widely used in construction as it used to be because the level of technology used in extraction and cutting uses manual methods and is out-dated in relation to the needs of the expanding construction sector. Lesotho also has large deposits of clay for brick making but the technology used in most of the small brick making enterprises is low-level and the quality of the bricks is not consistent. Both stone and brick production need studies to determine their requirements in terms of technological upgrading.

(v) Maintenance and equipment leasing workshops

The number of construction jobs in LHWP, public works, and even housing open to Basotho builders would be much greater than it is if they had access to machinery at reasonable rates. Construction machinery, like any other, always requires regular maintenance and most small contractors are not skilled in such tasks. One way of circumventing the high capital and maintenance costs would be to get a private-sector investor to purchase the machinery and rent or lease it to the small construction enterprises.

The investor could buy shares in these enterprises with management and technical assistance to be part of such participation. Maintenance would be the responsibility of the investor. This project would help the local contractors to undertake bigger contracts and equipment at present with various government authorities could be used more rationally and economically through this private sector investment. Some of the equipment could also be leased to small diamond diggers who are too poor to purchase their own machines.

(b) Food processing

There is scope for expansion within the food-processing branch. Lesotho has very large herds of cattle, sheep, and goats. Many owners regard their animals as symbols of wealth more than sources of further wealth creation. Consequently, the animal slaughtering and meat and dairy processing industries are quite small. A feasibility study should be undertaken to examine the scope for developing these activities in a significant way. Export markets in the region are large: the PTA countries import huge quantities of milk and milk products.

There is a large demand for edible oil in Lesotho and generally in the PTA region. It could be produced locally from sunflowers which could be grown in Lesotho. A by-product, oilcake, could be used in animal-feed production. Establishment of an edible oil mill is now under active consideration.

(c) Textiles and clothing

Lesotho encounters no quota restrictions on exports of textiles to the European Community, USA, and Canada. RSA has not modernized its textile industry in recent years. Wool and mohair are available in Lesotho. There is a good market for blankets made from woollen and acrylic yarns. Cotton is available in RSA and polyester, viscose and other raw materials are available in PTA and other areas at competitive prices. There is, therefore, a potential to establish a modern integrated textile industry in Lesotho to take advantage of its market preferences and raw materials.

Lesotho's large herds of animals provide a range of hides and skins which could provide inputs to an integrated leather industry. At present, almost all hides and skins are exported in unprocessed form to RSA. The single tannery processes some of the local hides and skins. Shoe and bag manufacturers and producers of other leather-based products import their processed leather requirements from RSA. There is need for a feasibility study to examine all aspects of the leather industry and to make recommendations regarding its future development in Lesotho.

5.3.3 Pharmaceuticals

Lesotho already has one pharmaceuticals plant. Production could be diversified and the plant could be expanded so as to export to PTA countries provided PTA policy on rationalization and harmonization of standards etc. is agreed.

5.3.4 Tourism

As already noted under 5.1, Lesotho is very well endowed with the resources - natural and human - upon which a major tourism industry could be developed. Moreover, as has also been pointed out, such an industry can act as an important catalyst for further expansion of the type of resource-based industries already established in Lesotho. These include construction, food processing, textiles and clothing, and crafts. It would also provide increased demand for services such as transport and communications among others. If the "tourism" industry were to expand to include a major conference and convention component, and a medical component (a practical idea given the healthy mountain climate), the multiplier effects on industry would be correspondingly greater. The LHWP will, as each stage is completed, offer increasing opportunities for sporting and leisure activities (water sports, fishing, and so on) and thus for local manufacture of inputs to service them such as small boats, skis, special clothing, and fishing equipment.

In other words, a major expansion of the tourism industry could spark off a major expansion of industry for tourism. A major feasibility study is now needed as a prelude to the design of a tourism development plan for Lesotho.

5.4 Support programme

The MTI and BEDCO urgently need support to enhance their capacity to provide effective assistance to the industrial sector. At its current level of development, the private sector cannot be expected to carry the momentum of industrial development with merely minimum direction and support from government. It is essential that Lesotho's ability to respond quickly and positively to investment opportunities is improved through the provision of qualified personnel who have the ability to undertake fast appraisal and evaluation of policy and projects. The small-scale industry sector - and indeed the entire small-scale enterprise sector including informal enterprises - requires support urgently. LNDC also requires support: it is already receiving an encouraging amount of assistance from the World Bank.

Lesotho's industrial sector has been expanding in recent years but not yet at a rate or in a sufficiently self-sustaining way as to make the kind of impact that the government would now like to see being achieved during IDDA2. A concerted rehabilitation programme needs to be mounted in order to consolidate the progress already made. Rehabilitation needs, especially in the small-scale sector are quite varied. It is suggested that UNIDO undertake a rehabilitation mission to Lesotho to assess needs and prepare a programme of required rehabilitation.

During IDDA2 special emphasis will be placed on development of the small-scale sector and informal sectors and on the need for enterprises in those sectors to be assisted to "graduate" from small to larger and from informal to formal. The establishment of a sub-contracting exchange would provide very valuable support to small enterprises in this regard. Such an exchange would act as an information centre for small enterprises regarding opportunities for carrying out work for medium and large enterprises and would provide the larger firms with information on small entrepreneurs willing to do such work. The exchange would act as a link to bring the two together. The government sector could also be involved: some goods and services purchased by government ministries and some services provided by ministries and public authorities (for example, garbage collection) could be provided by the small-scale private sector. BEDCO could be the agency that could act as the sub-contracting exchange in Lesotho provided it received technical assistance to do so.

Regional cooperation under the PTA is essential for Lesotho's industrial development. Penetration of this market, however, is made difficult by the imposition of trade barriers by some member countries despite their undertakings under the PTA Treaty. Support needs to be provided to the PTA Secretariat to enhance its capacity to monitor the application of the Treaty. It also needs support to help its member states to design and agree uniform product standards.

The Fourth Plan envisages the establishment of a handicraft product design and development centre. Such a centre would be essential to support an expanded tourist industry. This development should be expedited.

Lesotho already has a fully operational export financing scheme set up with the assistance of the Central Bank in 1988. It is the first of its kind in the SADCC region. The scheme has greatly improved exporter access to pre- and post-shipment credit from the commercial banks, and has contributed to the recent growth in exports. The scheme could be regionalized during IDDA2. Lesotho could be the location for a SADCC-wide export financing facility.

Lesotho has a major problem of environmental degradation in the rural areas: soil erosion, caused by overgrazing and drought and bad land management practices, is very serious. At the same time, certain types of industrial development (for example, tanneries) also threaten the environment. The government has produced a National Environmental Action Plan. It needs support to help it to implement a programme of environmental management.

Effective implementation of the programmes of consolidation and expansion calls for a comprehensive support programme to provide entrepreneurs, technicians, artisans, managers and staff at all levels with competent skills and to promote development of an enterprise culture. To serve development needs effectively, training in technical and management skills needs to be reorganized and rationalized though reorientation of courses toward identified national needs. The 1990 UNIDO Industrial Sector Programming Mission made a number of important recommendations in its Draft Report in December relating to industrial skills training and the improvement of technical training in Lesotho. They included a recommendation relating to the establishment of an entrepreneurship training scheme, and recommendations relating to projects under the headings of a) training of trainers, b) on-the-job training, c) in-country vocational and skills training, d) industrial apprenticeship and attachments, and e) job enrichment exchanges, external study tours and short term fellowships.

The UNIDO mission's recommendations were reinforced by recommendations made in its December 1990 Draft Report by the ILO Employment and Manpower Sector Review Mission. The government is currently considering both sets of recommendations.

SECTION 6

RECOMMENDATIONS FOR PROGRAMME IMPLEMENTATION

6.1 Modalities for Implementation

The Lesotho IDDA programme will require strong monitoring and implementation machinery - in order to respond appropriately to expected changes in RSA and in the sub-region. In the course of the programme's implementation there is likely to be need for modifications in policy direction - not only as it relates to industry but also as it affects other areas - if the primary objectives of the programme are to be achieved. For this reason a strong political commitment to the attainment of IDDA objectives must not only be indicated but should be continuously reaffirmed through the process of monitoring progress, identifying constraints, and taking timely and decisive action to deal with problems that arise from time to time.

In adopting the IDDA programme, it is recommended that government agree to the establishment of a cabinet sub-committee on the IDDA. The Committee should be charged with responsibility for monitoring and recommending appropriate measures needed to provide effective support to the programme and all its components. The cabinet sub-committee will be assisted by an advisory committee on the IDDA made up of senior government officials in key ministries as well as representatives of the private sector. The sub-committee will receive reports and recommendations from the advisory committee.

The IDDA programme represents a major policy initiative for Lesotho. This is why it needs monitoring from a high level cabinet sub-committee. The IDDA programme will involve all the economic ministries as well as Education. It is therefore recommended that the Cabinet sub-committee on the IDDA be chaired by the Minister for Trade and Industry and have the Ministers responsible for Labour, Agriculture, Tourism, Finance, Planning, Education and Youth and Women's Affairs as members. From time to time the sub-committee may co-opt other members.

The Advisory Committee on the IDDA, which will be chaired by the Commissioner for Industry will be a technical committee composed of people representing Government agencies whose activities have a bearing on the IDDA as well as members of the private sector. Government officials will come from the ministries of Trade and Industry, Employment, Agriculture, Tourism, Finance, Planning, Education, and Youth and Women's Affairs. Private sector representation will come from the Lesotho Chamber of Commerce and Industry, the Lesotho Manufacturers Association, Lesotho Employers Association, Trade Unions, and the two parastatals LNDC and BEDCO. The Advisory Committee will have responsibility for making analyses of developments, preparing reports, and making recommendations to the Cabinet sub-Committee on the IDDA. It will also act as a clearing house for discussion of issues that do not require policy determination. The Ministry of Trade and Industry will provide a permanent secretariat for the committee under the supervision of The Commissioner.

6.2 Selection of priority investments and technical assistance programmes

6.2.1 Programme of consolidation

The following are the priorities under this heading:

(a) Rehabilitation and privatization of parastatals in the food processing industry

(b) Rehabilitation of tannery ~~parastatal~~

(c) Survey of rehabilitation needs in the textiles and clothing industry

(d) Survey of small-scale metals fabricating enterprises to determine rehabilitation needs

(e) Survey of non-metallic mineral-based enterprises to determine their rehabilitation needs, including their need for advice and assistance regarding production methods and standards.

(f) Establishment of industrial maintenance training centre.

6.2.2 Programme of expansion

The following are the priorities under this heading. A number of them have a regional component

(a) Infrastructure

- Building railway spur from Ficksburg in RSA to Maputsoe
- Building of extension of railway line from Maseru to Thetsane industrial estate.
- Feasibility study on establishment of export processing zone near airport in Maseru
- Feasibility study on commercializing airport
- Building of industrial estates in selected towns around the country.

(b) Resource-based industries

(i) Building and construction materials

- Cement blending and mixing plant at Maputsoe
- Aggregates manufacturing plant near LHWP site
- Galvanized wire and light structural products complex
- Study to identify technological inputs required to improve quality of output from small brick works, and establish procedures for testing quality.
- Study to identify technological inputs required to improve quantity and quality of cut and dressed stone.
- Establishment of maintenance and equipment leasing workshop.

(ii) Food processing

- Edible oil plant
- Feasibility study to determine economic viability of establishing major meat processing industry
- Feasibility study to determine economic viability of establishing integrated dairy products industry.

(iii) Textiles and clothing

- Feasibility study to determine economic viability of establishing integrated textile complex
- Feasibility study to determine economic viability of establishing integrated leather industry.

(c) Tourism Industry

- Feasibility study on major expansion of tourist industry including implications for linked resource-based industries (construction, food processing, textiles and clothing, crafts)

6.3 Support programme and technical assistance

The following are the priorities under this heading. A number of them have a regional component.

- Technical assistance to strengthen MTI
- Technical assistance to strengthen BEDCO
- Technical assistance to establish a sub-contracting exchange

- Technical assistance to produce a directory of small-scale industries in the sub-region to facilitate linkages among small-scale entrepreneurs and finance study tours.

- Technical assistance by UNIDO to PTA secretariat to enhance its capacity to monitor the application of the PTA Treaty.

- Technical assistance by UNIDO to PTA secretariat to help its member states design and agree uniform product standards

- Technical assistance to establish SADCC Export Financing Facility

- Technical assistance to help establish a Handicraft Product Design and Development Centre in Lesotho

- Technical assistance to the Ministry of Planning to help it prepare and implement a programme of environmental management

- Technical assistance to establish a comprehensive programme of preventive maintenance

- Technical assistance to expand financial system to improve access to bank credit by Basotho, especially Basotho Women entrepreneurs.

- Technical assistance to upgrade industrial skills

- Technical assistance to upgrade management skills

- Technical assistance to finance scheme to enable Basotho engineers and technicians to attend university courses in engineering in universities in East and Southern Africa and training in regional vocational training centres.

6.4 <u>Financing and major factor inputs</u>

Sources of finance for the programme include, in theory, budgetary allocations, domestic savings, surpluses of public enterprises, private investment, loan funds from development and commercial banks, foreign investment, donor assistance, and seed money. Given the imperative of controlling public expenditure in Lesotho, public funding would of necessity be severely limited. Under these circumstances, the major sources of financing for the programme would be the domestic private sector and external sources such as grants, private foreign investment, soft loans, and official development assistance. Most of the remaining factor inputs would be obtained domestically or, in the case of the regional projects, at least in part from the IDDA.

APPENDIX

List of persons met

Mr. Q. G. Noaman	UNDP Resident Representative
Ms. M. Symmonds	Asst. UNDP Resident Representative (P)
Ms. T. Nishimoto	UNDP Programme Officer
Mr. E. Taylor	UNIDO Country Director for Lesotho
Mr. W. Salaameab	UNIDO Consultant
Ms. G. Unamboowe	UNIDO Consultant
Ms. B. Wiesser	Lesotho Country Desk Officer, UNIDO Vienna
Mr. M. Kabundi	ILO Regional Adviser
Mr. S. Kagwe	LIPA Institutional Mgt. Adviser
Mr. S. Odera-Oteng	ILO SATEP Regional Adviser
Mr. G. Mhone	ILO SATEP Expert
Mr. N. Monyane	General Manager, Central Bank
Mr. A. Gangopadkyay	Manager, Central Bank
Mr. F. Borotho	Research Director, Central Bank
Ms. M. Mofelehetsi	Manager, Export Finance, Central Bank
Mr. M. Mothepu	Mortgage Manager, LBFC
Mr. S. Phafane	Principal Secretary, MTI
Mr. B. Sebatane	Deputy Principal Secretary, MTI
Mr. J. Maieane	Commissioner for Industry, MTI
Ms. L. Leuta	Chief Industry Development Officer, MTI
Mr. A. Adhikari	UNIDO CTA, MTI
Mr. T. Jentsch	UNIDO Associate Expert, MTI
Mr. J. Dupuy	UNIDO Maintenance Consultant, MTI
Mr. M. Sejanamane	Director, Sectoral Programming, MEPD
Mrs M. Makhakhe	Director, International Economic Relations, MEPD
Mr. J. Mahooana	Chief Education Officer, Min. of Education
Mr. P. Ramaqele	Deputy Principal Secretary, Min. of Agriculture

Mr. M. Mohapeloa	Chief Planning Officer, Min. of Employment
Mr. P. Petlane	Deputy Director of Planning, LNDC
Mr. T. Maharetsa	Managing Director, BEDCO
Ms. K. Koenane	Chairperson, LMA
Mr. V. Mofokeng	President, LMA
Mr. J. Khabele	LMA
Mr. M. Moloi	Acting General Manager, Lesotho Bank
Mr. C. Molelle	Managing Director, LADB
Mr. G. Prevov	Chief Engineer, LEC
Mr. G. Lehloenya	O and M Engineer, LEC
Mr. S. Ramonaheng	Chief Roads Engineer, Min. of Works
Mr. L. Pihl	Labour Construction Unit
Mr. R. Witherall	Acting Chief Executive, LHDA
Mr. M. Masilo	Environmental Manager, LHDA
Ms. J. Durette	Project Development Officer, USAID
Mr. J. Reibel	Private Sector Development Officer, USAID
Mr. P. Curran	Irish Consul-General
Mr. P. Lundell	SIDA
Ms. M. Mosala	Secretary, National Council for Women
Ms. M. Metsing	Women's world Banking, Lesotho
Mr. c. Sello	Executive Director, Lesotho Council of NGOs
Ms. H. Leloesa	Liason Officer, CARE