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THE GOVERNMENT OF LESOTHO HOLDS A WORKSHOP ON PRIVATE SECTOR DEVELOPMENT

With a view of finding ways to eliminate the structural and institutional impediments to the growth of the private sector, the Government of Lesotho (GoL) organised a workshop on private sector development…

Background

Owing to the importance of the private sector in attaining economic development, the Government saw the need to hold a Private Sector Development (PSD) strategy workshop. The three-day workshop was held on the 06-08 April 2005 at the 'Manthabiseng Convention Centre. A broad spectrum of stakeholders from both local and foreign private sector, civil society and development partners participated in this workshop. The objective of this effort was to commence and cement a new partnership between the public and private sectors, and find ways of creating a climate conducive to efficient operation of the private sector to ensure high and sustainable economic growth, job creation, and ultimately achieve poverty reduction.

The discussions at the workshop revolved around four key pillars. The first pillar was the identification of the administrative and regulatory barriers that discourage investment. The second was identification of barriers that impede provision of good immigration and customs services, which seemed to discourage investors and tourists to come to Lesotho. The third pillar involved creation of an effective minimum platform of physical and human infrastructure, while the fourth dealt with retention of existing investors in textiles and apparel sectors, as well as finding ways of attracting new ones and also diversification of markets and products. These pillars underscore the role played by a well developed infrastructure in the economy, and this article discusses this matter in detail.

Identification of the Administrative and Regulatory Barriers

The forum identified some regulatory issues that hampered progress in the private sector. Those were either in the form of outdated laws and regulations or excessive red tape. These issues resulted largely, in sluggish registration and licensing of companies. In addition, lack of knowledge of the credit history of companies reduced their chances to access credit from commercial banks.

For company registration, the meeting recommended that the company registry be transferred to the Ministry of Trade, Industry, Cooperatives and Marketing (MTICM) and Company law be reviewed. Guidelines should be issued in order to improve performance standards of the Company Registry. It was also recommended that the registry be computerised. The need to develop a credit bureau was identified as very vital to improve transparency on creditworthiness, and thus combat the problem of lack of finance. Regarding industrial licensing, two options were recommended at the forum. The first was the abolishment of Industrial Licensing Act and parts of the Pioneer Industrial Encouraging Act. Secondly, streamlining of license procedures to reduce the prevalent red tape was recommended. Other investment and trade reforms to be pursued were identified. They included thirteen policy reforms, some of which were already underway, while others were to be funded by the World Bank. They encompassed improving coverage and quality of service, as well as establishing an appropriate mix of public and private investments to provide for cross pollination of skills and know-how.

Provision of Good Immigration and Customs Services

Immigration and Passport Services (IPS) are critical to Government's service delivery agenda, national security and crime prevention. IPS systems and infrastructure were characterised by chronic under-staffing; lack of basic equipment and IT systems, and amenities. Business processes were manual and paper-based, which lead to delays in service delivery and low moral of employees at the centres. The IPS was permeated by the "hassle factor" and plagued by the notion that "the customer was always wrong". This tended to perpetrate the problem of rampant illegal immigrants, and to frustrate tourists who came for good cause.

Reforms aimed at IPS were the second pillar identified. The recommended reforms included development of an intergrated immigration management strategy (IMS), which would produce a top-to-bottom revitalisation and reformation of IPS. This would reduce corruption during border crossing in the dispensation of the laws.

Human and Physical Infrastructure

Human resources development was also identified as a key element of stimulating private sector participation. Constraints and challenges in skills development included lack of training programs that were relevant to industry's needs, lack of sustainable financing and weak policy framework. In addition, it was noted that many services were essential for efficient production of goods and services by the private sector. For example, provision of railways would facilitate low cost transportation of inputs and lower production costs. Hence, physical infrastructure, such as good roads, provision of electricity with least disruptions, telecommunication services, water and sanitation was deemed critical in the production process. The uninterrupted supply of water was seen as a key input in the operation of the wet industries operating in Lesotho. Interruptions in the supply of water could hamper timely production of output to meet orders, and could cost producers dearly.

In order to overcome these constraints, GoL is to strengthen the policy, regulatory and institutional framework of Technical and Vocational Education and Training (TVET). Two models were recommended namely those adopted by the Penang Skills Development Centre and the Malaysia Apparel and Textile Centre (MATAC). The former is based on a tri-partite collaboration involving government, industry and academia, while the latter is training centre whose programs depend on the firms' needs. It was emphasised that these models should be modified to suit local realities.

Without taking the rest of the components of physical infrastructure for granted, the forum specifically dwelt on electricity and telecommunications. Although progress has been made several challenges still remain. These included increasing coverage of services to the rural areas, and improvement of quality of service. Although Lesotho Telecom had improved teledensity from 1% prior to the reform to 8.5% after the reforms, there is still a need to increase access to communication services. It was therefore recommended that a cost recovery tariff mechanism for the utilities services should be adopted and an appropriate private-public investment mix should also be attained, to expand access to electricity and telecommunications.

Retention of Existing Investors in Textile and Apparel Sector and Diversification of the Export base

The export sector grew in importance over the years particularly between 2000 and 2004. This growth was mainly exports of clothing. The developments in this area indicated that the private sector, largely Foreign Direct Investment (FDI), had been the key driver of the export led growth. This success was mainly attributable to the role played by the duty and quota free access to the United States market under the African Growth and Opportunities Act (AGOA). However, this sector continued to be vulnerable to international forces because the exports remained competitive only insofar as artificially created competitive advantage by international preferential trading rules were in place.

As a response to these challenges, a number of government interventions were suggested. Among other things the MTICM committed to expedite progress towards the establishment of the trade and investment facilitation centre or “one-stop shop”. It was also recommended that there should be standing consultative processes in place between the manufacturers and the utility service providers. This would be intended to warn the latter about interruptions in order to contain their impact on production. Furthermore, efforts by the mission from the MTICM to the United States in an attempt to secure market share should be strengthened.

Indeed this challenges call for a clear strategy to reduce production costs, improve the investment climate and attract more FDI as well as diversification of first, the export base and second, market access. Diversification of markets to regions such as the European Union (EU) and the Southern African Development Community (SADC), on one hand, can go a long way in granting support to the textile and clothing industry. On the other hand, diversification of products required identification of potential sectors in the economy. Key sectors that were identified were tourism, and sandstone mining as well as agro-business which includes sheep farming and horticulture. The advantage of strengthening these sectors was the available market in South Africa, and the fact that the production cost differential between the two countries which favours Lesotho should be exploited. Inclusion of these sectors in the value chain to facilitate backward and forward linkages between them would go hand in glove in granting further support to the garment industry.

Since the textile and clothing sector must compete with the rest of the world for market share, productivity in this sector must be improved. One essential strategy was that of improving the quality and capacity of workers through training. As such the establishment of Clothing and Textile Training Centre was proposed based on the TVET policy. Key stakeholders were identified and the initiative involved the setting up of a Sector Skills Committee chaired by the private sector coalition.

Beyond the prospective challenges to an efficiently functioning private sector, the situation does not appear completely bleak. In other words, with commitment and an appropriate policy mix, a measure of private sector led growth would still be achieved. The subsequent section provides some of these policy recommendations.

Conclusion and the way forward

For private sector led growth to be attained, the following key issues emerged from the discussions; minimisation of red tape, improvement of physical infrastructure, development of appropriate incentive package for both domestic and foreign investors and embarking on aggressive sector-specific training. In the light of these facts, the following broad yet germane recommendations may be embraced:

- First, establishment of a sound legal and institutional framework. This means that a review of outdated laws such as the Industrial Licensing Act, Pioneer Industries Encouragement Act, Land Tenure Act, is urgently necessary. This is critical to the attainment of private sector led growth.
- Second, provision of training in project appraisal, negotiations, and legal arrangements. This could enhance the capacity of the public officials. Training is also needed to boost productivity in the private sector and more companies should be encouraged to have some form of training to facilitate skills development.
- Third, development of financial markets to provide for dealing in long-term financial instruments in local currency, and provide access to finance even for local firms.
- In addition, elimination of conflicting interests through increased consultations between the private and public sectors, thus a private sector association should be established or strengthened.
- Also, strengthening of the import and customs clearance procedures, while the VAT refund system should be improved.
- Lesotho is deemed to have some comparative advantage in the following sectors: tourism, horticulture, sandstone mining and sheep farming. Consequently, these sectors were deemed to be priority sectors for policy reforms, infrastructure provision, and provision of appropriate vocational skills.
- Moreover, improvement in the provision of telecommunication services, supply of water and electricity to minimise substantially on interruptions and power outages.

Table 1. Monetary and Financial Indicators+

	Feb	Mar	April
1. Interest rates (Percent Per Annum)			
1.1 Prime Lending rate	12.17	12.17	11.83
1.2 Prime Lending rate in RSA	11.00	11.00	10.50
1.3 Savings Deposit Rate	1.22	1.22	1.00
1.4 Interest rate Margin(1.1 – 1.3)	10.95	10.95	10.83
1.5 Treasury Bill Yield (91-day)	7.94	7.72	7.70
2. Monetary Indicators (Million Maloti)			
2.1 Broad Money (M2)	2381.5	2451.8	2488.4

2.2 Net Claims on Government by the Banking System	-982.3	-958.1	-1198.8
2.3 Net Foreign Assets – Banking System	4058.2	4266.3	4645.0
2.4 CBL Net Foreign Assets	2941.5	2960.1	3312.6
2.5 Domestic Credit	-365.2	-312.4	-559.1
2.6 Reserve Money	349.6	440.3	415.7
3. Spot Loti/US$ Exchange Rate (monthly average)	6.017	6.037	6.152
4. Inflation (year-on-year percentage change)	4.0	3.7	3.5
5. External Sector (Million Maloti)	**2004**		**2005**
	Q3	**Q4**	**Q1**
5.1 Current Account Balance	-210.0	-116.5	22.3
5.2 Capital and Financial Account Balance	170.6	225.6	-39.3
5.3 Reserves Assets	-15.5	-1.2	-199.8

+These indicators refer to the end of period. Prime and deposit (savings) rates are averages of all commercial banks' rates operating in Lesotho. The Statutory Liquidity Ratio in Lesotho is 25 percent of commercial banks' short-term liabilities.

Table 2. Selected Economic Indicators

	2001	**2002**	**2003**	**2004***
1. Output Growth(Percent)				
1.1 Gross Domestic Product – GDP	3.2	3.5	3.3	3.4
1.2 Gross Domestic Product Excluding LHWP	3.5	3.3	3.2	3.2
1.3 Gross National Product – GNI	0.2	1.6	6.3	3.9
1.4 Per capita –GNI	-1.9	-0.4	4.1	2.4
2. Sectoral Growth Rates				
2.1 Agriculture	0.5	-4.2	-1.9	-0.4
2.2 Manufacturing	7.8	6.9	5.2	5.0
2.3 Construction	1.4	6.9	4.3	4.0
2.4 Services	2.2	2.2	4.4	3.9
3. External Sector – Percent of GNI Excluding LHWP				
3.1 Imports of Goods	68.2	82.8	74.5	79.2
3.2 Current Account	-17.4	-24.5	-21.1	-25.8
3.3 Official Reserves (Months of Imports)	11.7	6.4	5.5	5.5
4. Government Budget Balance (Percent of GDP)	-1.0	-2.7	-2.5	2.5

Table 1. Monetary and Financial Indicators+

	March	**April**	**May**
1. Interest rates (Percent Per Annum)			
1.1 Prime Lending rate	12.50	12.50	12.50
1.2 Prime Lending rate in RSA	11.5	11.5	11.5
1.3 Savings Deposit Rate	2.31	2.31	2.31
1.4 Interest rate Margin(1.1 – 1.3)	10.19	10.19	10.19
1.5 Treasury Bill Yield (91-day)	9.21	9.21	9.36
2. Monetary Indicators (Million Maloti)			
2.1 Broad Money (M2)	2308.4	2225.5	2294.0

2.2 Net Claims on Government by the Banking System	-319.9	-786.7	-693.6
2.3 Net Foreign Assets – Banking System	3480.3	4090.6	3962.7
2.4 CBL Net Foreign Assets	2576.9	3267.0	3070.6
2.5 Domestic Credit	273.5	-186.1	-88.5
2.6 Reserve Money	302.6	324.1	326.2
3. Spot Loti/US$ Exchange Rate (monthly average)	6.6054	6.5920	6.7844
4. External Sector (Million Maloti)	**2003**		**2004**
	Q3	**Q4**	**Q1**
4.1 Current Account Balance	-300.6	-299.8	-194.7
4.2 Capital and Financial Account Balance	155.5	320.0	-23.5
4.3 Reserves Assets	391.7	-156.6	257.5

+These indicators refer to the end of period. Prime and deposit (savings) rates are averages of all commercial banks' rates operating in Lesotho. The Statutory Liquidity Ratio in Lesotho is 25 percent of commercial banks' short-term liabilities.

Table 2. Selected Economic Indicators

	2000	2001	2002*	2003+
1. Output Growth(Percent)				
1.1 Gross Domestic Product – GDP	1.3	3.2	3.8	3.3
1.2 Gross Domestic Product Excluding LHWP	0.0	3.5	3.3	3.2
1.3 Gross National Product – GNP	-3.2	0.6	2.5	2.7
1.4 Per capita –GNP	-5.0	-1.7	2.1	2.2
2. Sectoral Growth Rates				
2.1 Agriculture	2.9	0.6	-4.0	-0.4
2.2 Manufacturing	4.4	7.9	6.9	5.0
2.3 Construction	9.7	1.3	6.9	4.0
2.4 Services	-0.9	2.2	3.3	3.6
3. External Sector – Percent of GNP Excluding LHWP				
3.1 Imports of Goods	71.9	74.9	87.3	80.6
3.2 Current Account	-8.8	-2.9	-8.6	-7.8
3.3 Official Reserves (Months of Imports)	8.9	11.7	6.4	5.5
4. Government Budget Balance (Percent of GNP)	-4.9	-1.0	-2.7	-2.5

*Preliminary Estimates +Projections