

Competitiveness and Corporate Social Responsibility in Lesotho's Apparel Industry

Lesotho

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Contents

Foreword and Acknowledgements	i
Executive Summary and Recommendations	ii
1 Introduction.....	1
1.1 Global textile and apparel industry	1
1.2 Lesotho's textile and apparel industry	1
2 Backward linkages and regional integration.....	4
2.1 Competitiveness of Lesotho's industry.....	4
2.2 Fabric availability in the Sub-Saharan African region	5
2.3 Overcoming barriers to regional integration.....	6
3 Increasing export to EU and South African market.....	9
3.1 Taking advantage of preferential access	9
3.2 Gaining market shares in South Africa and promoting South African investment in Lesotho.....	10
3.3 Gaining market shares in the EU	11
3.4 Improving services.....	12
3.5 Recommendations.....	12
4 Attracting buyers through good labor and environmental standards	16
4.1 Why Corporate Social Responsibility?.....	16
4.2 International best CSR practice	16
4.3 Corporate social responsibility in Lesotho	17
5 Conclusions and next steps	22
a. Develop a regional fabric sourcing model	22
b. Increase market access to South Africa and EU	23
c. Enhance pre-production skills.....	24
d. Establish Lesotho as international centre for decent work	24
Appendix 1: Conclusions from the MFA Forum Conference in Maseru, May 16-17, 2006.....	26

List of Tables:

Table 1: Major Market Imports from Lesotho, 2004.....	2
Table 2: Benchmark Costs of Making-up and Shipping 2005-2006	4
Table 3: Preferential Agreements and Arrangements Affecting Lesotho's Apparel Exporters... ..	9

Foreword and Acknowledgements

Based on a request from the Ministry of Finance in December 2005, FIAS commissioned three studies concerning a) The competitiveness of regional integration of the apparel chain, b) Increased market access to the EU and South African markets, and c) Corporate Social Responsibility in Lesotho's Apparel Industry.

The studies complement the ongoing work by the World Bank's African Private Sector Department and are an integrated part of the work of the MFA Multi Fibre Arrangement (MFA) Forum; an international network of NGOs, brands and international organizations working with least developed countries (LDC) to smooth the transition post MFA.

Three consultants provided input to the studies: Joop de Voest (MPCS) on the Vertical Integration study, Peter Minor (Nathan Associates) on the Market Access Study and Tara Rangarajan (BSR) and Sasha Radovich (AccountAbility) on the Corporate Social Responsibility Study. The findings were presented at the MFA Forum Conference: Destination Lesotho, On the Road to Responsible Competitiveness in Maseru on May 16 - 17, 2006. The conclusions and next steps are enclosed in Appendix 1.

Amy Luinstra (WB), Agata Pawlowska (WB) and Mark Bennett (ComMark) gave valuable comments to the three background reports. More generally, ComMark provided generously of their time and expertise.

The studies and the conference would not have taken place without the generous co-funding from the United States Trade and Development Agency (USTDA) and The ComMark Trust.

Executive Summary and Recommendations

The Lesotho textile and garment sector faces two major challenges: (1) increased competition after the phase-out of the Multi-Fibre Arrangement (MFA) in 2005, and (2) the scheduled 2007 expiration of the third-country fabric provision in the African Growth and Opportunity Act (AGOA). The provision currently allows Lesotho to import cheap fabric from Asia to process and sell duty-free to the United States (US). If the US does not agree to extend the third-country fabric provision, Lesotho manufacturers will have to integrate regionally and start sourcing from AGOA compliant countries on the African continent¹, in order to retain duty-free access to the US market after 2007. Further, the manufacturers have to seek new markets and costumers to avoid dependency of the US market.

Based on research carried out by FIAS and discussions with key stakeholders in Lesotho at the MFA Forum Conference May 16-17, 2006 there is consensus that the following opportunities should be realized.

Regional Integration and Backward Linkages

If the garment industry integrates its textile chain regionally, it would ensure tariff free access to the US market, also after an expiration of the 3rd country fabric provision and create beneficial access to the EU market. Another benefit of regional integration is that it can reduce Lesotho's garment industry's current costs by approximately 10% and its lead-times by between 14 and 21 days. With the constant pressure from retailers to increase speed-to-market, the reduced lead time provides a tremendous opportunity. However, only cotton knit fabric is available without further investments and there are several infrastructural challenges that need to be addressed.

Agreed next steps:

- By June 30, 2006 the Lesotho Textile Exporters Association (LTEA) and the Government of Lesotho will finalize a strategy for regional and local incentives that can be agreed by 30 September 2006. The strategy will include a position on a WTO-friendly DCCS type incentive that can be operative and functioning by April 30, 2007.
- By July 31, 2006 the Inter Ministerial Task Team (IMTT), in collaboration with relevant stakeholders, will finalize Lesotho's strategy on the AGOA 3rd country fabric extension and ensure that Lesotho's lobbying efforts in Washington DC are united.

¹ Or the United States of America.

- By July 31, 2006 the LNDC, Water and Sewage Authority (WASA) and IMTT in collaboration with the World Bank will complete a need-assessment analysis of the requirements for establishing garment finishing facilities and a fabric mill. The analysis will focus on:
 - Factory space (*LNDC*)²
 - Water [quantity and quality] (WASA and IMTT)
 - Industrial waste water facility (Ministry of Industry's Industrialization Committee, Maseru City Council)
 - Hazardous solid waste facility (Ministry of Industry's Industrialization Committee)
 - Electricity supply (Lesotho Electricity Supply Commission)

Increasing export to South Africa and EU

Lesotho is currently exporting around 90% to the US market and the dependency on one market makes the industry vulnerable. Producers should not wait for AGOA's third-country fabric provisions to expire before seeking new customers.

The South African Market offers the best opportunity for diversification since Lesotho can claim duty-free access to the market so long as producers pay duties on imported fabrics or use locally or regionally sourced fabrics.

The EU market is another opportunity which should be explored, but it requires that locally produced fabrics meet the needs of EU buyers and agents including ready availability of fabric and competitively priced products. Producers also need to improve finishing capabilities *and* building preproduction skills.

Agreed next steps:

- By June 30, 2006 the Lesotho Revenue Authorities will finalize an administrative arrangement with the South African Revenue Service that can show the EU authorities that South African fabric inputs are in fact of South African origin and do comply with Cotonou's trade rules of origin.
- By July 31, 2006 the IMTT will develop a position paper on future relaxed rules of origin under the GSP and EBA that allows tariff free access to the EU market with imported goods from South Africa. The IMTT will stay abreast with lobbying efforts by DATA and other stakeholders.
- By July 31, 2006 the IMTT with support from ComMark, MFAF, DATA, Center for Development of Enterprise and ESIPP will develop an interim plan to penetrate selected markets in the EU.

² Key stakeholders are in italics

- By September 30, 2006 a program will be developed to enhance preproduction skills. Specifically the program aims to:
 - Improve factories preproduction skills. (*World Bank*, LTEA, ComMark)
 - Strengthen in-company training on productivity, quality and transformation. (ComMark, LTEA, DCCS, Brands)
 - Develop ability to add more value to the commodity products that Lesotho firms specialize in. (LTEA members, Brands, Whitaker Group)
 - Attract garment firms that can make products other than those already being manufactured in Lesotho. (LNDC)

Retaining and attracting buyers through good labor and environmental standards

Lesotho is one of the least developed countries in Africa with the best labor standards. The reason is the close relationship to international buyers such as GAP and Levi's that require all their suppliers to comply with social and environmental standards in their codes of conduct.

The Government of Lesotho is collaborating with the ILO on a labor law reform and the Government of Lesotho should take advantage of this collaboration and brand Lesotho as an international centre for decent work.

Agreed next steps:

- By September 30, 2006 the IMTT and the National Advisory Committee on Labor in collaboration with the ILO and FIAS will develop a program to:
 - Improve industrial relations and human resource systems
 - Carry out training where needed
 - Develop a transparent labor monitoring and remediation system. The system should be developed in collaboration with relevant brands to ensure that it meets their information requirements.

1 Introduction

1.1 Global textile and apparel industry

The global value chains for textiles and apparel are going through a period of unprecedented change because of major events in the world trading system. The Multi-fiber Agreement\ATC quotas expired on January 1, 2005; China has joined the WTO; special safeguards are in place against a flood of Chinese products; regional and preferential trading systems are on the rise; and buyers, rather than suppliers, are increasingly driving production chains. That these events are occurring simultaneously creates unusually high risks as trade agreements and market demands cause orders and sourcing patterns to shift rapidly.

To meet the risks inherent in the newly globalized textile and apparel industries, governments and the private sector will have to form new partnerships. Governments need to keep abreast of changing trade agreements, negotiate new ones, and ensure that old ones are used to maximum advantage. They also have to do all they possibly can to ensure that country-specific factors, such as infrastructure, laws, regulations, transportation systems, and border crossings are supportive of an industry struggling to meet escalating demands for lower prices, faster delivery, and more services.

The industry itself also needs to adapt. Businesses need to ensure they comply with buyers' codes of conduct, invest in human resources, offer more services (e.g., sample making, industrial design, quick response), and boost productivity and flexibility on production lines.

1.2 Lesotho's textile and apparel industry

The textile and apparel industries in Lesotho account for 20 percent of GDP and nearly 50 percent of the formally employed workforce. Nearly all of Lesotho's apparel products are exported, with 90 percent or more going to the U.S. market in 2004 (Table 1). This dominance of the U.S. market is no accident of nature, geography, or industrial advantage. Numerous studies (Hilligas 2005; Salm *et al* 2002) have documented the importance of past quota benefits and, in 2001, of tariff and derogation benefits provided under the African Growth and Opportunity Act (AGOA).³

³ Salm *et al* document that quotas, though present, were allocated to firms cost-free, allowing owners to capture quota rents.

Table 1. Major Market Imports from Lesotho, 2004

Importer	(US\$ 000)	Percent
United States	481,786,959	90
South Africa (est.)	40,000,000	7
Canada	10,770,108	2
EU (15)	1,109,059	< 1
Japan	299,041	< 1
Australia	11,528	< 1
Total	533,976,695	100

SOURCE: UN COMTRADE database.

Note: Lesotho and South Africa do not report trade data within SACU, so the values for South Africa are estimates based on data from 2002.

In allowing Lesotho’s producers to use fabrics from anywhere in the world, the AGOA derogation enables them to source the most cost-competitive fabrics and tap production and supply networks in Asia. Industry actors are keenly aware that the current sourcing paradigm favors fabrics and trims from textile factories in China, Taiwan, and sometimes Korea. This process is known as “nomination” of fabrics and materials. Buyers or their agents gain economies of scale and quality control when fabric sourcing is concentrated in fewer factories. Thus, the AGOA derogation provides Lesotho, and other least developed sub-Saharan African (SSA) producers, an advantage that no other supplier to the U.S. market can claim: ready adaptability to Asian sourcing networks for fabrics and materials, and tariff benefits ranging from 15.5 percent for cotton trousers to 32.0 percent for manmade fiber knit shirts and blouses.⁴

The AGOA provision that permits Lesotho’s producers to source fabrics from anywhere (single transformation rule of origin) will expire on October 1, 2007.⁵ When it does, Lesotho’s producers will be challenged in maintaining relationships and markets. To meet the standard AGOA rule of origin, Lesotho’s producers will have to source fabrics from within the SSA region. Lesotho has only one denim plant that can produce 24 million linear meters of fabric per year. U.S. imports of trousers from Lesotho, made of principally

⁴ Some free trade partners of the United States are permitted limited tariff preference levels for fabric from outside the FTA region, know as tariff preference levels (TPLs). In addition, FTA provisions allow for the use of fabrics in short supply in the region.

⁵ The single rule of transformation was to expire on October 1, 2004. In early 2004, trade ministers from SSA countries convened in Washington D.C. to advocate an extension. They agreed, at least in principal, that there would be no further extensions of the provision, in its current form, after 2007 [(Author’s observations from discussions held among African ministers at the AGOA Form in Washington DC, (public and closed session at the US State Department)]. In July 2004, the U.S. Congress passed legislation extending the provision to October 1, 2007.

cotton fibers, were estimated to use 41.7 million linear meters of fabric in 2005 alone. Total fabric demand for U.S. imports from Lesotho was close to 100 million linear meters of knit and woven fabrics.⁶ Fabrics may be sourced from other SSA countries, but the availability of fabrics is not sufficient and little has happened in terms of developing regional supply chains. Even if regional fabrics can be mustered to meet AGOA needs, relationships between suppliers and buyers will change radically. It is not likely that market relationships based on fabric sourcing in Asia and cutting and making up garments in Lesotho will endure. New customers and markets will need to supplement or replace old relationships, and new skills and supply chains will have to be established.

Lesotho needs to take several steps to adjust to the changing global markets and find new opportunities. This report focuses on three important steps which will help improve the competitiveness of the industry.

- Strengthening regional integration (Chapter 2)
- Finding new buyers and new markets (Chapter 3)
- Developing a niche market through corporate social responsibility (Chapter 4)

These opportunities are not easy to realize and several questions remain: Will the development of a regional supply chain be competitive in relation to Chinese production? What does it take for Lesotho to penetrate new markets? Do Lesotho's labor and environmental standards fulfill the requirements from international buyers and can improved standards help attract new buyers?

This report analyses these questions and link the FIAS background research to the agreements reached among the relevant stakeholders at the MFA Forum Conference in Maseru on May 16-17, 2006.

The report builds on the three FIAS reports that were presented at the same conference. They are also available at www.FIAS.net.

⁶ Office of Textiles and Apparel (OTEXA).

2 Backward linkages and regional integration

2.1 Competitiveness of Lesotho's industry

A small landlocked country, Lesotho is far from most major markets and the major sources of garment fabrics and trims in Asia. Nevertheless, generous preferential access to the U.S. market has attracted many foreign (Taiwanese) producers to Lesotho. For many years, these producers have enjoyed not only liberal quota and tariff benefits, but also rules of trade that enabled ready adaptation to Asian supply chains for sourcing fabrics and trims. For its part, Lesotho has provided a willing and capable work force at competitive wages.

Table 2 below illustrates the competitiveness of Lesotho compared to China, South African, Tunisia, and Turkey. The table shows the benchmark values of a medium weight, five-pocket denim jean destined for the EU market. China, by far the largest supplier, offers the greatest competition for Lesotho in the market segment for basic garments.

Table 2: Benchmark Costs of Garment Making-up and Shipping 2005–2006 (US\$ per Garment)

Garment making up country	Lesotho			China	Tunisia	Turkey		
Fabric source	Lesotho	RSA	China	China	Tunisia	EU	Turkey	EU
F A B R I C , M A T E R I A L S , A N D L A B O R								
Fabric cost per linear yard incl. shipping	2.40	2.20	2.14	1.85	--	2.40	2.10	2.40
Fabric cost per garment including waste	3.60	3.30	3.21	2.78	--	3.60	3.15	3.60
Trim cost per garment (thread, rivets, pocketing)	0.93	0.93	0.93	0.80	--	1.10	1.00	1.10
Fabric and trim	4.53	4.23	4.14	3.58		4.70	4.15	4.70
Labor cost per garment	1.00	1.00	1.00	1.25	--	1.50	2.33	2.33
<i>Cut\ Make\ Finish Cost</i>	5.53	5.23	5.14	4.83	--	6.20	6.48	7.03
Sales fees, profit (exclusive of agent's fees)	0.48	0.45	0.45	0.42	--	0.54	0.56	0.61
<i>Factory gate price per garment</i>	6.01	5.68	5.58	5.24	--	6.74	7.05	7.64
S H I P P I N G C O S T								
Local shipping to port per garment	0.14	0.14	0.14	0.05		0.02	--	--
International Shipping per garment	0.27	0.27	0.27	0.21	--	0.07	0.05	0.05
C.I.F cost to foreign port	6.41	6.09	5.99	5.51	--	6.83	7.09	7.69
T A R I F F A N D Q U O T A C O S T								
China quota (Average 1/2006 - 3/2006)	--	--	--	0.70	--	--	--	--
Tariff (12% where applicable)	--	0.73	0.72	0.66	--	--	--	--
Landed duty paid cost (2006)	6.41	6.82	6.71	6.87	--	6.83	7.09	7.69

Source: Werner International and Nathan Associates.

The table shows the importance of tariff and quota costs on EU imports of denim jeans. When producers in Tunisia and Turkey use their own fabric or fabric from the EU, they do not incur tariff costs and their CIF price equals the landed duty paid price. Producers from China must pay tariffs or purchase quota, which raises their prices to that of Tunisia's and Turkey's producers and above that of Lesotho's producers using fabric from China. If Lesotho's producers use local fabrics, they do not incur tariff costs and enjoy a 6.7 percent delivered cost advantage over the same product from China. This cost advantage depends on (1) using local fabrics, and (2) the continuing imposition of quota costs on Chinese products in the form of safeguards. Safeguards are only assured through 2008. At that time, products from China will be able to undercut prices for products from Lesotho, unless Lesotho's local fabric suppliers reduce their costs to meet the price of Asian and Chinese suppliers.

One way to reduce the costs is to integrate regionally and vertically. The FIAS research has shown that *Regional* integration, of knit fabric resources in other countries, can reduce Lesotho's garment industry's current costs by approximately 10% and, its lead-times by between 14 and 21 days. *Vertical* integration⁷ has the ability to reduce these costs by between 20 to 25%. The lead-time advantage, based on similar orders, is approximately 25 days. With the constant pressure from retailers to increase speed-to-market, the reduced lead time gained from regional and vertical integration provides a tremendous opportunity and would improve the competitiveness of the industry.

2.2 Fabric availability in the Sub-Saharan African region

Limited fabric availability is one of the main challenges of regional integration. Based on a limited mapping, it appears that the demand by Lesotho's knit garment-manufacturing industry for *cotton and polycotton knit fabrics* of approximately 10,000 tons can be met, even after an expiration of the third-country fabric provision. However, it is not clear whether or not the exact types and qualities of fabric are available.

On the other hand, the installed *synthetic knit fabric-manufacturing capacity* in the region (for sales, not internal consumption) will not be sufficient to meet Lesotho's demand of the other 10,000 tons per annum (total knit fabric demand is approximately 20,000 tons per annum). The same is true for *denim*. Investments in these industries may prove to be profitable provided that the third-country fabric provision is not extended.

Amongst garment manufacturers, there is a distinct unawareness of fabric suppliers and the types of fabrics they produce in the region. This lack of

⁷ A *vertical integrated company* is defined as a company that owns both a textile and a garment factory. The only fully vertically integrated manufacturer in Lesotho is Formosa Textiles/Nien Hsing. The company spins yarn, dyes the yarn, weaves the denim fabric and produces jeans.

market intelligence risks undermining any attempt to prepare for the expiration of the third-country fabric provision.

It would be preferable, not only for Lesotho but for the region as a whole, to conduct an in-depth study of suitable fabric suppliers, detailing, amongst other, company capacities by fabric type and quality.

2.3 Overcoming barriers to regional integration

To compete on an international market, Lesotho's producers will have to provide services, such as dyeing and finishing. In order to attract major investors in dyeing, Lesotho has to fulfill four major requirements:

- 1. Availability of space.** Lesotho does not currently have the factory space available to accommodate new factories. Land and sites are being developed, but whether or not they will be available in time is unknown.
- 2. Water.** It is not clear whether or not Lesotho has sufficient water to sustain a dyeing house and whether or not the quality of the water meets the necessary standards.
- 3. Waste water facility.** A waste water facility that can clean the large quantities of liquid effluent from a dye house is necessary to avoid major environmental damages.
- 4. Solid waste disposal facility.** There are no current facilities or land sites earmarked for the disposal of the solid waste that will emanate from a dye house.

Regarding factory space, the LNDC should undertake a detailed inventory of all available factories, warehouses and other suitable buildings and, based on investor inquiries, increase the number of factories to be built. The industry is encouraged to let the LNDC know what its immediate and long-term factory space requirements are.

Steps have already been taken to explore the feasibility of establishing a dyeing and finishing plant. The World Bank's Private Sector Development Project is carrying out an assessment of the technical and financial needs for establishing a waste water treatment facility and develops a comprehensive financial viability and break-even analysis for establishing a finishing (laundering), printing and fabric mill.

In order to attract investors in the textile and garment industry and improve regional integration, general infrastructure constraints must be addressed. These include:

- 1. Problems with energy surges and dips.** Electricity supply in Lesotho is too erratic for textile manufacturing and would also pose a problem for a potential dye house.

The Ministry of Natural Resources should upgrade electricity supply by eliminating power surges and spikes when supplying electricity to the textile industry.

At the same time, the industry and the Lesotho Electricity Supply Commission should consider drawing up performance contracts that hold the electricity supplier financially accountable for power surges and dips. The installation of Power Factor Correction equipment has not yet helped the industry as the surges and dips have been too severe. The industry, in return, should be held accountable if it has caused the power problems.

- 2. Inefficient local freight transport.** While the rail transport in Lesotho is nearly 75% less expensive than road transport, garment manufacturers prefer to use trucks because of speed-to-market. Trucks can deliver a container from Port Elizabeth to Maseru in one day, while rail transport takes between 9-30 days.⁸

If the rail system was upgraded, the private sector could save substantially on transportation costs. In order to explore the best ways to improve the local transport system, the Ministry of Transport should undertake an evaluation of the state of the local transport industry, exploring various solutions for upgrade. The EU has previously funded a study on improving the effectiveness of the rail system and the evaluation should build on findings from this report.

Garment manufacturers prefer to use South African truck companies because they have experienced problems with the breakdown of Lesotho trucks. The Lesotho Revenue Authorities' pressure on certain companies to use local road transportation is therefore counterproductive and should be stopped. Apart from the benefit the garment industry would have from free choice of transport companies, the direct competition from South African truck companies would also serve as a strong incentive for local transport companies to either upgrade/modernize or improve maintenance of the trucks.

- 3. Excessive bureaucracy.** Garment manufacturers need to regularly send samples of garments from their production lines to buyers within 5 to 7 days. This is somewhat problematic in Lesotho.

⁸ See Global Development Solutions "Value Chain Analysis of Selected Strategic Sectors in Lesotho," June 2004.

Currently, the manufacturer has to get document approval (stamped) by the Ministry of Trade, then clearance from the bank, then on to Customs and then back to the bank for final clearance before the sample can go out. To avoid this lengthy procedure, some companies have tried to take the samples to Ladybrand and send them overseas by DHL. The problem, however, is that at this point the sample needs a Bill of Entry and VAT must be paid.

The Ministry of Industry should not only speed up the process, but also reduce the bureaucracy in the system. It is strongly recommended that export procedures are streamlined and simplified. The World Bank's Private Sector Department is assisting the government in simplifying business registration and licensing. It is recommended that the procedure for sending samples is analyzed under this framework.

- 4. New Duty Credit Certificate Scheme.** The Government of Lesotho should work with its South African counterparts at the highest level for the new, WTO-friendly DCCS and ensure that it is issued before the end of 2006. Since South Africa's Minister of Trade and Industry previously had the DCCS ratified at Cabinet level, all of Lesotho's Ministers could lobby their South African counterparts.

The LTEA should at the same time work closely with Clo-Trade in South Africa and add weight to the need for the new DCCS to be finalized and published before year-end.

3 Increasing export to EU and South African market

3.1 Taking advantage of preferential access

Lesotho is a party to preferential trade arrangements with the EU, Canada, Australia, and Japan, but its distance from these major markets is a serious obstacle. Regional producers and other LDCs can offer faster turnaround times, diverse service capabilities and products, and lower transport costs—as well as tariff-free access. Lesotho is also challenged in meeting the rules of trade for these markets, which require that fabrics and yarns be produced locally or that high value added requirements be met. (See overview on the rules of origin and cumulation clauses of the most important trade agreements in Table 3.)

Table 3: Preferential Agreements and Arrangements Affecting Lesotho's Apparel Exporters

	Summary	Rule of Origin	Cumulation	Tariff Range
U N I T E D S T A T E S				
AGOA	Any imported fabric or yarn; SSA regionally formed fabric and yarns after Sept. 2007	CMT through Sept. 2007; regional yarn forward thereafter	Full-cumulation in SSA region	14.0 – 32.0
E U R O P E A N U N I O N				
GSP\Standard	Fabric must come from Lesotho	Fabric forward	None, except SARCC and ASEAN	~12.0
GSP\EBA	Fabric must come from Lesotho	Fabric forward	None, except SARCC and ASEAN	~12.0
ACP-Cotonou	Fabric must be formed, cut and made-up in ACP region (expires Jan. 2008)	Fabric forward	Full cumulation in ACP region	~12.0
S O U T H A F R I C A				
SACU	All materials imported from outside SACU must have duty paid—DCCS can not be claimed	N\A duty paid on imported inputs	SACU	~40.0
J A P A N				
GSP	Single transformation, subject to a GSP cap	CMT	None	~5.0 – ~11.2
C A N A D A				
GSP	Fabric and yarns must be formed by any LDC or GSP beneficiary; fabric must be cut and sewn in Lesotho	Fabrics and yarns must be sourced from other GPT or LDCPT countries;	Full-with other GPT and LDC countries	16.0 – 18.0

A U S T R A L I A				
GSP	Lesotho fabrics, or LDC fabric, with 50 percent value added to imported fabrics	LDC fabric forward w\value added requirement	LDC fabrics permitted with value added criteria	25.0 – 28.0

Source: Werner International and Nathan Associates.

Lesotho’s producers have not been able to reap the full benefits of these arrangements and are not likely to unless the rules change. They have exported limited quantities to Canada, but Canada’s market is modest in size, and Asian countries, such as Cambodia, claim similar preferential tariff benefits and have lower logistics and production costs. Japan offers liberal market access, but 75 percent of its import market is claimed by Chinese producers who can respond effectively to very short lead times. Export promotion programs will find it difficult to find a basis for promoting exports from Lesotho when less developed producers in Asia enjoy a greater base of textile production as well as preferential access.

3.2 Gaining market shares in South Africa and promoting South African investment in Lesotho

The South African market offers a unique opportunity for Lesotho’s apparel producers to diversify. As a member of SACU, Lesotho can claim duty-free access to South Africa’s market so long as producers pay duties on imported fabrics or use locally or regionally sourced fabrics. As South Africa’s producers have been hurt by rising wages and restrictive labor regulations that prohibit piece rate payments and raise the costs of retrenchments, its retailers have been forced to seek new apparel sources.

The decline in South Africa’s making-up industry is leading to a voluntary agreement between SACU and China to limit imports from China’s garment factories. The agreement should improve opportunities for Lesotho’s producers, but its final form and duration have not yet been agreed. To penetrate South Africa’s market, Lesotho’s producers will have to master new skills in fabric sourcing, financing, and sample, marker, and pattern making. In the short-term, it may be easier to sell from stock and create strategic partnerships (e.g., joint ventures) with South African manufactures that have preproduction skills.

Many South African buyers have not seriously considered Lesotho as an apparel source since the late 1990s. They source from Lesotho, but usually through agents and wholesalers. The first step in building new market relationships will be persuading South African buyers and agents to take a fresh look at Lesotho. Marketing should go beyond providing buying managers tours of facilities in Lesotho—it should aim to attract dealmakers and facilitate transactions. A Lesotho based trade fair, offering goods from stock for sale, may be the fastest way to start this process. Arranging a trade fair will require facilitating the payment of suspended duties on imported

fabrics and addressing finance issues (e.g., who will pay the duty and how). The Government of Lesotho should also engage SARS to ensure the transactions are viewed as legitimate under customs regulations and will not be subject to fraud investigations—dampening the interest of South African transactions.

When U.S. and EU textile and apparel quotas were eliminated several apparel producers rapidly left from Lesotho. Serious consideration should be given to attracting local or regional South African investors with an eye on penetrating South African or EU markets. Attracting these investors should be considered in light of South African programs to entice investment by black entrepreneurs (BEE) in South Africa. Matching the investment incentives of these programs will need to be considered, and having South African officials recognize them would go a long way toward integrating South Africa's and Lesotho's manufacturing bases. Some basic regulation will have to be reviewed in light of the position of Lesotho in SACU and the special needs of regional investors. For example, special procedures and documentation will be required to allow manufacturing machinery and equipment to be brought into Lesotho from South Africa with the option to return it, duty-free.

Nearly all of Lesotho's producers focus on export markets. Developing sales to the South African market will require new accounting and finance rules. Most duty suspension programs are based on accounting for fabric imports and garment exports that balance. When a firm starts producing garments with local fabrics, or it ships substantial amounts within its own customs territories (SACU), accounting systems become more complex. The complexity of these systems can be so costly as to cause firms to develop separate facilities and accounting programs to serve both markets. Simplifying regulations and training producers to manage regulations will be important. The Lesotho Revenue Authority (LRA) and international donor agencies can ensure that these programs are attuned to market diversification strategies.

The ComMark Trust has already documented these needs, which include procedures and documentation to

- Bring regional (SACU and SADC) fabrics, trims, and packaging material into Lesotho;
- Export garments into South Africa and SACU;
- Send garments into South Africa and SACU for further processing (e.g. sometimes garments are sent to South Africa for dyeing);
- Control factory bond stores for firms that will supply non-SACU and SACU markets; and
- Simplify cross-border transportation of samples.

3.3 Gaining market shares in the EU

The EU market offers opportunities if locally produced fabrics meet the needs of EU buyers and agents. In the long-term—and certainly by the end of 2008 when EU restrictions on imports from China expire—Lesotho will have to

ensure that fabrics are both available and competitively priced. Only the use of locally produced fabrics could eliminate tariffs *and* reduce lead times to the EU market. Given the significant obstacles Lesotho faces in developing local textiles that meet rules of origin and market requirements, the government should petition the EU for derogation to their GSP program to permit producers to use regional fabrics and trims, with the advantage of preferential market access.⁹ Creating a regional model for fabric sourcing could create the important production synergy needed, since regional fabric production would then be eligible for preferential treatment in the United States (AGOA), EU (GSP/EBA), and South Africa.

3.4 Improving services

Sustainable long-term market access for Lesotho will likely require going beyond rules of origin and greater sources of local and regional fabrics. Producers will have to augment services to include financing, fabric sourcing, and preproduction services. Buyers and retailers are shifting these activities to production facilities overseas. They are therefore increasingly demanding that producers have more than cut, make, and trim capabilities. Preproduction services increase market opportunities, improve turnaround time, and provide supply chain flexibility. Such structural changes will require the full support of factory owners and managers. Most of Lesotho's factory owners are in Asia and their commitment to such support is not clear. In addition, producers are having difficulty retaining workers skilled in pattern and sample making—demand is raising for a skill in short supply and worker turnover is frequent. Skill supply and demand must be balanced if more than a handful of companies are to acquire preproduction capabilities.

Establishing dyeing and finishing facilities, as discussed in the previous chapter *and* building preproduction skills, such as sample making, will give rise to more opportunities than doing either alone.

3.5 Recommendations

In order to diversify the market, the Government of Lesotho should consider to:

- 1. Develop a regional fabric sourcing model** with complementary rules of origin for U.S., EU and South Africa markets. In order to do this, the Government of Lesotho is recommended to petition the EU for a derogation to the EBA rule of origin to permit the use of regional fabric (subject to a cap if needed) and petition South Africa to implement the Cotonou cumulation rule for Lesotho.

⁹ The EU is reportedly resistant to allowing the use of South African fabrics by regional producers, since the EU has an FTA with South Africa. South Africa has not yet eliminated its duties on EU textile and apparel imports. Reportedly, once the South Africa eliminates tariffs on EU textiles, the EU will permit cumulating of South African fabrics with regional producers.

2. **Monitor Developments in trade agreements** Preferential trade agreements present threats as well as opportunities. They present opportunities in the form of liberal market access; they present threats when they proliferate and provide other countries more liberal access to the same markets. For example, South and South East Asian countries enjoy special rules of origin (cumulation) under the EU EBA program. Lesotho's officials need to keep abreast of these developments and continue to represent the country's interests before the EU so that its preferential access is not further undermined. This will require assigning a government office to work with the EU mission in Lesotho.

3. **Build Consensus on Industry and Market Restructuring** Most of Lesotho's firms depend on agents and owners who are not in Lesotho. Though many factories are capably managed, managers must check with owners and agents before making decisions outside normal operating procedures. At this time, the interest of agents and owner in market diversification programs is unclear. Foreign owners and agents should be surveyed to learn their intentions for future sourcing, interest in industry restructuring, market diversification, and obstacles. Roundtables should be convened (including foreign factory management) to disseminate information on strategy, opportunities, and new programs for industry restructuring and market access.

4. **South African market diversification** The Government of Lesotho is recommended to petition the South African government to recognize South African producers in Lesotho as BEE enterprises. Further, the Lesotho Revenue Authorities are recommended to prepare simplified tax payment procedures for stock selling by Lesotho producers to South African buyers / importers. The LNDC should consider to promote factory shells to South African apparel producers.

In order to attract new buyers Lesotho's producers should consider to:

1. **Conduct Internal Strategic Analysis.** Producers should inventory their capabilities, strengths, and weaknesses and take stock of opportunities and threats in the industry. A realistic assessment will help them decide which customers to pursue and which service areas to develop.

2. **Pursue Strategic Partnerships.** In the medium term, all firms could benefit from strategic partnerships that involve local and regional fabric sourcing; fabric testing, sample making and preproduction services; and financing fabric and work in progress (especially for locally owned establishments).

3. **Diversify Product Mix.** Buyers and agents need to justify apparel sourcing costs associated with Lesotho's remote location by spreading

costs over a number of orders. Multiple orders are more likely if producers offer a broad range of products; otherwise, only a very low price will sustain sales. New product opportunities, innovation, and cost savings also attract buyers and agents. Denim washing facilities would complement the denim production in Lesotho.

4. **Augment Preproduction Capabilities** Demand should drive the development of preproduction capabilities. Unlike training in productivity, preproduction training has no application in a factory not engaged in preproduction activities. However much a factory wants to upgrade preproduction skills, setting up a training center and offering classes is not likely to result in significant uptake. Instead, subsidized programs should be offered on a consulting basis, at least initially. Agents and foreign owners will have to be engaged, since the move into preproduction processes will require factory cooperation and, in some instances, investment in new equipment and computers. Preproduction processes can be segmented into four groups of complementary but separate skills:
 - a. Marker making, grading and cutting;
 - b. Sample and pattern making;
 - c. Design; and
 - d. Fabric sourcing and financing

Training can be delivered as needed and can augment existing productivity programs. No single model for skill development exists, but workforce development in the textile and apparel industries is most effective in the factories themselves, rather than training institutes.

5. **Upgrade Management and Supervisory Skills** All firms should refine and upgrade managerial skills not only to reduce costs and ensure reliable delivery, but also to (1) make production lines flexible enough to handle short runs of various products without a raising costs or causing delays; (2) improve planning, pricing, and delivery estimates for competitive bidding and to identify customer and market segments that match current and projected capabilities, including their full-package costs; and (3) maintain labor standards, since well managed firms reduce pressures on line supervisors and management to meet unrealistic deadlines and cost estimates. Production line flexibility is critical to industry restructuring based on a regional fabric sourcing model. Regional and local textile producers may not be able to produce the quantities required by large U.S. buyers and may have to switch to customers or product styles with smaller order sizes.
6. **Seek New Customers and Markets Today.** Producers should not wait for AGOA's third-country fabric provisions to expire before seeking new customers. They should (1) work with agents and owners to identify new customers and markets; (2) identify agents or importers who buy in target markets that match their current and planned

capabilities; and (3) attend trade fairs in target markets to build new relationships and learn about buyers' needs and the directions of markets and customers.

4 Attracting buyers through good labor and environmental standards

4.1 Why Corporate Social Responsibility?

Corporate Social Responsibility or CSR covers a wide range of voluntary business activities that improve the social and environmental performance of companies. Initially, it was sweatshop scandals associated with internationally outsourced manufacturing 15 years ago that forced the global apparel and footwear industry to engage in CSR. The goal has since changed from damage control to ensuring that international commerce is conducted in a manner consistent with globally-accepted social and environmental principles. The vast majority of international buyers in the garment industry attaches great importance to corporate social responsibility and require their suppliers to comply with minimum labor and environmental standards as laid out in their codes of conduct.

Good international labor standards are not only required by international buyers it is also important when expanding into new markets, since bi-and multilateral trade agreements include:

- Labeling requirements (care, fiber content, origin, and sizing conventions);
- Health, safety and environmental standards (e.g., restrictions on the use of dyes, metals or carcinogens); and
- Labor and social compliance standards.

Governments increasingly recognize that CSR practices help implement labor and environment laws in the workplace. Knowing that CSR schemes generally are implemented according to standards, hard-pressed public-sector inspectorates can target their efforts towards workplaces without such schemes (where standards typically are much lower).

CSR provides Lesotho with an opportunity to develop a niche market for its garment industry in Sub-Saharan Africa and in the global marketplace. However, CSR will not be sufficient to ensure the competitiveness of the industry in the years to come, without regional integration and market diversification.

4.2 International best CSR practice

Several countries have used good social and environmental standards as a mechanism to improve the competitiveness of their garment industry and attract new buyers who are interested in selling to a niche market in the EU and US. The ILO Better Factories Cambodia Project establishes international best practice in this regard.

The Better Factories Cambodia Program focuses on monitoring, remediation and sustainability of high workplace standards in the country's apparel factories. While factory participation is voluntary, the industry requested the government to make participation a condition for obtaining an export license from the country. In addition, the government has also recently announced that all sub-contractors to exporting facilities should participate in the program.

Under the Better Factories Cambodia program all factories are monitored twice a year by a team of ILO trained and supervised monitors. The ILO conducts follow-up monitoring visits to ensure that factory management is responding to issues of concern. Factories are required to open their premises to ILO monitors and allow for interviews with workers. Inspection findings, including progress made in addressing concerns, are publicized on the Better Factories Cambodia website.

The Better Factories Cambodia advisory committee (PAC) has equal representation from government, manufacturers association and organized labor. Other stakeholders are allowed to submit input, but are not formal members of the PAC. Final decision-making power rests with the ILO. This ensures momentum and continued progress of the project.

The impact of the Better Factories Cambodia Program has been overwhelmingly positive. There was a net value growth of roughly 9.65% between 2004 and 2005 and exports to the United States increased by 21.8% over this same period. Further, the factories have experienced an increase in productivity.¹⁰

4.3 Corporate social responsibility in Lesotho

Over the past five years, there have been substantial improvements to workplace conditions in Lesotho. Government attention to labor conditions has increased, as has the attention of international buyers to social compliance in the country. Key buyers have clearly communicated their codes of conduct to suppliers in Lesotho; monitoring of conditions at supplier facilities is more frequent and intensive; and in some instances buyers have worked with suppliers through training and capacity building programs.

There is general agreement that the most severe workplace violations no longer are prevalent in the segments of the industry that supply to major international buyers. Still to be addressed are minor health and safety violations, concern over labor relations (exacerbated by fragmentation of the labor movement), and cultural and communication challenges. While the Lesotho labor code is strong, there is a general understanding that enforcement could be improved.

¹⁰ Due to the safeguard mechanism imposed on China by the US and EU, Cambodia has not yet experienced the full impact of the end of the MFA. The safeguard mechanisms have most likely had a positive impact on Cambodia's current success.

An extremely high HIV/AIDS infection rate among garment workers has led to conflicts over benefits such as sick and funeral leave. It is clear that any CSR initiative in Lesotho should include a HIV/AIDS component. An Apparel Lesotho Alliance to Fight HIV/AIDS (ALAFAs) has been developed by ComMark, which the industry is recommended to implement. The ALAFAs model can best be described as a private sector driven, industry-wide, comprehensive HIV prevention, treatment and care intervention that will be managed by a small core of professionals under the control of a management board. Actual services will be provided by a variety of service providers drawn from the private and NGO sectors.

International best practice offer a range of lessons that can help Lesotho create a plan for how to distinguish itself in the international marketplace through consistent and high-quality workplace practices. Key characteristics of such model include:

1. Map current labor and environmental practices: There is relatively little publicly available data on the current level of social and environmental compliance in Lesotho's apparel factories. While international buyers have information about their own supplier facilities, there is a lack of aggregated data on conditions in facilities that do not sell to major international buyers with substantive compliance programs. The Government of Lesotho conducted a survey of conditions a number of years ago, but conditions have improved significantly since that report was released. The Lesotho apparel industry would be well served to conduct a study of current conditions so that any new initiative addresses key areas of concern and can promote key areas of strength. This study would best be sponsored by the government, with strong support and input from the industrialists, labor movement and international buyers.

2. Conduct outreach to buyers and investors: During the second MFA Forum mission to Lesotho, stakeholders suggested the idea of convening working groups representing international buyers and investors in Lesotho. Discussions with buyers who were not part of that mission have shown limited interest in participation in such a working group at this time. As an alternate route, it would be useful to reach out to a core group of buyers and investors individually to discuss their current sourcing activity in Lesotho, key concerns with respect to the industry (both in social/environmental compliance and more generally), future plans with regard to their commitment to the country, and ideas they may have for this effort. Information would likely be most credible if compiled by an independent body and reported without attribution to individual investors or brands. This report could be a key determinant of the most appropriate areas on which future efforts should focus.

3. Develop a CSR model: A CSR model for Lesotho should include attention to the following issues:

- **Workplace Code:** Stakeholders in Lesotho would be well advised to determine one set of social/environmental parameters to which they intend

to comply. This will help ensure consistent efforts across the industry and will reduce unnecessary duplication. The process of determining which code to use is also an important vehicle for strengthening stakeholder dialogue and consensus building within the industry.

There are a range of options, including using local labor laws, adapting one of numerous industry codes developed by external organizations, or creating another code specific to the Lesotho apparel industry. Given that there is general consensus that the Lesotho labor law is relatively strong – and that the government has ratified almost all relevant ILO Conventions – agreeing to use this as a base of measuring compliance may be the best route at this juncture.

- **Enforcement:** Mechanisms for ensuring proper enforcement of the agreed-upon code are essential given the limitations of the public inspectorate system. The model should clearly state how facilities will be monitored, who will conduct that monitoring, and how facilities will be held accountable for making necessary changes. In order to avoid duplication of efforts, the model should clarify how any new mechanisms of enforcement relate to the current labor and environmental inspections.
- **Capacity Building:** Workplace conditions will not experience sustainable improvements through enforcement mechanisms alone. A model for Lesotho should include attention to capacity building efforts – for factory managers, workers, perhaps the public inspectorate, and others – to ensure that the range of actors understand the key components of CSR and the business benefits of implementation. There should be careful attention to the relative importance of enforcement versus capacity building, as international experience is beginning to show that results may be best achieved through greater resource allocation to capacity building rather than traditional monitoring.
- **Tool Development:** In addition to in-person capacity building, there may be a need to develop (or use existing) tools that could help with implementation of CSR in facilities. In order to determine what tools would be most applicable, stakeholders should engage in a process of determining the greatest barriers to wider CSR take-up in the industry. If one of the key barriers, for instance, is a perception on the part of industrialists that CSR investments do not make “business sense,” there could be use in introducing a tool that helps measure the productivity impacts of CSR investments.
- **Validation:** A system of ensuring credibility of efforts is essential to making information reliable in the eyes of international stakeholders. A CSR model should clearly indicate specific organizations that can play the role of verifying conditions in factories.

- **Reporting:** Stakeholders may want to consider publicly reporting on the state of CSR in the apparel industry in Lesotho. There is general agreement that workplace conditions throughout the industry are generally considered good. A verified report that showcased current compliance levels and that was honest about areas needing further attention could help maintain or attract international brands to Lesotho. The process of creating the list of indicators against which the industry would report would also help improve stakeholder dialogue and allow actors come to a consensus on the issues most important for the sector. (This report could build off of the initial assessment suggested above as a first action step.)
- **Collaboration:** The model should also be sure to incorporate other initiatives in the country so as to ensure they work in coordination with one another. One potential idea is to expand upon the CSR elements of the Minister of Labor and ILO's reform of the labor code rather than create a new stand-alone project focused exclusively on CSR.
- **Sustainability:** A plan for sustainability of the project should be part of discussions from the onset. Local stakeholders are more likely to devote resources to a project if they see a clear long-term plan that centers on local ownership.

4. Organize formal leadership/governance by Inter-Ministerial Task Team (IMTT): Lesotho is in some ways significantly ahead of where other national governments started when they began to work on increasing their attention to social and environmental issues. The creation of the IMTT shows a broad commitment on the part of the government to address the issues. It is important that the roles and responsibilities of this task team – and its individual members – be defined in order that the team might play the formal leadership role for efforts moving forward. At present, the team is headed by the Minister of Trade and Industry. The strong leadership of the Minister is essential to the continuing effectiveness of the team, but other ministers who are important to the success of the effort – in particular the Ministry of Labor – should take on discreet responsibilities against which they will be expected to deliver.

5. Use tripartite structure with additional stakeholder representation: A formal governance structure should be established within the Inter-Ministerial Task Team that includes representation of local industry and the labor unions. These stakeholders should be given an equal voice at the table. Other stakeholders – including buyers and civil society actors – should also be part of the governance structure of the project, though it might be decided that they should not have the same level of influence in the decision-making process. It is essential that the proposed governance structure remain simple in its organizational structure.

6. Determine formal decision-making process: Although consensus building is a necessary part of developing alignment within Lesotho and ensuring that

project goals are shared, it is important to create a decision-making process that sets out a clear way to make final decisions should there be disagreement among the group. This structure will help ensure that efforts do not get delayed or halted by internal disagreements and that momentum is able to continue.

7. Organize governmental mission: Direct contact between key government decision-makers and international buyers and investors would be instrumental in strengthening relationships and providing Lesotho with important data on expectations for performance in the international marketplace. A government mission – following the multi-stakeholder forum in Lesotho in May 2006 – to the United States would be a key indicator to buyers and investors of the seriousness the country attaches to this initiative. Minister(s) should be fully prepared to make the business case to investors and buyers as to the competitive advantages of sourcing from Lesotho by citing specifics of the industry model. Emphasis should be placed on the country’s multi-constituent commitment to “owning” CSR and distinguishing itself on high workplace standards combined with a renewed emphasis on addressing concerns such as innovation, productivity, speed to market, quality and vertical integration. The Minister should also be provided with background information on infrastructure provision, labor costs and quality, tax and incentive regime etc.

8. Ensure industry commitment: The reputation of the industry in the international arena is dependent on good workplace conditions throughout the sector. The industry association (LTEA) should take a leadership role in involving as many facilities as possible, especially those who may have the most pressing CSR issues. One route, if desired by a majority of local industrialists, could be to make participation in any future project mandatory in order to export garments from Lesotho. Other options include supporting positive incentives or negative repercussions enforced by the government for not engaging in the project.

Given this ultimate goal, it may be necessary to use a phased approach. It is important to gain traction and set the framework for progress with actors who are committed to see the initiative succeed. Once some of the initial groundwork has been laid, it may be easier to integrate the more skeptical facilities.

9. Attempt to link with efforts in other sectors: While the goal of this initiative is to strengthen the apparel sector specifically, the overarching vision is to do so in a way that can strengthen the international competitiveness of the country of Lesotho as a whole. As such, attempts should be made where possible to include representatives of other industries – such as tourism or horticulture – that may be involved in innovative efforts and/or to share lessons learned with other industries that are working to strengthen their own positions.

5 Conclusions and next steps

The Government of Lesotho has shown great leadership by establishing the inter-ministerial task team to address the challenges and opportunities facing the textile and garment industry.

The industry, led by the Lesotho Textile Export Association has proven to be less foot-loose than in many other African countries and the Nien Hsing factory has already invested in a denim plant to prepare for the expiration of the third country fabric provision.

The industry and the government receives advice from the ComMark Trust, which is a unique local organization aiming to improve the competitiveness of the industry, not only in terms of regional integration and market diversification, but also in terms of productivity training. The ComMark Trust has also developed an interesting industry-based program to fight HIV/AIDS.¹¹

The strength of these local actors creates an advantage for Lesotho, which will help them address the key challenges facing the industry. These challenges, and ways to address them, were discussed at the MFA Forum Conference in May 2006 and the participants agreed on the following priorities and immediate next steps. (The detailed list of priorities is available in Appendix 1).

a. Develop a regional fabric sourcing model

There is a need to develop a regional fabric sourcing model with complementary rules of origin for the U.S., EU, and South African markets. Rules of origin governing preferences accorded fabrics and trims used on garments produced in Lesotho are divergent. U.S. and South African rules permit the use of regional (SACU) fabrics and yarns; EU rules do not permit the use of South African materials—the largest regional supplier. A strategy must be developed to bring current and future EU rules of origin into a regional sourcing model, including South Africa and other AGOA eligible sub-Saharan African countries.

Agreed next steps:

- By June 30, 2006 the LTEA and the Government of Lesotho working with other IMTT stakeholders will finalize a strategy for regional and local incentives that can be agreed by September 30, 2006. The strategy will include a position on a WTO-friendly DCCS type incentive that can be operative and functioning by April 30, 2007.

¹¹ The Apparel Lesotho Alliance to Fight HIV/AIDS (ALAFA)

- By July 31, 2006 the IMTT in collaboration with relevant stakeholders will finalize Lesotho's strategy on the AGOA 3rd country fabric extension and ensure that Lesotho's lobbying efforts in Washington DC are united.
- By July 31, 2006 the LNDC, Water and Sewage Authority (WASA) and the IMTT in collaboration with the World Bank will complete a need-assessment analysis of the requirements for establishing garment finishing facilities and a fabric mill. The analysis will focus on:
 - Water [quantity and quality] (*WASA and IMTT*)
 - Industrial waste water facility (*Ministry of Industry's Industrialization Committee, Maseru*)
 - Hazardous solid waste facility (*Ministry of Industry's Industrialization Committee*)
 - Electricity supply (*Lesotho Electricity Supply Commission*)
- By September 30, 2006 the LNDC and the Government of Lesotho will have a complete overview of the availability of factory shells and commence building of new factory space, if necessary.

b. Increase market access to South Africa and EU

Lesotho should be seeking to diversify its markets and customer bases as the global textile and apparel industries go through seismic changes. Diversifying markets for the long term will require apparel producers to meet demands for more services, flexibility, rapid turnaround, and product diversity (offerings) as well as cost. Firms committed to the future are far more likely to develop new relationships with markets and buyers.

Export promotion for the EU market should aim to attract vertically integrated producers that can meet EU rules of origin, and training and/or strategic partnerships with regional service firms should aim to build capability in preproduction services. Bringing buyers in for a standard factory tour will reap few orders if factories cannot execute samples or provide preproduction services. The South African market offers opportunities, but buyers and retailers there need to become familiar with Lesotho as an apparel source, preferably through direct transactions rather than simple factory tours.

Agreed next steps:

- By June 30, 2006 the Lesotho Revenue Authorities will finalize an administrative arrangement with the South African Revenue Service that can show to the EU authorities that South African fabric input are in fact of South African origin and do comply with Cotonou's trade rules of origin.
- By July 31, 2006 the IMTT will develop a position paper on future relaxed rules of origin under the GSP and EBA that will allow tariff free access to the EU market with imported goods from South Africa.

The IMTT should stay abreast with lobbying efforts by DATA and others.

- By July 31, 2006 the IMTT with support from ComMark, MFAF and DATA, Center for Development of Enterprise and ESIPP will develop an interim plan to penetrate selected markets in the EU.

c. Enhance pre-production skills

Lesotho's apparel industry consists largely of Cut Make and Trim firms that can do little to adapt their supply chain to market needs. In the long term, Lesotho's apparel firms need to develop preproduction capabilities in fabric sourcing and sample and marker making to remain attractive to old and new buyers alike. In the medium term, they could partner with South African firms that have these capabilities. Using service firms, however, is no substitute for long-term development of in-house capacity; even service firms appreciate working with producers who offer some preproduction services.

Agreed next steps:

- By September 30, 2006 a program will be developed to:
 - aid Lesotho factories develop enhanced preproduction skills either on their own or in centralized facility. (*World Bank PSD, LTEA, ComMark, brands.*)
 - Strengthen in-company training programs focusing on improving productivity, quality and transformation. (*ComMark, World Bank PSD, ComMark, LTEA, DCCS and brands*)
 - Develop ability of companies to add more value add to commodity products that Lesotho firms specialize in. (*LTEA members, Brands, Whitaker group*)
 - Attract garment firms that make products other than those already made in Lesotho. (*LNDC, ComMark*)

d. Establish Lesotho as international centre for decent work

Over the past five years the Government's attention to labor conditions has increased, as has the attention of international buyers to social compliance in the country. Key buyers have clearly communicated their codes of conduct to suppliers in Lesotho and many of the suppliers are already fulfilling the international requirements. Monitoring of conditions at supplier facilities is more frequent and intensive; and in some instances buyers have worked with suppliers through training and capacity building programs.

The ILO is working with the Ministry of Industry to reform the labor laws and this initiative will be used as a stepping stone to establish Lesotho as international centre for decent work. This initiative should not only improve industrial relations it should also be part of a unique branding strategy for Lesotho that can be used to attract the attention of new international buyers. ComMark's HIV/AIDS program (ALAFAs) should be an integrated part of this branding strategy.

Agreed next steps:

- By September 30, 2006 the IMTT and the National Advisory Committee on Labor in collaboration with the ILO and FIAS should develop a program to:
 - Improve industrial relations and human resource systems
 - Define the training needs
 - Develop a transparent labor monitoring and remediation system. The system should be developed in collaboration with relevant brands to ensure that it meets their information requirements.

Appendix 1: Conclusions from the MFA Forum Conference in Maseru, May 16-17, 2006

PRIORITY	TASK	TIMING	KEY RESPONSIBILITY	SECONDARY SUPPORT
Trade Policy	Finalise position on AGOA 3 rd country fabric extension	<ul style="list-style-type: none"> • Initial draft Lesotho position finalised last week May 06. • Consultations with Lesotho stakeholders through to end June 06 • Final strategy document by end July 06 • Joint lobbying effort of Lesotho stakeholders in August 	Government of Lesotho working through IMTT ACTIF, Whitaker Group, Buyers, Labour	MFA-F Commark DATA
	Ensure greater access to the EU Market place via : <ul style="list-style-type: none"> - sorting-out (SA-Lesotho) customs issues related to fabric cumulation. - ensuring relaxed (future) EU trade rules of origin (RoO) - marketing initiative to penetrate selected EU markets 	<ul style="list-style-type: none"> • on customs issue by end June 06 strategy developed • on RoO position paper developed by end July 06 • interim plan by end July 06 	<ul style="list-style-type: none"> • Lesotho Revenue Authority & Government of Lesotho • Government of Lesotho working through IMTT • Government of Lesotho working through IMTT 	ComMark MFA-F; DATA; Lesotho neg. partners in EPA negotiations MFA-F; DATA; center for the development of Enterprise (CDE) & ESIPP

PRIORITY	TASK	TIMING	KEY RESPONSIBILITY	SECONDARY SUPPORT
Incentives	Duty Credit Certificate Scheme (DCCS) type incentive, that would favour Lesotho (as an LDC in SACU), to be operative and functioning post-March 07.	<ul style="list-style-type: none"> • Draft Lesotho position paper on regional and local incentives by end June 06. Plan must be agreed by September 06 	<ul style="list-style-type: none"> • LTEA & Government of Lesotho working with other IMTT stakeholders 	<p>Governments, employers and unions in Botswana, Swaziland & Namibia</p> <p>MFA-F to lobby RSA ComMark</p> <p>The World Bank as part of the PSC Project will fund a review the DCC in the context of supporting skills development in the industry.</p>

PRIORITY	TASK	TIMING	KEY RESPONSIBILITY	SECONDARY SUPPORT
Infrastructure Vertical Integration / Backward & Forward Linkages	Developing infrastructure to support expansion of garment industry. Serviced factory shells for potential investors in queue required	Immediate : Draft plan by mid-June 06 Building to commence September 06	LNDC; Government of Lesotho	MFA-F; DATA; and development finance institutions incl. Millennium Challenge Corporation (MCC)
	<p>Developing physical infrastructure to support establishment of a knit fabric and garment finishing industry</p> <ul style="list-style-type: none"> - water-in (improving water quality in Maseru West for garment laundries; and ensuring adequate water for knit fabric mills - industrial waste water effluent processing facility for garment finishing facilities; and for knit fabric textile mills - hazardous solid waste facility for future knit fabric mills; for garment finishing facilities and for existing denim industry - adequate electricity supply for knit fabric industry 	<p>For garment finishing demand analysis needs to be completed by end July 06</p> <p>Plan to improve Maseru West Water quality by mid-July 06</p> <p>Disclosure of start date of construction of hazardous solid waste disposal facility by mid-July 06</p> <p>Infrastructure needs analysis (water-in; water-out; electricity; other site infrastructure), & business plan developed for potential knit fabric mill by end July 06</p>	<p>The World Bank as part of PSC Project preparation will fund an assessment the technical and financial needs for establishing a waste water treatment facility and develop a comprehensive financial viability and break-even analysis for establishing finishing (laundering), printing and fabric mill.</p> <p>Water & Sewage Authority (WASA); and IMTT</p> <p>MTICM; Maseru City Council; Ministry of Environment (working through MTICM Industrialisation Committee)</p> <p>MTICM Industrialisation Committee</p>	<p>MFA-F; Brands</p> <p>MFA-F; potential investors; development finance institutions incl. MCC</p>

PRIORITY	TASK	TIMING	KEY RESPONSIBILITY	SECONDARY SUPPORT
Establish Lesotho as international centre for decent work	<ul style="list-style-type: none"> Improving industrial relations Labour law reform Training (including needs assessment, then training at all levels) Improving HR systems Transparent monitoring and remediation system 	<p>Programme to be developed by Sept. 06</p> <p>Labour law reform currently underway with MoEL and ILO</p>	<ul style="list-style-type: none"> Government of Lesotho working through IMTT and National Advisory Committee on Labour 	<p>ILO with support from FIAS/World Bank.</p> <p>Brands/retailers.</p>
Enhanced Pre-production facilities	<ul style="list-style-type: none"> Aid Lesotho factories to develop enhanced preproduction either on their own or in centralised facility. 	<p>Programme to be developed by Sept. 06</p>	<ul style="list-style-type: none"> The World Bank PSC Project will provide funding for an industry-led demand driven skills development program. 	<p>LTEA, ComMark, Brands</p>
Productivity & Quality	<ul style="list-style-type: none"> Strengthen in-company training programmes which focus on improving productivity & quality; and transformation (more Basotho's engaged in senior positions) 	<p>Programme to be developed by Sept. 06</p>	<ul style="list-style-type: none"> ComMark 	<p>LTEA, DCCS, Brands, ComMark</p>
Elevated Production & Product Diversity	<ul style="list-style-type: none"> Develop ability of companies to add more value add to commodity products that Lesotho firms specialise in Attract more garment firms to establish themselves in Lesotho that can make products other than those already made in Lesotho. 	<p>Programme to be develop by Sept. 06</p> <p>Focus investment promotion activities</p>	<ul style="list-style-type: none"> LTEA members & Brands, Whitaker Group. LNDC 	<p>World Bank</p> <p>ComMark</p>