

Lesotho Garment Industry Subsector Study

for

The Government of Lesotho

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by

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Executive Summary

This is the report of the findings of a study of the Lesotho Garment Industry subsector commissioned by the Department for International Development. The garment industry was chosen as a subsector of special interest as it has grown at an extraordinary pace over the past few years and is now the largest private sector employer of labour in Lesotho.

The consultants found that the industry is robust and is continuing to grow strongly with exports of Maloti 1.8 billion in 2000. There are, however, a number of significant threats to the industry that may constrain this growth unless addressed.

The garment industry is export driven with the majority of garments exported to the USA, which absorbs 93% of Lesotho's production. Although already the most important market prior to 2001, the Africa Growth Opportunities Act (AGOA) is currently driving the increased investment and growth. Exports into Southern Africa, while not insignificant, have been relatively stagnant over the last four years while exports into Europe are now at minimal levels despite the importance of this market in the early 1990s. There is enormous scope to increase exports into Europe but at this stage the industrialists do not appear to be particularly interested in pursuing this market.

Ownership and management of the garment industry is dominated by South East Asians who started to move into the country in the late 1980s. They now control in the region of 90% of the industry in Lesotho and employ 97% of the labour.

These industrialists operate in a global context, well able to service the requirements of the USA market while sourcing their raw materials in the Far East. Many of them are subsidiaries of public companies with sister plants in other garment manufacturing countries throughout the world. They are attracted to Lesotho by the success of the companies already operating there, the advantages accorded Lesotho as an LDC under AGOA, the low level of wages, an available, compliant, well educated workforce, reasonable infrastructure and an enabling legislative environment.

The consultants found that employment in the industry grew in excess of 50% to 32,000 workers in 2001. Further new start-ups and expansions are being processed and the upward trend in employment will continue.

Construction has recently started on a US\$100 million denim mill that will help to consolidate the industry and provide additional 5,000 jobs by 2004.

The consultants found that there are a number of constraints on the growth of the industry. While the majority of these constraints are potentially serious, the GoL, the donor community and the industrialists themselves can circumvent them all through interventions.

The principal constraints were identified as:

- Lack of pre-built factory shells

- Lack of serviced industrial land
- Inadequate water supply
- Lack of waste water treatment facilities
- Poor container handling facilities
- The HIV/AIDS Pandemic
- Poor industrial relations
- Inadequate training of supervisors and labour
- Poor productivity
- Cross cultural misunderstanding
- Poor Public Relations

The increased awareness of consumers, activists, foreign governments and international labour movements has focused attention on the working conditions in third world countries. This has led to the development of Codes of Conduct by the larger international clothing brands. All Lesotho factories exporting to the USA must comply with these Codes of Conduct.

The compliance requirement provides a unique opportunity to intervene to assist the industrialists to restructure their industrial relations policies. Through this restructuring process opportunities will arise for the industrialists to develop, in partnership with organised labour, a programme for prosperity and industrial peace. Such a programme could address many of the constraints such as training, productivity, environmental degradation and lead to a coherent social responsibility programme that could incorporate elements of HIV/AIDS education, prevention and mitigation. The aim of all stakeholders should be to make Lesotho a **destination of choice** for garment purchasers and new investors.

Infrastructural problems such as the provision of services to industrial estates and the building of factory shells are constrained by access to finance. The LNDC maintains that the return on investment when providing services to industrial land is insufficient to service the debt and it requires concessional loans to proceed. Selling some of its factory shells to investors has provided the LNDC with limited financial resources for building new shells.

As a country ranked as one of the poorest in the world, Lesotho has done extraordinarily well to develop its garment industry as far as it has. It has recently become Africa's largest exporter of clothing to the USA. It is important that the country now consolidates its position and looks for ways that this burgeoning industry can effectively contribute to poverty reduction in the country as a whole.

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List of Acronyms

ACP	African, Caribbean and Pacific
AGOA	African Growth Opportunities Act
BEDCO	Basotho Enterprise Development Corporation
CMT	Cut, Make and Trim
CTI	Commercial Training Institute
DCC	Duty Credit Certificate
DDPR	Directorate of Dispute Prevention and Resolution
DFID	Department for International Development
EBA	Everything But Arms
EU	European Union
FDI	Foreign Direct Investment
FGD	Focused Group Discussions
GoL	Government of Lesotho
GSP	Generalised System of Preferences
IDM	Institute of Development Management
IRC	Industrial Relations Council
JHI	J.H.I. Real Estate Limited (Lesotho)
LDC	Least Developed Country
LEA	Lesotho Employers' Association
LECAWU	Lesotho Clothing and Allied Workers Union
LGC	Lesotho Garment Centre
LIEA	Lesotho Industrial Employers Association
LNDC	Lesotho National Development Corporation
NGO	Non Government Organisation
SADC	Southern African Development Conference
USA	United States of America
WASA	Water and Sewerage Authority
WTO	World Trade Organisation

Preface

This subsector survey was conducted on behalf of the Government of Lesotho (GoL) and was funded by the Department for International Development (DFID).

The survey team consisted of two garment sector specialists, an expert in sector studies, an environmentalist and a Lesotho based consultancy with expertise in conducting social surveys.

A variety of methodologies were used in order to collect information and data for this study including the following:

- Extensive Internet research was conducted prior to the start of fieldwork into the order procurement trail, competitor countries, global workers' employment conditions and wages in order to interpret Lesotho's Garment subsector with a global perspective.
- Considerable desk research was conducted into the political, regulatory, infrastructural, environmental and health aspects pertaining to the industry
- At the start of fieldwork all industrialists were invited to a preliminary meeting to discuss the aims and proposed outputs of the study.
- Interviews were conducted both in Lesotho and South Africa with a diverse range of specialists including Government officials, utility and service providers, garment sourcing agents, the Lesotho Exporters Association, Trade Union officials, NGO officials and foreign diplomats.
- It was decided to conduct parallel studies of the industry in order to achieve a balanced perspective. Sechaba initiated a formal survey of the workforce. The two garment specialists visited as many factories as would allow them access. All consultants conferred to ensure that questions were included to cover their special areas of expertise.
- The Sechaba workers' survey was conducted at the four main industrial sites being Maputsoe, Ha Nyene, Maseru Industrial and Thetsane. Appointments were made with the workers during their lunch breaks and then they were interviewed at their homes in the evening or on weekends where it was felt they could speak more freely. A total of 410 workers were interviewed.
- Sechaba also conducted Focused Group Discussions (FGDs) in order to assess the perceptions of the general public to the subsector and the industrialists who are running it. These FGDs were held in Maseru and Leribe.

- The small and medium enterprises that have been established in and around the industrial estates to provide goods and services to the factory workers were mapped by Sechaba and a total of 102 businesses were interviewed.
- The garment sector specialists initially compiled a comprehensive list of all the garment manufacturers employing over 50 workers. This list included information supplied by the LNDC, the Ministry of Industry, Trade and Marketing and the Lesotho Exporters Association. This list was then correlated to link those companies that were part of the same group. It established that there are 27 company groups operating 38 factories. It was extremely difficult in many cases to secure appointments to visit the factories, never-the-less 22 of the 27 company groups were visited. Not all the companies were prepared to answer the survey questionnaire and in these cases a general discussion was held with the management.

The consultants would like to thank all the people that participated in this survey for their open and friendly support and in particular would like to thank

- Mrs. K. Oliver, British High Commissioner in Lesotho
- Mr. Hugh Scott of DFID
- Mr. D. Bellegarde of the United States Embassy in Lesotho

- Note: Industrialists were informed that the results of the survey would be anonymous and no specific reference to an individual company would be made.

1 Introduction

The primary objective of this study was to survey the industrial garment industry in Lesotho. In order to fully understand the dynamics of the industry in Lesotho it is important to consider the political and economic context of the country at the current time.

The one constant in the political arena in Lesotho has been the bitter and frequently violent competition between the political factions. This conflict reached catharsis in the political turmoil after the 1998 general elections resulting in military intervention by Southern African regional forces led by South Africa. In the aftermath of this intervention a large segment of the Maseru business district was destroyed with the consequent loss of thousands of jobs. As damaging was the insecurity felt by the foreign investors where a politically stable environment is a prerequisite.

The 1998 debacle appeared to focus minds across the political spectrum and the Interim Political Authority (IPA), comprising representatives of all political parties, was formed. The IPA was tasked with devising a more inclusive electoral model that would incorporate some form of proportional representation. This was an attempt to level the playing field and to ensure a election process that will be regarded as fair y all.

The general election is likely to be held in the first half of 2002. It is not possible to predict whether these elections will be free, fair and peaceful and already there appears to be increasing dissent as the political parties jockey for advantage. There is no doubt that all parties are aware of what is at stake. A smooth transition to a new government will go a long way to promoting Lesotho as a desirable destination for both industry and tourism.

Lesotho experienced rapid economic growth in the period from 1993 through to 1997. The Lesotho Highlands Water Project and increased industrial activity, particularly in the garment sector, spurred this growth. Despite this increase, domestic entrepreneurial activity remained relatively stagnant ad there was no reduction of poverty. During this period agricultural production continued to decline both in cereal production and in livestock numbers.

Large numbers of the male labour force were traditionally employed on South African mines. Approximately one third of Lesotho's GNP was derived from Basotho mineworkers' remitted wages. Due to mechanisation, mine closures and the increased uptake of mining jobs by South African labour, the employment of Basotho labour has steadily declined. The number of Basotho employees on South African mines declined from 112,722 in 1994 to 59,000 in 2000.

Basotho mineworkers, for the most part, are drawn from the poorer rural communities, where their remitted wages provide an economic lifeline. The decline in this employment affects those with the least resources driving entire communities into deeper levels of poverty.

The political unrest of 1998 coupled with the declining remittances from the mines led to a negative growth in Gross National Product in 1998, 1999 and 2000. It is likely that the significant growth in the garment sector has assisted in reversing this negative trend.

The formal garment sector is driving economic growth in Lesotho. The country is experiencing unprecedented expansion in formal employment within this sector and the demands on infrastructural development are pushing utility providers to the limit of their physical and financial abilities.

This growth, while consistent in the years from 1990 to 2000, has been transformed into a boom since the accreditation of Lesotho under the African Growth Opportunities Act. Formal employment in the Industrial Garment Sector has grown by 50% in the year 2001 alone. There are now in excess of 32,000 workers employed in the industry. There is evidence that this growth will continue in the short term, however there are a number of serious constraints that will slow the rate of expansion, and, if not addressed, will ultimately lead to the loss of opportunity as new investment is lost to competitor countries.

To assist in understanding the subsector this report traces the development of the formal garment industry over the past 15 years and analyses the forces that are driving its growth and highlights the potential for further development of the industry.



2. Overview of the Subsector

The formal garment industry started in Lesotho in the early 1980s. This was primarily as a response by South African based clothing companies who needed to avoid the sanctions imposed on South African manufactured goods by the USA and Europe. In addition the

LNDC offered incentives to the South African industrialists who set up in Lesotho. The main incentives were favourable rentals on pre-constructed factory shells, relatively cheap and well educated labour, a five year tax holiday which could be extended through further expansion and subsidised wages during a designated training period.

The initial development of the garment industry took place in Maputsoe which was the closest industrial area in Lesotho to Durban, where the headquarters of the South African industry were located.

During the 1980's there were a number of advantages that Lesotho enjoyed over South Africa in terms of trade agreements with the Western World. Under the General System of Preference (GSP) manufactured goods from Lesotho enjoyed preferential duty regimes into such important markets as the USA, Canada and other non-EU European countries.

In addition Lesotho was a signatory to the Lome Convention which allowed duty free access of clothing into the European Union. Initially the conditions on access to the EU were simply that the garments needed to be sewn in Lesotho. During the late 1980s the regulations under the Lome Convention were altered with the requirement that "cumulation" must apply for qualifying status. Cumulation requires that two manufacturing processes must take place before clothing qualifies for duty free access. In other words it was no longer sufficient to make the garment, but the cloth itself had to be woven/knitted in the country of origin or another qualifying ACP (African, Caribbean, Pacific) state.

In the late 1980s Lesotho successfully applied for derogation from the cumulation provision of the Lome Convention. This derogation was allowed for a period of four years and was then renewed for a further period of four years.

It was the favourable export environment created by the derogation that assisted the LNDC in attracting a second wave of investment in the late 1980s. While some new South African industries did commence operations in Lesotho during this period, the majority of the investment was by South East Asian entrepreneurs, principally Taiwanese. Many of these Taiwanese were operating clothing companies in South Africa attracted by the incentives offered for foreign investment by the beleaguered South African Government. The South African Government at that time was facing increasing global isolation and the Taiwanese Government was one of the few with which the South African Government managed to maintain diplomatic relations.

It was relatively simple for the Taiwanese to relocate from the South African homelands into Lesotho where they established export markets free from the sanction constraints of South Africa while enjoying the advantage of favourable access and import tariffs to the major Western markets.

In discussion with the "pioneer" South East Asian industrialists in Lesotho, the consultants established that they had found a degree of comfort in operating in this country. Labour was educated, trainable and compliant while the business environment was such that they could successfully operate their businesses without onerous regulatory interference. This led to further growth through word of mouth testimony with additional

industrialists moving in to attempt to emulate the successes of their acquaintances and competitors. Between 1987 and 1990 many of the South East Asian factories were established that are leading the growth in the sector today.

It is interesting that, with the expiry of the derogation, while there were some closures and downsizing of companies involved in export to the European Union, most of the companies successfully shifted their markets to the United States. At this point the companies were operating without comparative advantage to other developing countries. Garments imported in the USA from Lesotho were subject to an average import tariff of 17%. In addition Lesotho was subject to quotas for its USA exports which were allocated to the country as a whole and then divided up amongst the exporters without a premium being placed on the purchase of quota.

With the introduction of the African Growth Opportunities Act of 2000(AGOA), Lesotho, as a Least Developed Country (LDC) gained significant advantage over its competitor countries in the developing world. It could now export its clothing both duty and quota free into the USA. In addition as an LDC it received the further benefit of not having to apply cumulation to its clothing exports for a period of four years (viz. until 2004). After 2004, Lesotho garments will lose their duty/quota free access unless they are manufactured from fabric manufactured in Lesotho, another qualifying sub-Saharan state or the USA.

It is AGOA that is currently driving the unprecedented growth in the industrial garment subsector in Lesotho. Many of the established companies have recently completed significant expansions resulting in major growth in employment in the subsector. There are 12 companies that have expressed an interest in locating in Lesotho with potential employment of 8,500 workers that are awaiting the provision of factory buildings. Two existing projects are awaiting expansion of their factories with the potential to create 600 new jobs. Five companies have expressed an interest in constructing their own buildings with the potential of 3,500 new jobs.¹

It is generally believed that if there is no extension to the LDC advantage allowed for in AGOA, then the window of opportunity to attract new industries is extremely limited. At the same time it is envisaged that there will be gradual erosion of Lesotho's advantage through the new round of World Trade Organisation talks agreed to at Doha. Both China and Taiwan were admitted to the WTO and a number of large textile producing nations are actively lobbying for the removal of tariff barriers to their exports. In addition it is possible that Pakistan, a major textile producing country, may achieve special trade access to the USA in recognition of its support during the Afghan war.

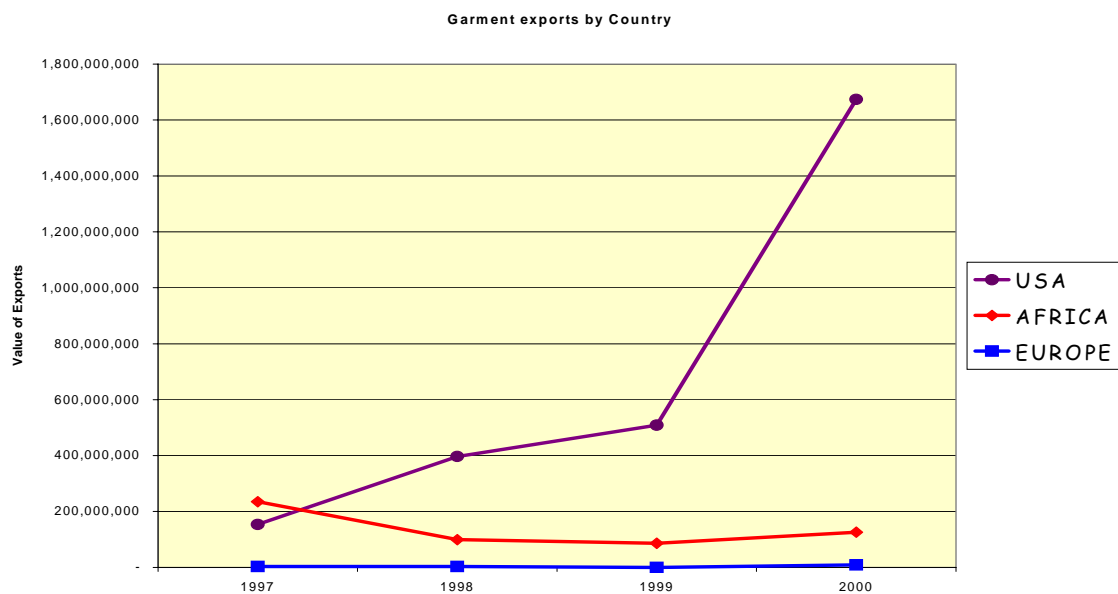
3 The Markets

The vast majority of Lesotho garment exports are to the USA. Exports to the SADC countries are small and exports to the EU virtually non-existent.

¹ Source: LNDC Investment Promotion Centre

The statistics available in Lesotho are somewhat erratic. They do however give a clear indication of the extraordinary growth in garment exports over the past four years. The total value of garment exports in 2000 was M1.8 billion. Of this some M1.67 billion or 93% was exported to the USA. This figure does not correspond with the import statistics of the USA which reflect imports of garments from Lesotho at US\$140 million. Nevertheless the US/Africa Trade Report indicates that Lesotho exported an average of 3.9 million square metres of apparel to the USA in the first three months of 2001 and moved into the position of Africa's largest supplier of apparel to the USA.²

The chart below indicates that as recently as 1997 the value of exports to the USA and Africa, being predominantly South Africa, were equal. Since late 1997 the growth in exports to the USA has been virtually exponential.



Source: Lesotho Bureau of Statistics – unpublished data.

3.1 The USA and AGOA

The African Growth Opportunities Act (AGOA) was promulgated by the United States government in 2000 with the aim of assisting countries in sub-Saharan Africa to develop their economies by offering duty and quota free access into the USA. The removal of these barriers offers a competitive advantage to goods manufactured in qualifying countries, thereby stimulating the growth of exports. The current boom in Lesotho's clothing industry can be directly attributed to the advantages it derives from AGOA.

The price advantage that Lesotho enjoys through AGOA is approximately 17%, which is the average duty on garments entering the United States. This price advantage has to be balanced against the additional logistical costs of operating in Lesotho. Lesotho is not alone in enjoying the benefits of AGOA. Nine sub-Saharan states have thus far been accredited and there is no doubt that more will soon follow.

² Whitehouse Associates – Supply Survey in the Clothing and Textile Sectors in Lesotho – UNCTAD/WTO

There is a perception in Lesotho that AGOA has created an opportunity for great wealth to be generated in which the workforce is not participating. In fact the effect of AGOA has been to drive the prices of garments lower. It is the buyers that benefit from the duty free access in that they can achieve lower prices. The benefit for Lesotho is bigger orders resulting in bigger factories and greater employment. This benefit is dependent on Lesotho remaining competitive in a global context.

It is apparent that the process whereby orders are placed by the large USA brands and retailers and are finally manufactured in Lesotho is fairly complex and is based on long term relationships between suppliers and buyers. Very little direct purchasing takes place between buyers and the Lesotho factories themselves. In fact the Lesotho factories for the most part act as Cut, Make and Trim (CMT) plants for their holding companies which are invariably located off-shore.

All the major brands/retailers require that their goods are manufactured in factories that comply with Codes of Conduct that specify minimum standards of working conditions and labour rights. (See annex on Comparative Codes of Conduct and AGOA requirements) Without accreditation, either by in-house or independent monitors, the factories may not produce the orders.

The sizes of the orders are generally enormous. The consultants found that orders of 20,000 to 40,000 dozen units were common and in some cases single style orders of 30,000 dozen units per month were being placed with a three month notice period required to change or terminate the order. The efficiencies and economies of scale that can be achieved on this calibre of order are enormous and international competition is extremely keen. "Price drives everything!" was a frequent comment of the marketing and sourcing representatives that the consultants met.

3.2 The EU, ACP-EU Partnership Agreement (Lome/Cotonou) and the EBA (Everything But Arms)

Lesotho's exports of all goods into the European market were no more than one million Euro in the year 2000.³

While the European market is potentially as large as the United States its structure is significantly different. At this point in time the EU does not have the same scale of retail chain stores meaning that single style orders, while relatively large, do not reach the massive scale of USA orders. In addition the European market is more fickle requiring faster turn around times.

The opening up of the European market to the former Eastern Bloc countries has provided readily accessible and developing manufacturing economies on the EU doorstep. Many of these countries have vertically integrated textile industries and, with shortened transport routes, they offer price advantages that render Lesotho exported goods uncompetitive. In addition, countries such as Egypt and Turkey, which are

³ Christian Olsen – Delegation of the European Commission in Lesotho.

renowned for their cotton and clothing production, have preferential access into the EU market.

The cumulation clause of the ACP-EU Partnership Agreement effectively bars Lesotho from the EU market particularly as South Africa, a potential source for African sourced raw materials, does not currently qualify for ACP status. (South Africa currently has observer status with an agreed staged reduction of import tariffs culminating in duty free access by 2010.)

The EBA agreement launched in March 2001 allows least developed countries (LDCs), of which Lesotho is one, to export their production free of duty into the EU. Once again the cumulation provision applies.

It is possible that, should Lesotho experience a significant downturn in its garment manufacturing industry due to the loss of its USA market, a strong case could be made for derogation from the cumulation provision of the ACP-EU Partnership Agreement.⁴ It is unlikely that this would be considered in the current period of growth within the industry.

3.3 South Africa and SADC

Lesotho garment manufacturers exported a total of M127 million to South Africa in 2000. A number of the smaller Lesotho garment factories produce exclusively for the South African market. The majority of these are producing for the major chain store groups. In this market Lesotho must compete with both the South African produced merchandise and the imported garments.

While high levels of wages and an excessive regulatory environment have all but closed the garment industry in South Africa's traditional garment producing centres (Durban, Cape Town, Johannesburg), wages in the former South African homelands and designated decentralisation areas are on a par and occasionally lower than those paid in Lesotho.

The consultants were informed by a major South African clothing group, with factories in South Africa and Lesotho, that they had successfully negotiated with the trade union for a 25% **decrease** in wages in one of its South African factories. Some South African factories have also terminated the formal employment of their employees and then drawn up subcontractor agreements with them effectively creating a piece work arrangement. This enables them to produce with a low cost per garment and free of the onerous regulatory provisions prevalent in South Africa.

The South African garment industry has also been adversely affected by the lowering of import tariffs and the DCC (Duty Credit Certificate) Scheme. The DCC Scheme grants exporters an import duty credit based on a percentage of their exports. These DCCs are transferable and an active secondary market has developed in them. An exporter of cloth, for example, may receive a DCC entitling him to import R1 million free of duty.

⁴ Article 38, Derogations, page 48, the Courier, September 2000, Special Issue, Cotonou Agreement.

Assuming a nominal duty of 12%, this certificate would be worth R120,000 and could be sold for 75% of its value. The importer could then land R1 million worth of goods at an effective 9% duty cost. The DCC Scheme was withdrawn in Lesotho due to misuse.

The lowering of import tariffs along with the reductions inherent in the DCCs and the possibility of dumping by Asian exporters has significantly eroded the competitiveness of South African produced clothing. Lesotho participates in this market with no advantage over the South African producers. The fact that it requires the crossing of an international border with VAT and Sales Tax implications works as a disincentive. All of the major South African based Lesotho garment factories have either closed, been sold to Asian companies or are in the process of closing down. There is no doubt that excessive bureaucracy and protectionism inhibits the opening of markets within the SADC region. While the long-term goal of SADC is to open the entire region to free trade, until this is significantly achieved, Lesotho will continue to have difficulty accessing the SADC markets on any significant scale.

4 Order Procurement

One of the keystones of the success of any garment industry lies in the procurement of orders in sufficient quantities so that the production process is uninterrupted. To ensure that orders are received, complex relationships and loyalties are developed between the buyers and the manufacturing companies. The buying departments of the major brands and retailers exercise an enormous amount of power within the industry. They need to be serviced, entertained and feted close to where they are located. If they do travel to buy they will inevitably go to the major source of garment manufacturing which is Asia. All the major players in the garment producing industry have representatives based in the USA. This applies to the larger Lesotho based factories that are represented in the USA by their holding companies.

There are two major sources of orders from the USA, the orders placed directly by the major brands and retail stores and those placed by direct importers. The major brands and retailers, for the most part, have their own design and range development departments. These departments design their own merchandise and allocate sales budgets to the various categories of clothing. Many of them also view and buy from ranges produced by independent importers and manufacturers. The major brands/retailers and the importers source the manufacture of their merchandise in much the same way. The importers design and sell to the brands and retail stores and also act as stockholders for them.

In order to negotiate style purchases the buying departments produce technical specification sheets for each garment to be purchased. These “tech sheets” specify the size of the order, the size breakdown, delivery date, fabric, trims, seam measurements, tolerance measurements, printing, embroidery, washing, packaging and a host of other data.

Selling price points are decided for each category of merchandise. The buyers then approach sourcing agents with technical specification data for each style asking them to bid on the various articles of merchandise. The sourcing agents then pass the tech data on to the manufacturing holding companies for them to quote prices. The manufacturing facilities of these holding companies must be accredited by the buyer for capacity, quality and compliance with their Code of Conduct. Order placement is normally done in the Far East close to the source of the fabric and trims that will be used. At this point any number of manufacturers from a number of different countries may be quoting on the same order. Assuming that the buyers have accredited all manufacturers quoting, then the main criterion for awarding orders will be price.

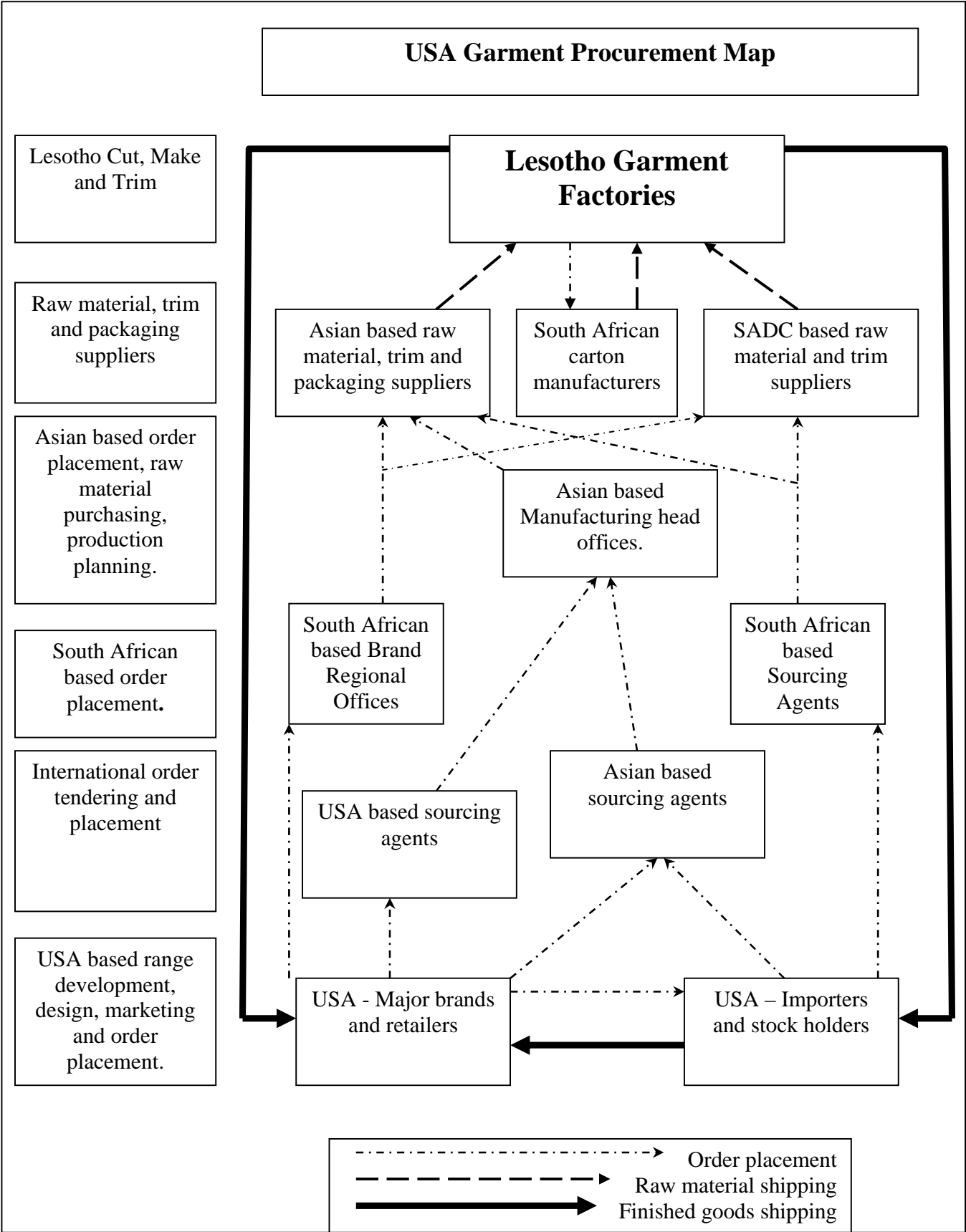
It is difficult for a Lesotho based company to quote on the finished price of the garment if it does not have direct access to the source of raw materials. The manufacturing holding company knows the labour and overhead cost of the manufacturing operations and can allocate a CMT price to the garment, add the cost of raw materials and its own overhead recovery and thereby quote on the order.

Once the orders have been confirmed, the manufacturing head offices place the orders for the raw materials and trims. Most of these are sourced in Asia with China, South Korea and Taiwan being the main suppliers. Both the sourcing agents and the industrialists questioned claimed that South African fabric suppliers were unreliable in terms of quality and delivery. The only fabric sourced in South Africa for ultimate export as garments to the USA was from a denim mill located in Natal that is itself part of a South East Asian group that includes one of the largest Lesotho based clothing manufacturers.

Most Lesotho factories receive their raw materials from the Far East by ship to East London and then by rail to Maseru Station (Mascon). The containers arrive with the complete requirements for each order including fabric, fabric markers, trims, thread, swing tickets, hangers and plastic bags. The majority of the Lesotho factories source their cartons in South Africa or Lesotho although some still source them from the Far East. The reason given for not sourcing plastic bags and hangers in the region was again a question of reliability and quality. Finished goods are invariably shipped in containers by road to Durban, East London or Cape Town and then by sea to the USA.

The USA garment procurement map illustrates that the Lesotho based garment manufacturers that are servicing the USA market are not involved in the purchasing of their raw materials and trims. Practically the only inputs sourced within the region are printed cartons. Limited supplies of these are available within Lesotho itself with the majority being imported from South Africa.

Negotiations have been taking place with South African thread manufacturers in an attempt to bring the supplied price down to a level that would make it competitive with imported thread. Currently, however, the majority of thread is still imported from the Far East with only very limited supplies being sourced within the region.



5.1 The Structure of the Industry

The subsector map is a visual representation of the conversion of raw materials into manufactured garments within Lesotho. The map is divided into the different functions that are carried out from the procurement of the raw materials through the different production processes to the final shipment of the finished product.

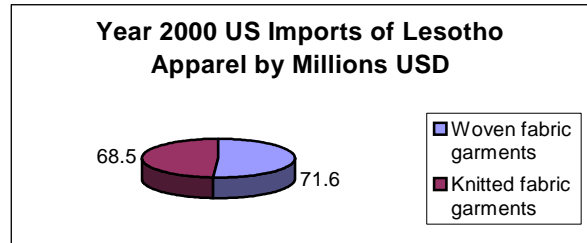
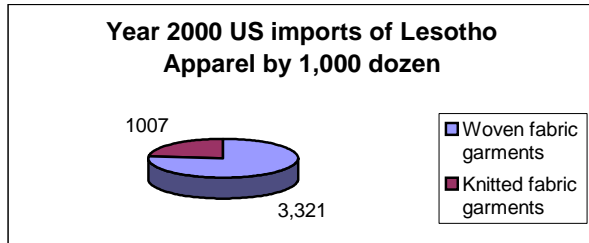
The data available on this sector is inconsistent. The LNDC has information on the companies that it has assisted but no data on companies that have had no contact with them. The Ministry of Industry, Trade and Marketing also compiles statistics on the sector but these were found to include factories that had been planned but never started. Through comparison of the various statistics available and cross checking these with factory visits, the consultants established that there are 38 factories operating in the sector in Lesotho. Of these, many are related through common ownership resulting in 27 distinct operations. The consultants visited 22 of these operations thereby gaining firsthand insight into 33 of the 38 companies or 87% of the Lesotho industrial garment sector.

There are four company groups making denim jeans employing 11,080 wage earners. Nineteen company groups are manufacturing knit garments employing 18,519 wage earners. Four company groups manufacture a mix of woven and knit garments employing 2,213 wage earners. Two companies are pure service providers supplying printing and embroidery services to the industry and they employ a total of 421 wage earners. The total employment of Basotho wage earners at the time of the survey, November 2001, was 32,233. This compares with 20,587 in March 2001, showing an increase in employment of 56% in seven months.

In addition there are a total of 1,076 expatriates working in the industry of which 211 could be categorised as senior management, 763 as line supervisors and 102 clerical staff. The majority of the expatriates are of South East Asian origin although the above figures include South Africans working in the industry in Lesotho.

The garment industry is divided into those factories producing garments manufactured from knitted cloth and those producing from woven cloth including denim. Exports to the USA showed an increase in units manufactured using knitted fabric from 1,104 to 2,314 (1000s of dozens) or 110% from 1999 to 2000. The equivalent figures for garments using woven fabric were from 581 to 1,007 (1000s of dozen) or 73%. The increases in values imported from Lesotho for the same period were 42% for knits and 14% for wovens. These trends were repeated in the first six months of 2001 with the value of imports of knits growing by 67% and wovens by 36%.⁵

⁵ Supply Survey in the Clothing and Textile Sectors in Lesotho – UNCTAD/WTO – Original source: Dataweb serviced by U.S. Dept of Commerce, the U.S. Treasury,, and the International Trade Commission.

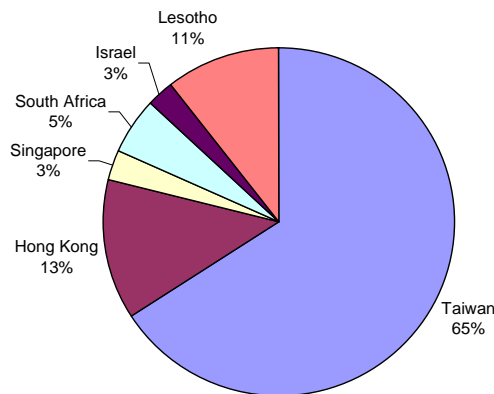


Source: Clothing and Textile Sectors in Lesotho – UNCTAD/WTO

Of the 38 factories, 27 are producing for the USA and Canadian markets only, six for South Africa only, three for USA, Canada and South Africa and two are service companies. Those companies producing for the USA and Canada indicate a 95 / 5% split between these two markets.

The overwhelming majority of factories (25) are subsidiaries of Taiwanese companies, four factories have head offices in Hong Kong, two factories are subsidiaries of South African companies, four companies may be considered to be Lesotho based although only one of them is Basotho owned. One factory each has its head offices in Singapore and Israel.

Headoffice Location



Source: Factory Survey

5.2 The Production Process

All the factories in the industrial garment sector in Lesotho can be classified as CMT (Cut, Make and Trim) operations. This implies that the factories only concern themselves with the physical manufacture of the garments and the designing, sampling, selling, raw material purchasing and financing of the operations are supplied by head offices, for the most part located overseas.

Raw materials are shipped to Lesotho in containers which are generally landed in East London and then railed via Bloemfontein to Mascon, the Maseru Container terminal. Almost all factories complained of delays in receiving their raw materials due to bottlenecks in the rail system. (See Mascon problem, section # 9.4 below) Containers are transported to the factories by trucks operated by private contractors. Empty containers are returned to Mascon and generally shipped back to Bloemfontein empty.

The receipt of raw materials is subject to a customs inspection prior to the goods being unloaded and placed in the factory's rebate store. Materials are then drawn out of the store against specific orders and laid up on the cutting tables to be cut into garment parts.

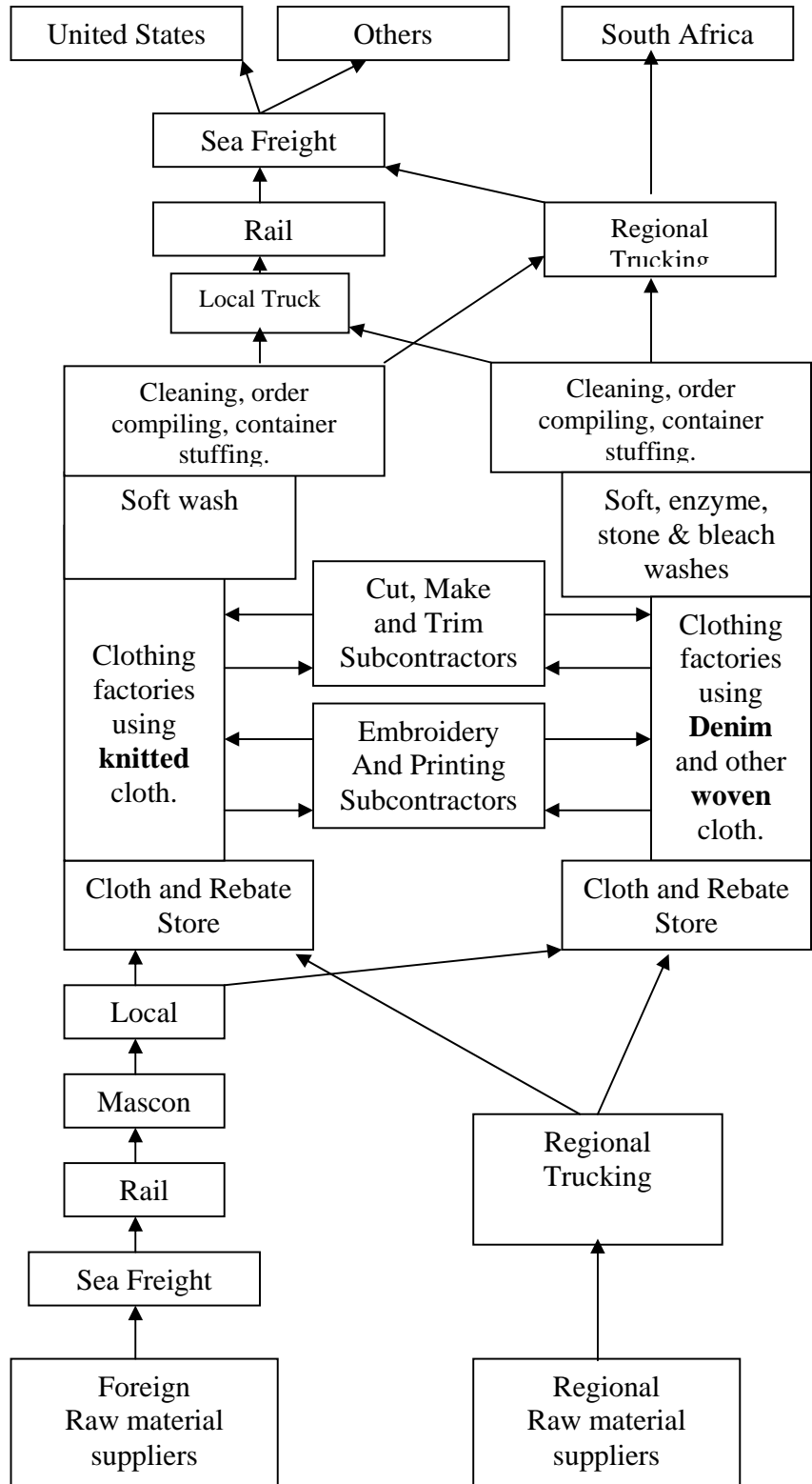
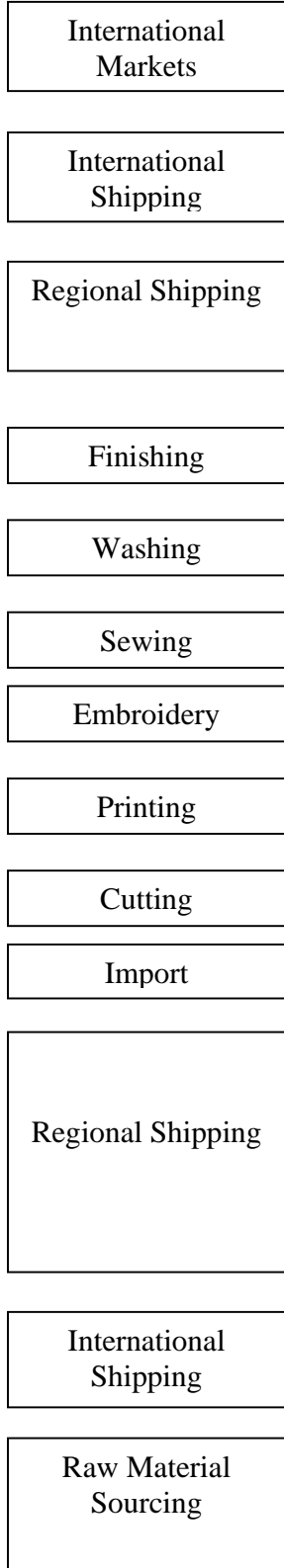
Each cut piece is ticketed and then collated with corresponding pieces from the same lay ply and size to make up bundles of cut work. If the garments need printing or embroidery, this will generally be done at this stage either in-house or sent to external sub contractors. The cut work is then loaded into the sewing floor for manufacture into garments.

The manufacturing process for knits and woven garments is basically similar with the exception that heavier machinery would generally be used for the manufacture of denim jeans. Once the garments have been sewn and excess threads trimmed, they will either receive a wash treatment or proceed directly to pressing and packing.

The main jeans manufacturers are located in the Ha Nyene and Thetsane industrial estates. Most jeans require processing in a laundry to give them the desired finish. There are a number of different types of washes including enzyme, stone, bleach and soft washes. These washes require enormous quantities of water and they create a wastewater effluent problem that has yet to be resolved in Lesotho and is a potential environmental hazard. Many of the knit and mixed plants have laundry facilities that are used to soften garments or to remove pigment dyes.

Once the garments are complete they are compiled into their orders and packed in cardboard cartons. The cartons are loaded into containers which are carried by road or rail to the South African ports of Durban or East London for shipment by sea.

Lesotho Garment Sector Production Map



It is interesting to note that a number of relatively small factories have been established in Lesotho to offer a CMT service to the larger factories. Two of these factories are owned and operated by individuals who originally arrived in Lesotho to work as supervisors in established companies. A Masotho entrepreneur started one of the factories. These factories receive their orders and raw materials from the larger factories, manufacture them, and deliver the finished goods back to their clients who collate the orders and dispatch them. Some of these factories are reportedly doing well and expanding.

6 Subsector Dynamics

AGOA and LDC Status

AGOA has been the dominant driving force behind the growth of the garment subsector in Lesotho. Lesotho's status as an LDC has enabled it to receive special advantage under AGOA in that it does not need to apply the principle of cumulation to its USA garment exports. Manufacturers are able to source highly competitive Asian manufactured cloth as their raw material input. Investors taking advantage of this status have led to the growth in employment by over 50% in 2001.

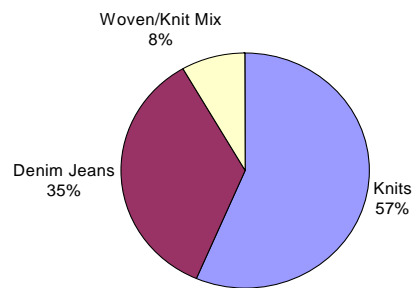
Currently this special LDC advantage will expire in 2004 although it is possible that it will be extended. When Lesotho's LDC advantage expires, the garment industry will have to either source fabric within Lesotho, from another qualifying sub-Saharan state or from the USA itself. This will result in the loss of much of Lesotho's competitive advantage. To the credit of the GoL and the LNDC they have managed to attract a major investment in the form of the proposed denim mill scheduled to start production in 2003.

The Nien Hsing International Lesotho (Pty) Ltd denim mill currently being built at the cost of \$100 million will be the first stage in vertically integrating Lesotho's clothing industry. The mill will result in 5,000 new jobs in the sector⁶ and will ensure that at least one element of Lesotho garment manufacture, the jeans industry, will continue to benefit from AGOA through to 2008. The mill will produce 2,000,000 metres of fabric per month. At current garment production levels the output from this mill would not be sufficient to supply the entire denim requirements of Lesotho which is approximately 2.5 million meters per month. One of the major jean production companies has acquired a denim mill in KwaZulu Natal, South Africa, with a current capacity of 600,000 metres per month. The output from this mill will be eligible for use under the AGOA preference system. The jeans segment of the industry now seems to be well geared to adapt to the loss of the LDC advantage by vertically integrating its cloth production.

⁶ LNDC News – April-June 2001

This is not the case in the knitted garment segment of the industry. There are currently in excess of 17,700 workers employed in this segment or 57% of the garment industry labour force. The attitude towards the approach of the AGOA 2004 deadline by industrialists in this sector is mixed. Some have simply stated that they would leave Lesotho if the advantage was lost, while others have expressed plans to manufacture knitted fabric if the need should arise. The scale of investment or the required time span to set up a knitted fabric mill is nothing like that involved with a woven fabric mill. In addition the economies of scale are quite different with the possibility that several small mills may be developed. It became obvious to the consultants that the industrialists were in a position to defer their decision to set up knitted mills pending the outcome of the negotiations to extend the LDC advantages of AGOA.

Worker Employment by Category



Source: Factory Survey

Like the denim mill, any proposed knitting mills would need prodigious quantities of water and treatment/recycling plants. There is the possibility that, if there is no infrastructural planning, there may not be the time to supply adequate utilities when the need for these knitting mills arises. It would make sense for the LNDC to target specific development area such as Butha Buthe or Mohalies Hoek for wet industries with integrated high volume water supply and treatment utilities.

Without proactive strategic planning and development up to 60 % of the jobs in the garment sector may be at risk simply through the loss of the LDC preferential status. However, with provision already being made for the local sourcing of denim fabric and the possibility of a number of knitting mills being established in the near future, and subject to the effective management of the constraints on growth mentioned in section # 9, there is a strong possibility that Lesotho's garment sector will continue to grow strongly. The phenomenal growth experienced in 2001 cannot be repeated in the short term, but, with effective planning and management, there is no reason why employment should not exceed 40,000 by 2004.

7 Key Points of Leverage

The points of leverage are those points where, working with a few individuals or organisations, it is possible to reach a much larger audience of participants within the

industry. In this survey the consultants identified two distinct audiences that need to be addressed. Firstly there are the garment sector industrialist and secondly the workers. The points of leverage are nodes where the participants gather or associate.

7.1 The Industrialists

There are four significant nodes that may be used to communicate to the garment industry industrialists at large. None of them embraces all the players involved and this is in itself one of the problems within the industry.

7.2 The LNDC

The Lesotho National Development Corporation maintains close links with all the industries that are located in its industrial sites and buildings. The LNDC is considered by most industrialists to be a trusted ally and they have open access to all industries with which they are associated. Not all industries in this sector fall under the remit of the LNDC, as those occupying privately owned premises are not generally contacted or assisted by it.

7.3 The Lesotho Exporters Association

This organisation was started in the 1980's as a lobby group to apply for derogation under the Lome Convention. Since then it has continued to act as a lobbying organisation. Its members include most, but not the entire garment sector industrialists. It was this organisation that successfully negotiated a wage agreement with the trade union in November 2001 thereby avoiding industrial action. The LEA is chaired by a Taiwanese industrialist and is a completely independent initiative. Should a formal garment industry association be established in the future, it is likely that it will grow out of this organisation.

7.4 Informal Taiwanese Chamber of Commerce

The Chamber of Commerce is an informal organisation that represents the interests of the Taiwanese in Lesotho regardless of the sector in which they are operating. The Chairman of the Chamber is well connected with Government. Most of the Taiwanese industrialists are registered with the Chamber that acts as spokesman, translator and facilitator to them.

7.5 Lesotho Industrial Employers Association (LIEA)

LIEA is one of the oldest employers' associations in Lesotho and is particularly strong in the Maputsoe and Ha Nyenye area. While it is not exclusively garment industry related, it has acted as a joint negotiating body for the Maputsoe garment, shoe and umbrella industries. The association retains a local advocate on a full time basis to deal with members' disputes.

7.6 The Workforce - Lesotho Clothing and Allied Workers Union

This is the largest trade union involved in the garment sector. It has been difficult to assess its representative strength in the factories for a number of reasons. The union is reluctant to release its figures particularly in cases where its members in an industry are below 50%. The industrialists invariably understate union membership in order to avoid compulsory recognition. Union membership is growing due to the freedom of association requirements of AGOA and the customers Codes of Conduct. It is probable that approximately 40% of garment workers are registered union members or sympathetic to it.

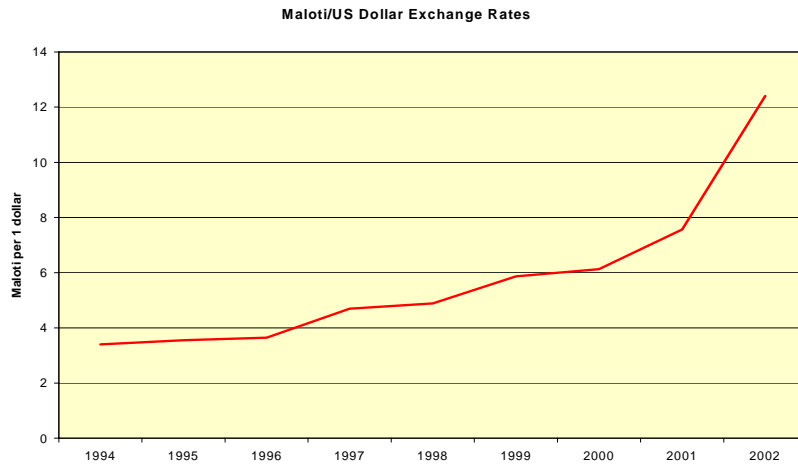
8 Driving Forces

It is apparent that the predominant driving force within the garment industry is the comparative advantage that Lesotho enjoys for its exports to the USA under AGOA. Its early registration under AGOA and its classification as an LDC has created additional advantages. The recent reclassification of Namibia and Botswana as LDC states will create greater regional competition for new garment start-ups, but Lesotho's proven track record in operating under AGOA will continue to give it front runner advantage.

8.1 The Maloti/ US Dollar Exchange Rate

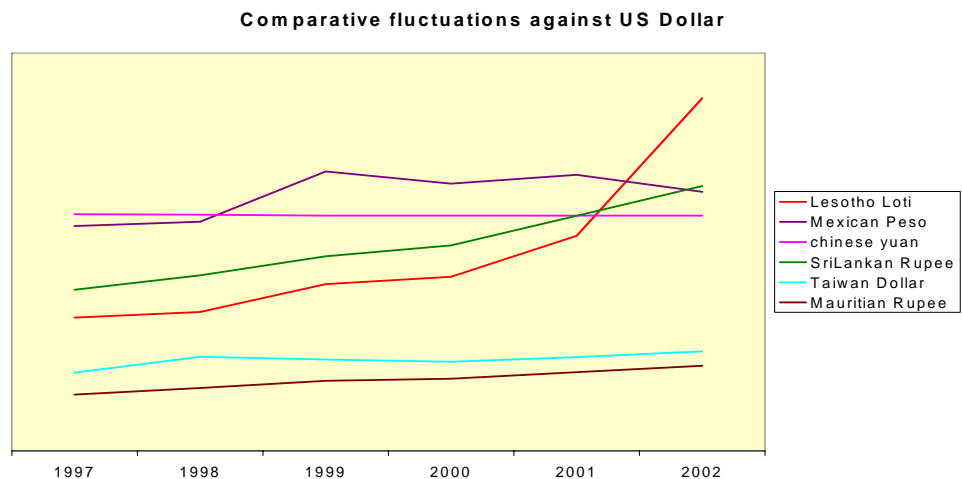
Political uncertainty in the region and particularly with the prospect of civil unrest in the Zimbabwe presidential elections has caused wide spread speculation in currencies in the region. The South African Rand, to which the Maloti is directly linked, has halved in value against the US Dollar in the past two years. This decline is good for exports and will gradually increase the competitiveness of regionally produced garments.

The major local costs of the garment industries in Lesotho, wages and utilities, will all become relatively cheaper in terms of their dollar selling prices. In 2001 wages were increased in this sector by 10% against a drop in dollar cost of 39%. In other words the real wage costs to industrialists exporting to the USA decreased by 29% during 2001. This decrease will assist in maintaining Lesotho's cost competitiveness and give some room to address the wage demands within the industry in 2002.



Source: Oanda Corporation. www.oanda.com

The Loti has lost 50% of its value against the dollar in the past two years.



Source: Oanda Corporation. www.oanda.com

The above graph shows the exchange rate movement against the US Dollar of some of Lesotho's competitor countries. The Loti shows by far the most marked decline. (This graph is not a representation of relative currency value but only of rate movement.)

8.2 The South East Asian Industrialists

As indicated earlier in this report the South East Asian industrialists operate 85% of the garment factories employing 97% of the workers in the industry. An analysis of the likely expansion programmes and new businesses applying to start up in Lesotho indicates that these industrialists will continue to be the dominant drivers of growth.

The consultants attempted to ascertain why the industrialists were attracted to Lesotho and what problems they faced operating in the country. For the most part the industrialists agreed that they found Lesotho a place where they could conduct their businesses without

undue legislative bureaucracy. They find the labour skilled and compliant, wages reasonable and the utilities, while occasionally erratic, reliable enough for them to be able to conduct their businesses. The AGOA advantages enjoyed were stated to be important to all of them although most of them were operating in Lesotho before AGOA was implemented.

All the industrialists expressed their fear of political and industrial unrest and had deep concerns for their personal safety and for that of their investments. While some of the industrialists were aware of the negative perception in which they were held, they felt that this was unjustified and unfair. They believe that because they are driving Lesotho's economic development and employing tens of thousands of workers, they are being unfairly judged by a public that is receptive to the negative perceptions disseminated by their detractors.

The increasing level of employment in Lesotho is introducing significant amounts of money into the economy on a monthly basis. The garment industries, being for the most part CMT operations, do not make or declare significant profits in Lesotho. A few industrialists did rate the low rate of company taxation as a benefit, most stated that they did not make profits in Lesotho. The Commissioner of Income Tax confirmed that the collection of Company profits from the garment industry was minimal. The main contribution to the economy is in wages paid and the utility spend.

In excess of 210 million Maloti is paid in wages in this sector annually. A further 25 million is spent on utilities. In addition considerable revenue is earned through the payment of licence fees, work and residence permits and employee PAYE tax deductions.

8.3 Investment Opportunity Window

The knowledge that Lesotho would be accredited under AGOA in 2001 was one of the major driving forces behind the flurry of new building and expansion activity in the garment industry.

Industrialists were aware that the window of opportunity was limited if they wished to recoup their investments as they had only four years of special LDC advantage. Companies investing in building their own shells now may have time to get the return on their investments but this will not be the case if they do not invest quickly. Should the LDC advantage be extended beyond 2004, it is conceivable that there will be a rush for further start-ups and expansions. If there is no extension then the emphasis on investment may switch to fabric production, particularly knitted fabric.

8.4 The LNDC

The LNDC with its portfolio of industrial buildings must be considered as a driving force behind the growth of the garment industry. It is the management of the industrial estates and the entire investment process that has attracted investors to Lesotho, reassured them through difficult times, and assisted them to expand their businesses.

8.5 International Consumer Standards

Efforts by concerned consumers and international labour organisations have focused attention on the working and environmental conditions under which products are manufactured. This attention and the possibility of negative publicity has forced all the international brands to adopt Codes of Conduct to which factories must comply while producing their products.

These Codes of Conduct are driving the transformation of the garment sector globally and are having a major effect on Lesotho. All factories producing for export to the USA have to comply with minimum standards and they are inspected regularly to ensure their compliance. It is the Codes of Conduct that is opening the Lesotho garment sector to change in its industrial relations policies and will ultimately force a change in the current environmental degradation caused by the sector.

8.6 The Related Micro and Small Enterprises (MSE) Sector

There is an almost complete lack of linkage into the garment sector by small enterprises in Lesotho. Where these linkages do occur, such as in machinery repair, CMT sub contracting and carton manufacture, it is almost invariably expatriate owned and operated.

Where linkages are occurring is in the micro and small enterprises developing in the informal sector around the industrial estates providing a wide range of products and services to the workers.

The transport sector, conveying workers to and from work is by the far the largest with 330 buses, coasters and taxis servicing the Thetsane industrial area alone.⁷ As most taxis include a driver and a fare collector it is projected that up to 1,200 people are employed in the business of transporting the workforce into the industrial estates.

To give an example of the scale of the taxi business, the survey indicates that the 330 taxis averaged two trips to Thetsane in the morning. Each taxi holds 15 people paying two Maloti per trip and the trips are repeated in the evening. The daily spend on taxis into Thetsane alone every day is M40,000. A survey of the taxis in the Maseru Industrial estate results in an estimate of a daily spend on taxi fares of M39,000 in that area.

The consultants conducted a mapping exercise in order to establish the number and range of micro enterprises in and around the industrial estates. These are numerous and varied, located in a ramshackle assortment of shacks, caravans, awnings and stalls without any provision of water, electricity or sanitation facilities. They provide a range of products and services such as snacks, fruit, cooked food, drinks, shoe repairs, herbs and medicines, public phones, clothing etc.

⁷ Sechaba Report – The SME Sector Annex # .

There are approximately 347 enterprises employing in the region of 400 people. These traders, supplying goods and services to the industrial workers, are obviously benefiting from the increase in employment in the garment sector. While many of them claim to be struggling, reporting turnover of just M300 per month, others are enthusiastic about their businesses and are hoping to expand.

What is apparent is the complete absence of any recycling of industrial waste from the garment sector. The consultants expected to find clothing, curtains, bed linen, pillows and other goods manufactured from fabric off cuts and roll ends as is the case in other garment producing countries. It is probable that an inflexible approach to rebated fabric is inhibiting the development of small sewing operations using fabric waste. Serious consideration should be given to granting a small allowance for waste fabric, say 3%, which could be sold without incurring duty. This would allow the garment sector to recover some of the costs of its waste and provide a stimulus to the SME sector, which could buy cloth at highly competitive prices.

9 Constraints and Opportunities

9.1 HIV/Aids

Current Situation

HIV/AIDS poses an important potential threat to the industry. With HIV seropositive rates at or above 30 percent of the adult population⁸ (42 percent in Maseru), it is very likely that the garment workers have similar infection rates or higher. This can cause serious negative effects on the garment industry.

Table : Results from Sentinel Surveys in Lesotho

Sites	Area	1991	1992	1993	1994	1996	2000
Maseru	Urban	5.5	5.1	6.1	31.3	20.6	42.2
Mafeteng	Periurban	3.5	5	4	10.8	34.8	18.98
Leribe	Periurban	2.2	1.8	11.4	8.7	29.3	26.03
Quthing	Rural foothill	0.7	8.4	3.4	9.1	15.8	22.81
Maluti	Rural Lowland	1.8	1.4	4.2	5	21.3	19.04
Mokhotlong	Rural Mountain						12.29

Source: HIV/AIDS and STD situation in Lesotho, 2000

While the infection rates are high in Lesotho, the mortality effects are not yet being felt, as the disease has not yet matured into full-blown AIDS in most cases. Some of the older factories in Maputsoe, the area which had some of the highest HIV seropositive rates four years ago, are feeling the effects more clearly than Maseru, which is a comparatively newer industry and where the disease was not as prevalent four years ago. Three quarters of the factories in Maputsoe are aware of HIV/AIDS related deaths in their factories,

⁸ Personal communication from the director of Lesotho AIDS Programme Coordinating Agency (LAPCA).

many of them more than one per month. Given the much higher infection rates in Maseru from the recent sentinel surveys, this means that there is a potential for a much larger problem in the near future.

While the majority of employees do not report a major effect of the epidemic on their personal or work lives, there is overall general awareness of the problem. Employees would like to get more information on HIV/AIDS to clear up much of the confusion. In addition, there is still a strong taboo on discussing or acknowledging HIV/AIDS cases.

Most factories do not have extensive health care facilities for their staff, but there are government health clinics near to several of the industrial parks. However, there are no active HIV/AIDS programmes currently being implemented by any of the companies.

Potential effects on the industry

The major effects to the industry will most likely be indirect, as the factories do not have medical or retirement plans for their employees (other than senior managers) which usually account for most of the direct costs. While illness and death will lead to replacing workers and training new ones, the costs associated with this are not high for the factories. However, they will lead to losses in productivity stemming from inexperienced workers and increased absences from the workplace due to illness and attending funerals. In an industry that already has comparatively low productivity, any further losses will not help it establish a competitive advantage for the post AGOA era.

At present, there are no programmes that are specifically targeting companies that might help them to introduce mitigation and support programmes to address the effects of HIV/AIDS. There is limited technical capacity within Lesotho to address the issue and there is little funding available for it, which might stimulate the development of such service providers.

Recommendations

A multi sectoral response (MSR) could be very appropriate in Lesotho. These will include activities covering prevention, mitigation, care and support. The first two, prevention and mitigation, are the most important for the garment industry to focus on. The MSR will require activities managed by the government as well as by the private sector and with specialised AIDS support agencies. It needs to be designed by specialists who understand both the medical aspects of the disease as well as the effects that the disease can have on staff morale and on operations.

There are activities that can be undertaken by the factories, by the local and national governments and by the donors:

- Factories should implement HIV/AIDS policies. These must recognise the existence of the disease and identify how the factories intend to respond to the disease. They must go beyond simply stating that the factory will not discriminate and should lay out some proactive steps that the factory will take to strengthen its prevention and mitigation activities. The garment industry should develop aggressive and

comprehensive workplace policies and programmes, as per the detailed recommendations in this report.

- The GoL must recognise the challenge but also the opportunity provided by the geographic clustering of the garment industry and act on it. This offers good opportunities for providing concentrated support to a high risk population by establishing or reinforcing their health clinics near the industrial areas where they will have access to large numbers of clients.
- DFID and other donors have an opportunity to take a proactive stance to assist this concentrated and dynamic industry. As the government and the industry do not have financial resources dedicated to combating AIDS, and are unlikely to get many funds quickly, donors can speed up the support process by:
 - Providing immediate funds to design and implement workplace programmes and a large national programme, which should kick off with a strategy design team first; and
 - Collaborate with other donors, especially USAID, to design an integrated programme with clearly defined donor inputs and responsibilities and to provide commodities (condoms and medicine).

9.2 AGOA

While AGOA is the driving force behind the growth of the garment subsector, it is, currently, of a limited duration. The expiry of the LDC advantage in 2004 and of the entire agreement in 2008 will be of major concern to the industry. It is likely that the agreement will be extended beyond 2008 but the extension of the LDC advantage beyond 2004 is unlikely. It is therefore critical to encourage manufacturers involved in the knitted fabric sector to establish local fabric mills or establish reliable regional sources of this fabric.

Duty and quota free access to the USA market under AGOA is subject to a cap on imports of 1.5% of the USA's total garment imports in the first year rising at half a percent per year to 3.5% in 2008. This cap is due to double with the ratification of AGOA 2, which will take place shortly. The cap increases each year with the increase in USA imports and with the increasing percentage. Up to the end of October 2001 55% of the cap was being utilised, this is prior to the doubling of the cap.

9.3 Infrastructure

Serviced land and shells

Historically the LNDC has been the government agency responsible for developing industrial estates in Lesotho, building factory shells and marketing the country as a destination of choice for industrialists.

There are currently four major estates where industrial activity is concentrated. These are Maputsoe and Ha Nyenye estates located in the Leribe district, Maseru Industrial and Thetsane. In addition the LNDC has an industrial estate in Mafeteng, is acquiring land for industrial use in Butha Buthe and is developing an eighty hectare site in Ha Tikoe near Maseru. Industrial sites are also available in Mohale's Hoek.

The LNDC is currently faced with a liquidity squeeze that is hampering its ability to service land that it has acquired for industrial use and to construct factory shells for prospective investors. All available shells are occupied, all serviced industrial land in Maseru and Thetsane is either allocated or occupied and only a limited number of serviced sites are now available in Ha Nyenye.

A number of industrialists have arranged to buy the buildings they are occupying from the LNDC and they have used these funds to develop other shells. In a number of circumstances industrialists have built factories at their own expense. This is an encouraging development as it places less strain on the LNDC's financial resources and implies that these industrialists are more committed to their operations in Lesotho.

Priority should be given to providing services to the new LNDC industrial estates and encouraging industrialists who are able to finance the construction of their own buildings. Where the LNDC is able to build factory shells it should prioritise projects that provide greater diversity to the industrial base, that assist in vertically integrating the existing base and diversify the ethnicity of the investors.

The LNDC recently underwent a restructuring programme divesting itself of all but its core activities. It has subcontracted its estate management function to JHI Real Estate Limited (Lesotho). JHI are major players in the region with offices in South Africa, Tanzania, Kenya, Ghana, Nigeria and Mozambique. JHI, who have only recently been appointed, will manage all aspects of estate management including rent collection, maintenance, contracts, evictions, client approval and project management.

The roads servicing the industrial estates are good and in many cases getting better. All the industrial estates are located near border crossing with South Africa with the Maputsoe and Maseru crossings operated on a 24-hour basis. In recent years the mode of importing and exporting goods has changed from predominately road to rail. Given the enormous order quantities and the raw material requirements, rail is by the far the cheaper option.

9.4 Mascon (Maseru Container Terminal)

There is only one railhead in Lesotho and that is located in Maseru just across the river border with South Africa. The lines, station buildings and handling facilities are owned and operated by Spoornet, the South African rail service. The station is located on GoL land and Spoornet have no lease or tenure on the site. This has been a contentious issue for a number of years. Spoornet are not prepared to develop the facilities unless they receive some form of tenure. The GoL does not appear to be interested in operating the site itself although Spoornet has suggested this.

The result is a completely inadequate facility operated under dangerous and unsecured conditions. The station is currently operating at full capacity and industrialists are already experiencing delays in the delivery of their containers.

Mascon has only one siding that is suitable for loading and unloading containers. Neither this siding nor any part of the container storage area is paved. In wet weather conditions are perilous. Containers are unloaded from the trains and loaded onto road trailers with the use of a mobile crane with no facilities for weighing the containers. There is no operating weigh bridge at Mascon.

Due to unsuitable storage conditions and inadequate handling facilities containers cannot be stored in Lesotho. (Full containers cannot be stacked on the ground.) At the time of this survey there were 130 containers for Lesotho in the container terminal in Bloemfontein.⁹ Industrialists are given a list of their containers stored in Bloemfontein and they prioritise which ones they want to be drawn into Lesotho. Containers left in Bloemfontein for more than 72 hours are charged demurrage at the rate of M293 per day.

Private contractors handle transport of containers to and from the factories. Each container has to be inspected by Customs on site, which causes a delay in the turnaround of vehicles and trailers.

Empty containers are returned to Bloemfontein. This takes up most of the capacity on trains leaving Lesotho. As most exporters use road transport for their exports, empty containers are transported from the ports by road, packed at the factories, and then returned to the ports by road.

A modernised, secure, well-equipped terminal in Lesotho is a prerequisite for further industrial development. It will be a serious constraint on development if nothing is done. The new Nien Hsing Denim plant will itself require four containers of raw materials per day.¹⁰ With the current level of activity there is a strong possibility that this could be a highly profitable venture. Urgent consideration should be given to developing the facilities at Mascon or offering the development and operation of the site by private or public tender.

9.5 Utilities

Most industrialists agreed that the provision of utilities had improved in recent years. While dissatisfaction with the performance of the LEC was high, this mostly related to billing and administration problems. Industrialists spoke of not receiving electricity bills for months and then having their power supply cut for non-payment

Utility	Problems with Billing or Supply
Electricity	73%
Water	41%
Telecommunications	59%

⁹ Phineas Malinga, Operations Manager, Mascon Terminal

¹⁰ Erick Chao, Manager, C&Y Garments.

Problems with WASA (Water and Sewerage Authority) were mostly related to insufficient or erratic supply. Those industries with no laundry facilities tended to report satisfaction while the wet industries were almost universally dissatisfied. There are major problems with the supply of water to the industry and disposal of industrial effluent and further expansion of the industry will only compound the problems unless they are addressed with a degree of urgency. (See Environmental Impact Study, Annex # 2. and 9.6 below)

Many industries are having problems with their telecommunications and in particular with land lines. All industrialists now use cell phones as back up. While some are using Lesotho based cells, many use South African ones with loss of revenue to the Lesotho provider. The telecommunications provider, Tele-Com Lesotho (Pty) Ltd has recently been privatised with the GoL retaining a 30% share holding. The new company is aware of the problems that exist both in terms of its hardware and its staffing structures and has been actively planning the upgrading of services.¹¹ Capacity problems exist in many of the regional exchanges such as Mohale's Hoek and Mafeteng, however these problems will be addressed in the near future. The professional experience of the partners in Tele-Com should result in significant improvements in this utility.

9.6 Environment

Maseru has a critical shortage of water. The Textile sector anticipates using over one third of the water available for Maseru. Local residents are very concerned about this issue as they claim that they have waited a long time for improved access to water. The sector does not anticipate recycling its water thus using a very large quantity compared to that which could be used should recycling be practised. Most of the water used and the pollution caused by the Lesotho garment sector takes place in Thetsane.¹²

Solid wastes generated by the garment factories are generally burnt. This burning is a waste of resources. Solid waste could be recycled into other products provided an efficient system is put in place. For waste recycling to become viable, current restrictive custom practice should be changed. Burning should be prohibited and the wastes made available to others for recycling into alternative products.

Environmental Impacts associated with Lesotho Garment Sector.

No.	Impact	Cause	Rating
1	Reduction in water flows in the Caledon River	Abstraction of relatively large amounts of water from the Caledon river.	High (reduces flow rates and apparently no permit for abstraction)
2	Reducing the amount of water that could be made available to people living in Maseru.	Abstraction of relatively large amounts of water from the Caledon river.	Medium (it is a government decision to allocate resources, but there is strong local concern about preference being given to the textile sector)
3	Pollution of local water & of international boundary river with South Africa.	Discharge of untreated effluents into the water course, which then runs into the Caledon.	High (this practice is against all norms and will become illegal in Lesotho.)

¹¹ Kuleile Thekiso, Chief Sales and Marketing Officer, Tele-Com Lesotho (Pty) Ltd.

¹² Environmental Impacts. Annex # 2.

No.	Impact	Cause	Rating
4	Pollution of air near to people.	Burning of wastes at the factory and at the "recycling" company and the municipal waste tip site.	Medium (the quantities are small but it is illegal and black smoke can be seen. Smouldering occurs at the municipal site, but this is also as a result of other wastes).

Due to the environmental impacts associated with effluents from textile factories, standards are usually set for their discharges and in developed countries heavy fines are imposed for breaches of these limits. The "polluter pays" principle is applied. However this is not yet the case in Lesotho.

As a result of pressures on factories in developing countries, significant technical and management solutions have been found. The EC established ecological criteria for the award of the Community Eco-Label to textile products in February 1999 (1999/178/EC). A range of good practice guidelines has been generated.¹³

Mitigation measures are thus available to the textile sector in Lesotho. There is a perception that the implementation of mitigation measures will not give a good pay-back, but experience in Europe has shown that the average pay-back period is less than 3 years and is often as low as a few months. However the period does depend on the costs of water, effluent treatment and penalties.

These environmental impacts, if not correctly mitigated and managed can be a risk to the company. The main threats to the Lesotho Garment sector, arising from current environmental impacts are summarised in the table below.

Main threats to the Lesotho Garment Sector resulting from environmental issues.

No	Threat	From	Cause	Risk
1	Boycott of product	Users of products	Media pictures of blue water effluent pouring into dry water courses with children playing nearby and cattle grazing.	High
2	Fines and possible closure	Government of Lesotho	Illegal discharge and enforcement and increasing costs of effluent treatment within Lesotho	Medium
3	Fines and possible closure	Government of South Africa	South African complaints about use and pollution of shared Caledon river resource.	Low
4	Unsustainable costs of water used	Local authority	Increasing cost of water – currently subsidised.	Medium

¹³ www.etbpp.gov.uk/index.html).

No	Threat	From	Cause	Risk
5	Increased cost of solid waste disposal	Local authority	Upgrading of solid waste management in Maseru	Low

The principal environmental impacts associated with the Garment sector in Lesotho are that of over consumption of water and the discharging of untreated toxic effluents into watercourses against local legal requirements. The toxic effluent action poses a serious risk to the industries in this sector as it could result in boycotts of their products if this knowledge becomes widely known to their consumers.

9.7 Industrial Relations

Historical Overview

The loss of production through industrial unrest is an anathema to any industrialist. This is particularly the case in the Lesotho Garment industry where the meeting of delivery dates is critical to the acceptance of orders and the ongoing flow of future orders. Many industrialists stressed that, post September 11, some buyers were looking for excuses to reject orders and late delivery is a prime reason for doing this.

The pioneer clothing factories set up in Lesotho by South African companies in the 1980s were, for the most part, subsidiaries of large groups with well developed personnel policies and procedures. These companies, primarily located in Maseru, initially set the standard for labour relations in the country. They negotiated recognition agreements with the trade union and, through their collective association, the Lesotho Industrial Employees Association, negotiated wage increases on an annual basis. Both the LNDC and the Department of Labour participated in these negotiations. While negotiations were frequently difficult and protracted, they inevitably resulted in equitable increases for workers in the area.

The immediate effect of protracted negotiations was that all the industrialists involved became accustomed to meeting with their opposite numbers in the trade union. Over the years a culture developed of dealing with the trade union even amongst those firms where the trade union did not hold a majority of membership.

The arrival of South East Asian garment factories changed the face of labour relations in Lesotho. These industrialists arrived with a patently different work ethic and an enormous communication barrier. From the outset rumours and innuendo started to circulate about the working conditions in these factories. These rumours were difficult to verify and the industrialists themselves did not appear to bother to repudiate them.

A perception developed that these factories were above the law and that Government Departments were powerless to force them to adhere to the minimum requirements of the Labour Code.

It is highly likely that in certain factories unacceptable work practices were prevalent. Part of the problem appears to be the ubiquitous use of Chinese supervision. The management, unable to communicate effectively with the workers, has placed line responsibility almost exclusively in the hands of Chinese supervisors. These supervisors, while able to understand the requirements of production as laid down by their seniors, were invariably not able to communicate the urgency effectively to the Basotho staff under their control. This resulted in frustration, aggression and punishment in a manner that is contrary to acceptable standards in Lesotho.

In general the Chinese supervisors appear to have been recruited from garment workers who have come up through the ranks of the garment industry in China. While skilled in garment sewing and construction, many of them would have no training in supervisory skills or motivational techniques. While this study did not look at the working and living conditions of Chinese supervisors specifically, it appears that they are expected to work exceptionally long hours and that they fall into a grey area of the law with no agency vetting their conditions of service. It is small wonder they expect superhuman performance from the workers under their supervision. Their performance is judged on the performance of the people working for them.

The communication and cultural barriers with the resultant paucity of line management/supervision acts as a barrier to effective team building and works against the achievement of acceptable levels of staff motivation and productivity.

Compounding the problem is the high degree of secrecy and dislike of interference that pervades most of the industry in Lesotho. It was extremely difficult to gain access to many of the factories for the purpose of this survey. In the light of the January 2001 negative report by researchers of the Dutch based Clean Clothes Campaign, this is understandable. Many of the industrialists have the attitude that they wish to operate without interference, that they are providing jobs for the people of Lesotho and they should be left alone to get on with what they do best. This attitude has a negative impact on the Basotho perceptions of the industry¹⁴. The industry is seen as exploitative and dehumanising with very little benefit to the Lesotho economy. Unfortunately none of the industrialists seems to be interested in countering this negative perception despite the deleterious effect it has on industrial relations.

The Lesotho Clothing and Allied Workers Union (LECAWU) is the predominant union involved in organising workers in the garment industry. It is correctly constituted in terms of the Labour code and is generally recognised by the GoL as the representative of labour.

LECAWU has historically had great difficulty organising workers due to harassment of union members and the unwillingness of management, particularly in Maseru and Thetsane, to engage in any form of recognition or negotiation. The attitude of management was, and in many cases still is, that the Union is a problem that Government

¹⁴ See: Annex # 3 Section 3. Focus Group Discussions.- Sechaba Consulting.

needs to deal with. Management has not seen a role for organised labour until very recently. The possibility of a three day industry-wide strike starting on November 5th 2001, the height of the production season, forced management to organise itself and meet as a group with the trade union.

LECAWU membership has started to grow as a result of a number of factors including the provision of AGOA, client companies' Codes of Conduct and a growing maturity amongst industrialists with regard to their labour relations perceptions.

The Lesotho Labour Code of 1992 and its subsequent amendments form a body of comprehensive and competent legislation well able to protect the rights and well being of workers in industry. That many aspects of the Code have been flouted in the past is common knowledge. The Department of Labour has been inundated with labour disputes that it has not had the resources to cope with.¹⁵ The result has been the general breakdown of many of the key aspects of the legislation to the detriment of the workers the Code was designed to protect. The Labour Department became so ensnared in dispute investigation and resolution that it was unable to perform its primary function which should have been ensuring compliance with the Labour Code.

AGOA has created the opportunity for major expansion of the garment sector but it also requires compliance with certain fundamental labour rights.

The President is authorised to designate a sub-Saharan country as an eligible sub-Saharan country if the President determines that the country –

- 1) has established, or is making progress towards establishing—
 - (F) protection of internationally recognised worker rights, including the right of association, the right to organise and bargain collectively, a prohibition on the use of any forced or compulsory labour, a minimum age for the employment of children, and acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health.

USA - Trade and Development Act of 2000

It should be noted that this Act places the onus on the Government to protect workers rights while some industrialists believe it is the Government's responsibility to do exactly the opposite.

The Government has recently set up an Industrial Relations Council, the Directorate for Dispute Prevention and Resolution and the Labour Appeal Court¹⁶ with the enabling legislation. This important piece of legislation provides for the settling of labour disputes through the process of mediation, conciliation and arbitration. It effectively creates an independent authority which is representative of Government, employees and employers. As its principal function is dispute prevention and resolution, it will remove much of the workload from the Department of Labour, which should effectively be able to pursue its primary role of compliance inspection. The Government need play no further role in

¹⁵ Commissioner of Labour, Mrs. Mamohale Matsoso.

¹⁶ Labour Code (Amendment) Act 2000

dispute resolution other than to encourage and facilitate the various parties to create the structures necessary to enable the new legislation to operate effectively.

With the global movement of the means of production from the First World to the Third World, there has been growing concern amongst First World consumers regarding the conditions under which the products they buy are manufactured. Both the activities of concerned activists and NGOs have drawn attention to unacceptable labour and environmental practices in the manufacturing countries. This has prompted most of the major transnationals to adopt Codes of Conduct for companies that supply goods or services to them. In addition a number of NGOs have devised Codes of Conduct in partnership with the transnationals. Some of these NGO initiatives include the UK based Ethical Trading Initiative (part sponsored by DFID), the Institute of Social and Ethical AccountAbility, the Global Reporting Institute, the Netherlands based Clean Clothes Campaign, the USA based Fair Labor Association, the US colleges' Workers Rights Consortium and the EU's European Code of Conduct. There is a major private initiative called Social Accountability 8000 (SA8000) which is attempting to create a benchmark for social accountability much like the ISO9000 has done for quality. The AA1000 is another such initiative. Some of the major companies have formed their own organisations such as World-wide Responsible Apparel Production Principles (WRAP) to accredit suppliers that meet their Code of Conduct. In addition all major brands and transnationals have their own Codes of Conduct. (See comparison of Codes of Conduct in Annex # 5.)

Due to the devastating negative publicity that can potentially arise from unscrupulous manufacturers exploiting labour, most large companies insist on a system of Code of Conduct compliance verification. As there is no standard in the industry, in-house inspectors, independent monitors or one of the major inspection agencies such as SGS, Intertek or Veritas may perform this verification inspection.

There is no doubt that the need to comply with the various Codes of Conduct has created a major change in most of the garment factories in Lesotho. The industry has become used to opening its doors regularly to inspections. It is also apparent that many factories are paying lip service to the provisions of the Codes of Conduct and have not realised the potential benefits of a well-planned and integrated Industrial Relations policy. These benefits include the fostering of industrial peace and team building with resultant improvements in productivity.

Compliance with Codes of Conduct has resulted in:

- improved layout of factory sewing floors
- Clearly marked emergency exit routes
- Freedom of association and greater Trade Union penetration
- Less overtime worked
- Eradication of child labour (Never a major problem in the Lesotho industry)
- Increase in the number of factories offering canteen facilities
- A reduction in verbal and physical abuse

The inspections against a Code of Conduct can measure a degree of compliance but the actual state of labour relations within the industry is less quantifiable. W. Edwards Deming, the champion of the total quality ethos, maintains that 97% of what matters in industry cannot be counted.¹⁷ The measure of success of industrial relations in the Lesotho garment industry needs to take into account the perception of the workers and the public at large. Of the workers interviewed for this survey 66% were either very negative or quite negative towards the company they work for, while only 18% were positive or very positive.¹⁸ These perceptions are invariably so bad as to be considered dangerous and a serious threat to the established industry and a constraint on its future development and growth. This is despite the obvious and tangible improvements that have taken place in recent years.

Of all the factories interviewed only two have any formal recruitment procedures. In general staff were recruited on a first-come first-served basis or to fill specific skill requirements. Workers are only tested for sewing skills or hired on a probationary basis. Testing for literacy, numeracy or dexterity is simply not done, no training records are kept and in most cases only very basic records are kept of employees. Unstructured recruitment leads to accusations of favouritism, the possibility of bribes, uninformed selection of potential supervisors and, ultimately, poor industrial relations.

One of the cornerstones of a sound industrial relations environment is that participants should be fully informed. It is apparent that neither the workers are properly informed about their rights and obligations, nor are the majority of the expatriate supervisors informed about the provisions of the Lesotho Labour Code or about Basotho culture generally.

Only one factory has a staff induction programme. All the others leave the task of informing new recruits of personnel policies and procedures to supervisors or the personnel staff. This invariably leads to inconsistent and inadequate information. It is glaringly obvious from the Sechaba study that most workers are unaware of their rights, entitlements and obligations. It would appear that the trade union has also not been particularly instructive in this regard.

9.8 Perception and Public Relations

The workers attitude towards their employees is dealt with in the section of Industrial Relations above. But what of the community at large, the general public, the community leaders, the people that live near the industrial estates? One would assume that in a country where jobs are scarce, any industry that provides regulated formal employment would be welcomed.

¹⁷ Charles Handy – The Elephant and the Flea

¹⁸ See Annex # 3. Survey of factory workers Table 5 and Focus Group Discussions

The GoL through the LNDC has made an enormous investment in infrastructure, industrial estates and factory shells. The industrialists have committed vast resources in terms of buildings, machinery, stock and work in progress. These assets need to be protected and made secure. In times of political, social or industrial unrest these assets are extremely vulnerable and this is exacerbated by a consistently negative perception of the industries by both the workers and the general public.

The Sechaba survey indicates that neither the families of employees nor their communities afford them any additional status for the fact that they are employed.¹⁹ Section 3 of the same report deals with Focus Group Discussions aimed at determining Basotho attitudes to Asian investors. The consultants found that “the overwhelming majority see Asian investors in an extremely negative light.”

It is interesting that the perceived working conditions are often far worse than the reality. The report states that there is a perception that workers start at 7.00 a.m. and do not finish until 9.00 p.m. The perception is that some workers get no time off at all and work seven days a week. The survey of workers shows that the vast majority of them work between nine and ten hours per day. The range of overtime worked per week is from one to seven hours. Clearly there is a vast difference between the perception and the reality.

Past labour abuses continue to haunt the industry. The marked improvement in working conditions precipitated by AGOA and the requirements of American customers is not appreciated by the public at large. The efforts of the Asian community to assist the poor and disabled through charitable donations has not been effectively communicated.

The Asian industrialists spoke of their fear of public unrest and damage to their persons or their property. The 1998 riots caused a number of factory closures and slowed the pace of investment until stability was restored. The Focus Group Discussion (FGD) report notes that the participants felt that “conditions could be improved if only the Government, the unions and the investors would sit down and communicate on a regular basis.”

A number of the larger industries controlled by South East Asian Industrialists have established on-going social responsibility programmes. The consultants found evidence of donations to charities, sponsoring of schools and donations to disaster relief. They have established the Tzu Chi Relief Organisation which channels the funds donated by member companies. This organisation also raises funds in Taiwan and has been responsible for donating a full container of fabric to disabled organisations, the donation of 130 wheelchairs to the disabled and the donation of 100 sewing machines for the establishment of rural sewing workshops. It would appear that, other than the recipients of these donations, no one else in Lesotho is aware of them. There is no co-ordinated attempt to publicise the benefits the garment industry brings to Lesotho or the levels of investment, commitment and risk undertaken by the industrialists. While the chairman of the Lesotho Exporters Association maintained that her members understood the need to

¹⁹ Annex 3. Sechaba Report: Table 14

publicise their point of view, she indicated that little credence was given to their press releases by either the print or radio media.

The consultants are of the opinion that addressing of the public relations issue is one of the most urgent tasks. A healthy open relationship with the community makes good business sense. It will help secure the industry and make a positive contribution to the improvement of industrial relations.

9.9 Training, Productivity and the Productivity and Training Institute.

Training

The Lesotho Garment Centre (LGC), funded by DFID, is the only significant training centre specifically targeting the formal industrial garment subsector in Lesotho. The LGC project was initiated with the express purpose of training entrepreneurs in the management of industrial garment production in anticipation of them participating in the industry through the opportunities presented by AGOA.

While the LGC succeeded in training hundreds of machinists, its primary aim of launching entrepreneurs into the formal garment subsector was not successful.²⁰ Funding for the LGC project will terminate at the end of March 2002.

The experience of the LGC has clearly demonstrated that this type of project is not the correct vehicle to assist Basotho entrepreneurs to enter the formal garment industry. It has also shown the formidable cost of training machinists outside of a commercial factory situation. The LGC experience indicates that a training centre of this type is unlikely to achieve any degree of sustainability.

There are several other training establishments such as Lerotholi Polytechnic and the Institute of Development Management (IDM) which offer a range of generic management and general studies but none are tailored to the needs of the formal garment sector. Lerotholi Polytechnic offers two-year courses but the focus is on design, pattern construction and bespoke tailoring. The Commercial Training Institute (CTI) offers similar courses that lead to the award of a Certificate in Tailoring and Dressmaking.

The Basotho Enterprise Development Corporation (BEDCO) also runs a series of short courses, which includes marketing skills and are looking in the future to focus on the needs of the garment industry.

St. Luke's Mission in Maputsoe offers a three year course providing students with a range of skills including pattern construction, machine knitting, small business studies, leadership, management skills and industrial garment production on the appropriate

²⁰ See Output to Purpose Review of the Lesotho Garment Centre. (Havers and Salm) DFID March 2001.

machinery. Many of these students are employed in the local craft industry often in their own enterprises on completion of the course.

Practically all the factories visited have some form of training for machinists and other skills such as cutting and pressing. In most cases there is a training line where new recruits are taught the basic skills of machine operation. For the most part trainees are taught single machine skills and are not cross-trained. The majority of managers interviewed claimed that they did not see a major need for a machinist training school.

By contrast most of the factories acknowledged the need for supervisory training and indicated that they were prepared to pay for it. In the factory survey 69% of those interviewed confirmed that they would support training programmes which addressed their particular sector needs if they were delivered in a way that minimized employees' time spent away from their workplace. Approximately 11% said they *might* support such a facility and 20% said they would not.

Only one of the companies visited has developed a supervisory training course and is delivering it 'in-house' using its own staff. It started the programme recently and it is too soon to assess its effectiveness. Training covers the full range of topics from organisation and planning to industrial relations and health and safety. The reasons given for developing their own programme was that no such course was available locally and they had concerns about both the quality of delivery and of training materials provided by third parties.

In order to empower Basotho working within the industry it is vital that they receive appropriate training. This training needs to develop from within the industry rather than be structured outside of it as in the LGC model.

The consultants identified the following areas which are critical for the long-term stability of the industry and which will contribute strongly to maintaining cost competitiveness and industrial peace.

- Supervisory management training
- Workforce induction training
- Expatriate induction into Lesotho's Labour Code and Basotho culture.
- Industrial relations training for personnel staff
- Technical/mechanic training
- Industry specific computer training

In the garment manufacturing industry the role of supervisory management is key to a company's performance since the supervisors directly influence the level of productivity and quality. In the companies visited it was obvious that there was a lack of relevant management skills in Lesotho. This is borne out by the large number of expatriates in supervisory management and other senior positions.

It is vital that Basotho supervisors are adequately trained in order that they may ultimately take on more responsible management positions within their companies and relieve the need to import expatriate supervision. Adequate training will also ultimately reduce the industry's reliance on expatriate supervisors and managers.

Well-trained and experienced supervisors provide the best chance for Basotho to set up their own independent enterprises. A number of the factories visited by the consultants are owned or operated by expatriates who originally came into the region as factory supervisors.

Most of the equipment used in garment manufacturing is fairly basic. There are significant numbers of Basotho employed as mechanics but they are learning their skills by watching expatriates as there are no formal training courses available to them. Some of the factories have sophisticated computerized sewing and laundry equipment. Expatriate mechanics are responsible for the maintenance of these more complex machines and computer controlled equipment.

Productivity

The consultants believe that operator productivity within the industry was generally low. This is principally due to deficient recruitment policies, inadequately trained operators, poor supervisory management, communication difficulties and cross-cultural misunderstanding.

The consultants observed that in most cases where inefficiencies exist on the sewing lines, the management response was to allocate more machinists to the problem rather than using modern manufacturing efficiency techniques. This results in the use of more manpower than necessary, which adversely affects cost competitiveness and maintains the culture of low wages.

Where the Industrial Engineering function exists, expatriate staff currently performs it. This is a critical facet in achieving and maintaining optimum levels of productivity. The consultants are of the opinion that it is not carried out in a focused manner. Training in Method Study including work place layout and advanced work handling techniques such as Optimal Sewing Methods would lead to significant improvements in productivity. Development of their knowledge of Work Measurement would improve target setting and also identify the causes of "lost time".

The social study indicates that there is considerable resentment over target setting in the factories. More Basotho need to become involved in the process in order for them to be in a position to communicate the mechanism of target setting to the workers.

There is a lack of the skills required in maintaining sophisticated technical equipment in Lesotho. This has restricted investment in labour saving machinery. This limits a company's ability to increase production efficiency through the use of modern technology.

Productivity and Training Institute

The consultants are of the opinion that any intervention assisting in the provision of training for the formal garment subsector should be firmly rooted in the perceived needs of the industry itself. The entire training process should be “owned” by the industry. Should the industry successfully establish a representative association, then that association should be encouraged, with the assistance of the donor community, to establish a Productivity and Training Institute.

The aims of the proposed Productivity and Training Institute would be to:

- Identify training needs across the industry
- Conduct productivity appraisals within individual factories
- Assist in achieving compliance to Codes of Conduct
- Source and/or develop appropriate training materials
- Administer training materials including supervisory training, expatriate induction, industrial relations training, Optimal Sewing Methods, work study etc.
- Provide a venue for the demonstration of new technology
- Possibly supply a computerized marking service for those factories that do not have this facility and train operators in this technology.

It is envisaged that the donor community would assist in the establishment of the Productivity and Training Institute. The industrialists would contribute to the running costs of the Institute either through a training levy or by the payment of fees for services and the Institute should be self-sustaining within two years.

9.10 Customs Regulations

The integrity and independence of the Customs Service is a prerequisite for any exporting economy. In recent years the Lesotho Customs Service has made enormous strides in the enhancement and training of its staff to meet the requirements of increased imports under rebate, and exports under the AGOA Visa scheme. All the industrialists involved in exports stated that they had no problems with the Customs Service other than the fact that they had to supply transport for Customs officers to visit their plants for inspections.

The regulations with regard to rebate stores under the provisions of SACU rebate legislation 470.03 do have the effect of limiting the possibilities for small enterprises to become involved in the garment sector. The Customs Service has refused rebate facilities to companies, such as the LGC, who are not *exclusively* producing for export. On the other hand there are companies that manufacture for both the South African market and for export which have been granted rebate facilities. So a degree of anomaly exists.

In certain factories Customs requires that waste and offcuts of rebated fabric is weighed before being destroyed for the purposes of balancing imports and exports in the rebate

records. In other factories this provision is not required. It would make sense if a certain percentage of waste fabric was allowed and that this percentage could be disposed of free of duty. This would remove the need for the inspection of waste, allow industrialists to recover some of their losses on waste and create a cheap source of raw materials for the informal garment and related industries.²¹

The Duty Credit Scheme (DCC) described in 3.3 above was designed to assist exporters of manufactured goods that use SACU sourced raw materials. If there is no extension of the LDC advantage under AGOA post 2004, then, in the absence of Lesotho based knit fabric producers, the industry may switch its fabric purchasing to South African mills. Without the DCC scheme Lesotho manufacturers will be producing exports to the USA at a disadvantage to South Africa producers who can claim an effective rebate of 8% on the value of their exports. South African exporters already enjoy this advantage but it is countered by the ability of Lesotho to use cheaper imported raw materials.

10 Institutional Framework

10.1 The LNDC

The Lesotho National Development Corporation (LNDC) is a Government of Lesotho Parastatal body whose mandate is to initiate, promote and facilitate the development of manufacturing and processing industries, mining and commerce. It is owned 90% by Government and 10% by the DEG (a German Finance company for investments in developing countries). The Ministry of Trade, Industry and Marketing has overall responsibility for the LNDC.

The Investment Promotion Centre (IPC) of the LNDC is charged with marketing Lesotho as a destination of choice to potential manufacturers. To do this it produces various leaflets and guides but there is a lack of a coherent long-term strategy. Targeting of potential investors is done from a comprehensive database of large South African companies involved in labour intensive industries. Trade missions have gone to S. E. Asia but these "piggy back" on companies that already have factories in Lesotho.

The IPC needs to focus on achieving some degree of diversity into the industry. They should also attempt to attract fabric producers and yarn, trim, zip, button, bag, hanger and carton manufacturers. There is a need to assess the requirements of the industry and establish which products could be viably manufactured in the country and then target companies accordingly. This would assist in Lesotho taking full advantage of AGOA and allow a structured approach towards inward investment.

²¹ See Environmental Impact Study – John Raimondo – Annex # 2.

The LNDC's Operations Directorate maintains contact and monitors the performance of the client companies within its portfolio. This directorate also runs the LNDC's Industrial Relations department that assists industrialists with dispute resolution and personnel policy planning and implementation. At present the LNDC does not have a garment and textile specialist who could assist in the development and implementation of a co-ordinated strategy for the sector.

10.2 LECAWU

The Lesotho Clothing and Allied Workers Union is by far the largest trade union representing workers in the garment industry. In the past the activities of the trade union were hampered by a hostile attitude on behalf of many of the industrialists, some of whom actively fought to keep union activity to a minimum on their premises. Since AGOA this has changed markedly and the union now claims that most industrialists grant them access to their workers.²² As a result the union has started to grow both in terms of members and influence.

Over the years the Union has received assistance in various forms from the donor community. This has resulted in the union officials being well trained and fully cognisant of international labour developments. The Union is affiliated to a number of international and regional labour movements such as the International Textile and Garment and Leather Workers Federation (ITGLWF) and to the South African Clothing and Textile Workers Union (SACTWU) and, through this body, to COSATU. The union uses these contacts to gain information about wages and working conditions in the region, to share information and maintain solidarity on regional issues.

The consultants found the Union fully cognisant of the comparative wages across the region and it was interesting to note that they were fully aware that the high wages paid in the traditional garment centres in South Africa had led to the industries demise in these areas. They acknowledged that wages in Lesotho were on a par or occasionally better than other areas in the region.

The Union could not give a clear response to the level of its membership countrywide. It stated that it had between 8,000 and 9,000 members in permanent employment and another 7,000 amongst casual labour. This would correlate with the findings of the Sechaba study that calculated a membership in the region of 44% of the workforce.

Many industrialists have a negative perception of the Union because they claim that it confuses the workers and informs them only of their rights and not their obligations. The Sechaba study tends to give credence to this view and it would appear that many workers are not adequately informed of their rights either. A campaign to educate workers on their rights and obligations, both through the Union and the factories, would have a long-term beneficial effect on labour relations.

²² Mr. Daniel Maraisane – General Secretary - LECAWU

When the consultant met with LECAWU in March 2001 their principal concerns were listed as follows:

- Ineffective bargaining, mediation and arbitration facilities.
- Low wages – in almost all cases the minimum wage is being paid.
- Denial of access to the place of work for the Union.
- Non-compliance with the Labour Code.
- Unpaid overtime to achieve targets.
- Workers denied the ability to leave the premises during lunchtime.
- Inadequate canteen facilities.

By November 2001 enormous changes had come about. Wages in the sector had been negotiated above the statutory minimum wage increase. These negotiations were conducted through the LEA under the threat of a three-day work stoppage by LECAWU. The LEA was not constituted as the negotiating representative of the industry but proved to be the only body sufficiently representative to speak for the industry. It is apparent that neither the LEA nor LECAWU were prepared for this sudden breakthrough into negotiations with the result that, while agreement was reached in time to avert strike action,²³ the signed agreement was so vague as to require further negotiation and clarification two weeks later. The Union viewed the Agreement as an across the board increase of 10% while LEA viewed it as a 10% increase in the minimum wage. After further negotiation the Union's interpretation was accepted.

The Union's concerns about access to the workers have largely been addressed through the requirements of AGOA and it appears that most industrialists have accepted that the Union is a legitimate stakeholder in the industry. The Union's major concern regarding non-compliance with the Labour Code is being addressed through the establishment of the Directorate of Dispute Prevention and Resolution (DDPR) which was established in late 2001.

The Trade Union representatives, while indicating their satisfaction with the considerable progress made in 2001, now felt it was imperative to move to the next stage of developing their relationship with industrialists. This is the establishment of a properly constituted representative Employers' Association with which the Union could enter into Recognition and Procedural Agreement negotiations.

Wage negotiations for the year 2002 are scheduled to begin with LEA in March 2002. During last year's negotiations representatives of both the LNDC and the Department of Labour were present.

²³ See Agreement between Members of the Textile Exporters Association and LECAWU Annex # 6.

10.3 The Directorate for Dispute Prevention and Resolution (DDPR)

The DDPR is an independent organisation established under the tripartite body of the Industrial Relations Council (IRC) representing Government, Employers and Labour. Its vision is to promote justice at work in order to obtain industrial peace and stability.²⁴

The Labour Code amendment establishing the DDPR, the IRC and the Labour Appeal Court was gazetted in April 2001. The amendment had not been signed into law by November 2001 during the consultants' visit but it was believed that this was imminent. The DDPR is fully staffed and has started to promote its services. The DDPR is funded by the GoL, the International Labour Organisation (ILO) and Swiss Aid.

The DDPR has inherited 200 cases from the Department of Labour. Its task is to attempt to prevent trade disputes at source and to develop strategy and prevention measures. It will be responsible for dispute resolution through conciliation, arbitration and mediation.

The DDPR should assist in alleviating some of the tensions and misapprehensions that exist in the industrial relations scenario.

10.4 Ministry of Industry, Trade and Marketing (MITM)

The Ministry sees its task as formulating and monitoring the implementation of appropriate commercial, marketing, and industrial development policies and enforcing supporting legislation. The MITM is ultimately responsible for the LNDC and is instrumental in representing the needs of industry to Government.

10.5 Ministry of Employment and Labour

The Ministry of Employment & Labour formulates and monitors the implementation of Labour policy. It also sees its role as promoting tripartism and social dialogue. The newly constituted DDPR, IRC and Labour Appeal Court fall under the responsibility of the Minister of Labour.

11 The Industry's Role in Poverty Reduction

Lesotho is one of the poorest countries in the world. In 1999 the World Bank rated the country's real per capita GDP measured in Purchasing Power Parities at USD 1,860 in 1997 placing Lesotho among the world's 50 lowest income countries.²⁵

²⁴ Mr. Mabathoana Khotle, Director, Directorate of Dispute Prevention and Resolution.

²⁵ Lesotho – Interim Poverty Reduction Strategy Paper – December 2000

Despite an average annual increase of 6.3% in GDP between 1988 and 1997²⁶, the depth and severity of poverty worsened during the same period. In 1994, 72% of rural households were poor, compared with 27% of the Maseru urban households. Poverty is most severe in Mokhotlong (72.3%) and Mphahlele (74.9%).

One of the primary reasons for the increase in poverty in the rural areas is the loss of remitted wages from the South African mines. It is estimated that 59,000 miners were employed on the mines in the first half of 2000 compared with double that figure a decade previously. Cash remittances from South African employment were the principal source of Basotho household income in 1986/7 (1986/7, 35%, 1994/5, 23.2%) but by 1994/5 this had been overtaken by Wages and Salaries earned in Lesotho. (1986/7, 17.1%, 1994/5, 26.8%)²⁷

It is generally accepted that Foreign Direct Investment (FDI) is a key ingredient for successful economic growth in developing countries.²⁸ Growth is one of the single most important factors affecting poverty reduction and the FDI implicit in the expansion of the garment subsector is of enormous significance to Lesotho.

There are other significant ways in which FDI affects the quality of growth and assists in poverty reduction. The requirements of investors contribute to the quality of infrastructural development. Customers' requirements contribute to the improvement of environmental and labour standards due to concerns about reputations in markets. FDI generates revenues and taxes that increase the Government's ability to provide safety nets for the poor. Finally FDI can and should contribute to the wider community through programmes of social responsibility.

An effective way for the GoL to develop and fund pro-poor policies is by an increasing income from revenue and taxes generated through economic growth. FDI in the garment industry supplies the cash income requirement, which is essential in creating a trickle down into the poorer sectors of the economy. Another advantage is that the educational entry level for workers into the garment industry need not be particularly high thereby not specifically excluding the extremely poor from participating.

The Sechaba survey indicates factory workers are spending an average of M139.22 per month on remittances.²⁹ In addition the average spend on food is given as M186.34 per month of which a percentage is spent with the vendors on the industrial estates. It can be concluded that while the garment industry is concentrated in the Maseru and Leribe districts, there is significant transfer of the wages earned into the poorer rural areas. The development of industrial estates in Butha Buthe, Mafeteng and Mphahlele will assist in spreading the wage benefit further into the rural areas.

²⁶ Bureau of Statistics, 2000

²⁷ Poverty and Inequality in Lesotho – Julian May, Benjamin Roberts, George Moqasa, Ingrid Woolard.

²⁸ Foreign Direct Investment and Poverty Reduction – M. Klein, C. Aaron, B. Hadjimichael

²⁹ Sechaba Study, Table 10 – Annex # .

Households in the four poorest deciles in 1994 spent between 42 and 50 percent of their expenditure on food.³⁰ While the expenditure on clothing in this group is fairly minimal, access to cheaper clothing through the sale of rejects would be of assistance. In addition fabric and off cuts released as waste from rebate stores could provide some level of employment in disadvantaged areas.

The size of the garment subsector in Lesotho and the scale of its growth must be seen as an integral link in the development of the country's poverty reduction strategy. No other sector currently offers the same opportunities for stimulating growth, increasing employment and promoting technological transfers.

12 Conclusions

The industrial garment sector in Lesotho is robust and growing strongly. It is the largest private sector employer and is making an enormous contribution to Lesotho's GNP. The level of growth has moved faster than the infrastructural development of the country particularly in terms of water supply and telecommunications.

The continued growth in this sector will be limited by the availability of serviced industrial sites and finished factory shells. The sites available will be limited in the industries they can attract due to lack of sufficient water supplies.

There is a serious problem with water effluent from the garment industry. Unless there is a coherent plan to treat and possibly recycle this water it is likely that increasing pressure will be brought to bear on the industry by concerned environmentalists, consumer activists, the South Africa Government and inhabitants around the industrial estates.

The container handling facilities at the Mascon terminal need to be upgraded and the question of land ownership and the preferred operator need to be resolved quickly. The consultants believe that development of the terminal business could be highly profitable but without urgent action the current facilities will prove to be totally inadequate.

The competition to attract garment industries wishing to take advantage of AGOA will grow strongly as more countries are accredited under the scheme. It is important for Lesotho to ensure that it urgently attends to its infrastructural problems if it wishes to continue to compete.

The HIV/Aids problem is maturing in Lesotho and the industry is faced with the spectre of increasing absenteeism and deaths amongst the workforce. The industry provides an effective node for a coherent HIV/Aids mitigation programme. By acting proactively the industry can assist in the prevention and mitigation of the disease. By ignoring the problem the industry may find itself blamed for the increasing in-factory deaths that will inevitably occur.

³⁰ Poverty and Inequality in Lesotho – Julian May, Benjamin Roberts, George Moqasa, Ingrid Woolard.

The consultants found that the state of industrial relations in the factories is extremely poor. There is a lack of understanding both on the part of management and labour which, coupled with the cultural divide, has served to alienate the workers and the public in general. There is very little appreciation in the wider community of the role the industry is playing in the alleviation of poverty in Lesotho. Related to the poor industrial relations is the question of inadequate training and induction of both workers and supervisors and the resultant poor production efficiencies.

Allied to the industrial relations problem is that of public relations. The Asian industrialists are viewed in a very negative light. The industry itself is not appreciated by the public in general but rather is seen as something that consumes resources without any benefits to the local communities.

13 Developing a Vision for the Lesotho Garment Industry

The best way to predict the future is to invent it.³¹

Since the downturn in 1998 there has been a steady increase in employment in Lesotho's formal garment subsector with employment rising from 15,000 workers up to just over 20,000 at the end of 2000. By the end of 2001 this employment has risen sharply to over 32,000. The value of exports rose from Maloti 500 million in 1998 to over Maloti 1.8 billion in 2000. Significant increases in exports and the decline of the Maloti against the dollar indicate that 2001 exports could well be in excess of Maloti 3 billion.

Lesotho should aim to have 42,000 workers employed in the formal garment industry by 2004 with exports in the region of US\$ 400 million. By 2008 the workforce could grow to 50,000 and be far more vertically integrated and resilient than it is today. These goals will be relatively easy to attain assuming urgent and committed steps are taken to resolve the constraints on the industry. In the absence of any action it is expected that the employment figures will continue to grow slowly to a peak of around 35,000 workers until 2004 and then decline sharply.

In the absence of any intervention or resolution of the constraints, the two branches of the industry, garments made from woven (denim) fabric and garments made from knitted fabric, will behave very differently.

Employment in the woven clothing industry incorporating the production of denim jeans will continue to climb steadily post 2004 and will probably peak at 20,000 employees by 2008. This branch of the industry has already taken substantial steps to ensure regional sourcing of raw materials. This effectively allows the industry to participate in the AGOA advantage right through to 2008. There are currently 11,000 workers employed in this branch of the industry. With the commissioning of the new denim mill this employment should have grown to 16,000 in 2004.

³¹ Peter Drucker

Employment in the branch of industry manufacturing garments from knitted fabric will decline sharply post 2004 if no action is taken. This segment of the industry has taken no steps to switch its source of raw materials into the AGOA region. Current consumption is already well in excess of two million square meters of fabric annually. If the source of this fabric is not replaced by the end 2004 then the manufacturers will lose the additional advantage achieved through Lesotho's LDC status. Currently employing 18,000 workers this branch of the industry will probably grow to 22,000 workers by 2004 and then decline sharply to 15,000 workers or lower.

If Lesotho wishes to continue to stimulate the growth in the knit garment branch of the industry it needs to create the backward link into knitted fabric mills. If it can achieve this, then employment should grow to 26,000 in 2004 and peak in the region of 30,000 employees by 2008.

There is a slight possibility that Lesotho's LDC advantage will be extended beyond 2004 but this is considered unlikely. It is far more likely that the 2008 deadline will be extended. In either event it makes sense for Lesotho to work to vertically integrate its garment industry as this will create additional employment, increase efficiencies, maintain the cost competitiveness of the industry and consolidate the industry within the country.

Lesotho is currently producing garments for some of the most high profile brands³² in the world. Obviously content with the quality, price and service of Lesotho's industry, these brands have increasingly committed themselves to placing larger orders in this country. It is imperative that Lesotho continues to be a **destination of choice** for these brands.

To achieve this the industry needs to become responsible. It needs to have responsible industrial relations, environmental, health and social policies. These policies, correctly planned and integrated, make good business sense.

An industry wide *Programme for Prosperity and Industrial Peace*, incorporating the needs and aspirations of all stakeholders, will help to alleviate the public relations crisis, dramatically improve industrial relations, ensure the security of the manufacturing assets and ultimately lead to better productivity and job security.

14 Recommendations

These recommendations specify what the consultants believe to be meaningful interventions that should be supported by the GoL, the industrialists, Trade Unions, DFID and other donor agencies to consolidate, diversify, strengthen and enhance the formal garment sector in Lesotho.

The principal driving force within the industry currently is AGOA. These recommendations are structured to firstly look at ways of capitalising on the AGOA advantages and, secondly, to consolidate and protect the gains achieved through increasing the cost competitiveness of Lesotho's formal garment sector through to the

³² Gap, Tommy Hilfiger, Old Navy, Walmart, Kmart, Gloria Vanderbilt etc.

2008 AGOA cut-off date and beyond. The first phase of intervention is predominantly external in that it involves action that the GoL needs to take with regard to developing infrastructure. The second phase is internal and involves the participation of the GoL with the industrialists and other stakeholders.

The constraints on the growth and consolidation of the industry are summarised below:

- Lack of serviced sites
- Lack of factory shells
- Shortage of water supply
- Logistical capacity
- Lack of adequate regional sources of knitted fabric
- Lack of industry relevant training and poor supervision
- Low productivity
- Restrictive customs policy
- Inadequate collective bargaining mechanisms
- Poor public relations
- Cross cultural barriers
- Environmental degradation
- HIV/AIDS pandemic

Phase 1	Objective: Maximize Growth			
Infrastructure Requirements	Major Actions	Recommendations	Responsibility	Funder
Serviced industrial sites	Provide additional serviced industrial sites	Provide services to industrial estates in Ha Tikoe and Mafeteng	GoL/LNDC/JHI	
Factory Shells	Provide additional factory shells	<ul style="list-style-type: none"> Facilitate investors to build their own shells Build factory shells for committed investors 	LNDC/JHI GoL/LNDC	
Reliable water supply	Upgrade water supply	Enhance the water supply to existing industrial estates	GoL/WASA	
Water effluent treatment plant/s	Minimize environmental impact of garment industry	Commission a cost and benefit analysis of the options to deal with the wastewater effluent from the industry.	GoL	
Logistical Capacity	<ul style="list-style-type: none"> Increase handling capacity at Mascon railhead. 	<ul style="list-style-type: none"> Conclude strategy plan and negotiations for the development of the Mascon site. Facilitate the development of the Mascon site into a modern container handling and storage facility. 	GoL GoL/LNDC	
	<ul style="list-style-type: none"> Improve customs clearance efficiencies. 	<ul style="list-style-type: none"> Develop full customs clearance facilities on Maputsoe/Ficksburg border. 	GoL/ Customs	

Phase 2		Objective: Protect Gains		
Requirements	Major Actions	Recommendations	Responsibility	Funder
Fabric knitting Mills	Encourage and promote the development of Fabric knitting mills in Lesotho.	<ul style="list-style-type: none"> • Designate a new industrial estate as a potential site for wet industry development. • Provide services and wastewater treatment facilities to the new wet industry estate. • Facilitate investors who wish to establish fabric knitting mills and dye plants. 	<p>LNDC</p> <p>GoL/LNDC</p> <p>LNDC</p>	
Cost competitiveness	<ul style="list-style-type: none"> • Establish Productivity and Training Institute • Establish Programme for Prosperity and Industrial Peace. • Review Customs Policy 	<p>Implement comprehensive training programme to upgrade factory efficiencies and productivity improvement.</p> <ul style="list-style-type: none"> • Convene a conference for the establishment of the Programme for Prosperity and Industrial Peace. • Negotiate five-year plan committing all parties to a programme of stability and productivity improvement. <p>Review Customs policy regarding waste allowance on rebated fabric.</p>	<p>GoL/Industrialists</p> <p>GoL</p> <p>Industrialist/Labour/DDP R/LNDC</p> <p>Industrialists/LNDC/Cust oms</p>	

<p>Positive industry image</p>	<ul style="list-style-type: none"> • .Formalize employers industrial bargaining forum • Build cross cultural ties • Positively manage the HIV/AIDS pandemic in the industry. 	<ul style="list-style-type: none"> • Establish a Garment Factories Representative Association • Negotiate recognition and procedural agreement with organized labour. • Induct all expatriate supervisors • Train workers in their rights and obligations. • Formalise and implement programme of social responsibility • Develop HIV/AIDS prevention, mitigation and education programme specifically designed to take advantage of the concentration of at risk workers in the garment industry. • Implement HIV/AIDS programme in factories 	<p>Industrialists/LNDC</p> <p>Industrialists/Labour/LNDC</p> <p>Industrialists</p> <p>Industrialists/Labour</p> <p>Industrialists/Labour</p> <p>GoL/ Consultants</p> <p>Industrialists</p>	
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<p>Positive industry image</p>	<ul style="list-style-type: none"> • Address environmental issues 	<ul style="list-style-type: none"> • Implement long-term strategy to address current and future needs for the treatment of industrial effluent. • Develop and implement alternatives to the burning of solid waste 	<p>GoL/ industrialists/ LNDC</p> <p>GoL/ industrialists/ LNDC</p>	
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14.1 Recommendations – Government of Lesotho

Phase 1 – Maximise Growth

- 1 The GoL should immediately provide services to its industrial estate at Ha Tikoe to capitalise on those industrialists that are prepared to construct their own shells.
- 2 The GoL should build additional shells on serviced land currently available.
- 3 The GoL should take urgent action to ensure adequate supply of water to its existing industrial estates.
- 4 As a matter of urgency any meeting with stakeholders should discuss alternative solutions and options to resolve the environmental threats to the industry.
- 5 The GoL should commission a cost and benefit analysis of a realistic option to reduce environmental threats to acceptable levels and determine a cost allocation method through discussion and negotiation with the stakeholders.³³
- 6 The GoL should enter into urgent discussions with Spoornet to consider the most viable options to secure the upgrading of the container handling facility at the Mascon terminal.
- 7 Develop full customs clearance facilities at Maputsoe border post.

Phase 2 – Consolidate and Protect Gains

Knitted Fabric Mills

- 8 The GoL should actively promote and facilitate the establishment of fabric knitting and processing mills.
- 9 The GoL through the LNDC should designate at least one of its new industrial estates, such as Butha Buthe, as a wet industry manufacturing area. This estate should be serviced with adequate water supply and treatment/recycling facilities to enable the establishment of fabric production and dyeing plants and for new sewing industries that require garment washing and treatment processes.

Cost Competitiveness

- 10 Encourage and assist industrialists to establish a registered representative association for the formal garment subsector.

³³ See Environmental Impacts in Annex # .

- 11 Encourage industrialists with the assistance of the donor community to establish a Garment Industry Productivity and Training Institute. (See details under Recommendations for Industrialists below.)
- 12 With the agreement of the industrialists, Trade Unions and other stakeholders, the GoL should convene a forum for the negotiation of a *Plan for Prosperity and Industrial Peace*. The purpose of the plan would be to:
- Commit all stakeholders to a five-year plan of industrial peace.
 - Commit all stakeholders to the provisions of the Labour Code and its dispute prevention and reconciliation mechanisms.
 - Provide a clear path for the upliftment of the workforce through the provision of health, safety, environmental, training, wage and social responsibility strategies.
 - Commit all stakeholders to a programme of productivity improvement in order to maintain the industry's cost competitiveness.
 - Commit all stakeholders to the promotion of their industry and of Lesotho as a **destination of choice** for both purchasing clients and prospective investors.
- 13 Review customs rebate store policy to allow for a waste allowance of 3% on imports which can be sold into Lesotho free of import tariffs.

Image Building

- 14 With regard to HIV/Aids, the GoL must recognize the challenge but also the opportunity provided by the geographic clustering of the garment industry and act on it. This offers good opportunities for providing concentrated support to a high-risk population. Given the high concentration of workers who are likely to be infected, the GoL should establish/reinforce health clinics in the industrial zones to provide easier access to the workers, and serve as good sources of information dissemination and awareness building.
- 15 Declare one day each year as a National Health and Safety day where mandatory evacuation drills are held across all industries.
- 16 Encourage and assist industrialists through their representative association and the Programme for Prosperity and Industrial Peace to establish programmes for the benefit of the wider community.

14.2 Recommendations - Garment Sector Industrialists

Phase 2

It is recommended that the Garment Sector Industrialists:

- 17 Constitute a representative body for their industry.
- 18 Through the representative body negotiate recognition and procedural agreements with the relevant trade union/s.
- 19 Participate in the negotiation of a five-year *Plan for Prosperity and Industrial Peace* with relevant stakeholders.
- 20 With the help of the GoL and donor agencies establish a Garment Industry Productivity and Training Institute. The primary aim of this Institute will be to maintain and enhance the cost competitiveness of the industry by:
 - Liaising between industry and current training providers to ensure that all resources are optimised to meet the needs of the sector and agreed standards are maintained.³⁴
 - Increasing productivity through the conducting of productivity audits and the provision of effective solutions.
 - Providing a resource centre for technology transfers, product development and Research and Development of new markets
 - Providing a Computer Aided Design (CAD) facility offering the services of pattern design, digitising, grading and marker making.
 - Providing a small exhibition area for the demonstration of new technology.
 - Maintaining sourcing information data on fabric, thread, trims and other raw materials.
 - Providing an independent raw material quality and specification testing facility.
 - Providing an information centre for new investors and potential customers.
- 21 Take immediate steps to ensure that all expatriate staff are adequately inducted into the provisions of the Labour Code and Basotho culture.
- 22 Develop internal HIV/AIDS policies that recognise the existence of the disease and identify how the factories intend to respond it. They must go beyond simply stating that the factory will not discriminate, but should lay out some proactive steps that the factory will take to strengthen its prevention activities and its

³⁴ See full training recommendations in Training for the Garment Sector, Annex # 7.

mitigation activities. These can be specialised programmes developed for the factories:

- Management awareness building
- Prevention (condoms)
- Information, education, communication (IEC) for the workers
- Mitigation responses through responsive health organisations.
- Link into care and counseling for those who are sick.³⁵

- 23 Continue to advise and encourage all their colleagues in the industry to comply with the provisions of the Labour Code for the well being of the industry as a whole.

14.3 Recommendations - The Trade Union/s.

It is recommended that the Trade Union/s:

- 24 Participate in negotiation of the *Programme for Prosperity and Industrial Peace*.
- 25 Advise and train their shop stewards and members with regard to their rights and obligations in terms of the Labour Code.

14.4 Recommendations - DFID and the Donor Community

Many of the recommendations listed above would benefit from funding and technical assistance. It is unlikely that either the industry or the GoL will respond quickly to the recommendations either due to limited financial or managerial capacity to respond. Therefore, flexible, accessible funding to assist both the government and the private sector to react quickly and effectively is highly recommended.

It is recommended that:

- 26 On acceptance of this report by the GoL, it should hold a series of workshops with the industry stakeholders to present the findings of this report. These workshops should be funded by DFID.
- 27 DFID assists the GoL to hold a workshop with the Donor Community to present the findings of this report and to discuss strategies for donor intervention and assistance.
- 28 DFID assists with the creation of a factory level HIV/AIDS programme that is able to educate the managers, help them to develop appropriate HIV/AIDS policies and programmes, and to fund the transfer of knowledge from South Africa to Lesotho through technical assistance. There are programmes currently working in South Africa. While these have limited capacity to expand, primarily

³⁵ See full report and recommendations – HIV/Aids Report Annex # 1.

- due to the human resource constraint, there is an opportunity to leverage off of those programmes and to build greater capacity in Lesotho. In addition, since this is targeting a number of fairly homogeneous industries, there is large scope for replicability, so a well-designed programme for one factory will be replicable across factories.
- 29 DFID/The Donor Community should commission a training/induction programme with the specific purpose of communicating the provisions of the Lesotho Labour Code to Management and workers alike. This programme should be computer Compact Disc based and available in English, Sesotho, Mandarin and Cantonese. An additional module on Basotho culture for expatriate induction should also be commissioned.
- 30 DFID/The Donor Community should provide start-up funding and technical assistance for the establishment of an Employers' Representative Association incorporating a Garment Industry Productivity and Training Institute. Such funding/assistance should be for the period of two years during which time the new body should:
- Locate and rent premises.
 - Draw up a constitution, have it ratified by members and register with the GoL.
 - Hold elections of office bearers.
 - Hire core staff.
 - Negotiate Recognition and Procedural Agreements with relevant trade unions.
 - Act as the Employers' representative in all industry specific negotiations.
 - Conduct productivity audits of member companies.
 - Conduct a training needs analysis of the industry and provide members with training options and costs.
 - Train/induct all expatriates in the main provisions of Lesotho's Labour Code and Basotho culture.
 - Manage the staff induction of all existing expatriate staff and new recruits.
- 31 DFID/The Donor Community should fund the costs of the two-day conference launching the *Programme for Prosperity and Industrial Peace*. The conference will establish the commitment to, and the format for, negotiations. Thereafter the continuing costs of negotiations may be borne by the parties involved.

15 Dissemination Action Plan

Briefing Workshops and Conference

Phase 1 Presentation to the Government of Lesotho

On the acceptance of this report by DFIDSA, the report will need to be formally presented to the Government of Lesotho. It is suggested that representatives of the Ministry of Industry, Trade and Marketing, Ministry of Labour, (Environment, Health) and the LNDC should be invited.

The presentation of the report will take the form of a power point presentation by three of the consultants working on the study. (viz: Mr. Salm, Mr. Grant, Mr. Green)

The target date for this presentation should be the second week of March 2002.

Phase 2 Presentation to the Stakeholders and Donor Community

The Ministry of Trade, Industry and Marketing, with the assistance of DFIDSA, should invite the stakeholders and Donor Community to a series of one-day workshops. The purpose of the workshops will be to present the relevant findings of the report to each group. The first group will be the industrialists, the second will be representatives of labour and the Trade Unions and the final group will be the Donor Community.

One of the primary purposes of the workshops, after discussing the opportunities and constraints facing the industry, will be to get industrialists and labour representatives to buy into the concept of negotiating a five year stability plan for the industry called the *Programme for Prosperity and Industrial Peace*. In addition industrialists will be encouraged to start the process of developing a formal association and to discuss the problems of water effluent and solid waste management and the HIV/AIDS pandemic.

The target dates for these workshops should be the second week of April 2002.

Phase 3 Programme for Prosperity and Industrial Peace Conference

Assuming that all interested stakeholders can commit in principal to the concept of a five-year programme, a conference should be convened to tease out the mechanisms for reaching consensus over a broad range of issues. The outputs of the conference should be:

- Agreement on the issues to be negotiated
- Agreement on the negotiating forums and procedures
- Agreement on a time scale for the completion of the negotiations and the implementation of the plan.

The conference should take place over two days in May 2002.

Comprehensive reports of all workshops and the Conference should be prepared for presentation to the GoL and DFIDSA.

Phase 1	Dfid and Lesotho Government	March 2002
Phase 2	Lesotho Government, Dfid and Industrialists	April 2002
	Lesotho Government, Dfid and Labour	
	Lesotho Government and Donor Community	
Phase 3	Conference for Prosperity and Industrial Peace	May 2002