



The Honourable Minister of Trade and Industry, Cooperatives and Marketing cuts the ribbon at the official opening of Kopano Textiles at Maputsoe Industrial Estate on the 29th March, 2006

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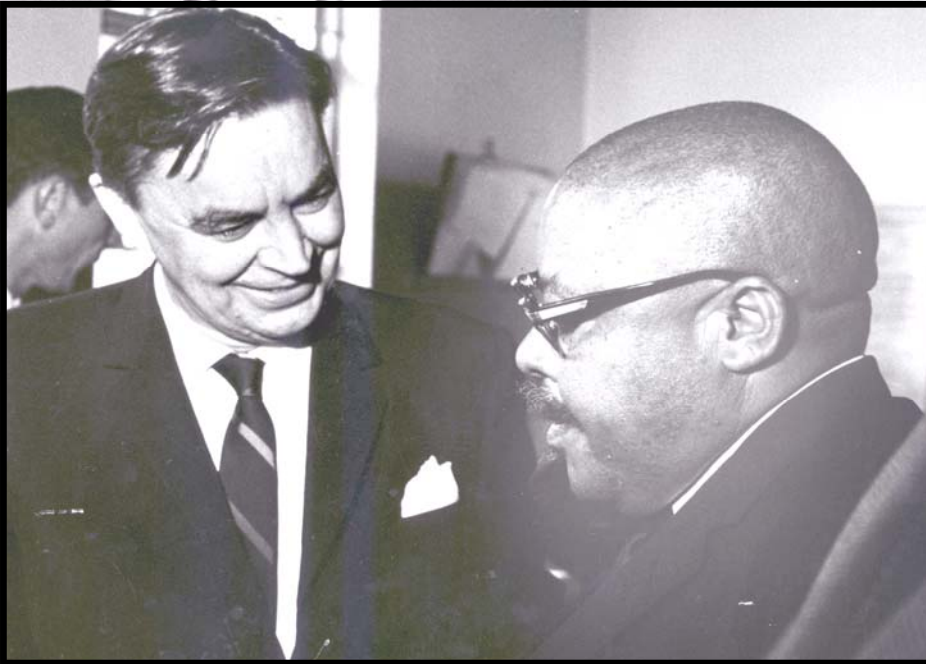
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LNDC Headquarters

We build industry

LNDC Loses Its Founder



From left to right: Dr. Anton Rupert and the Right Honourable, Dr. Leabua Jonathan

It was with regret that Lesotho National Development Corporation (LNDC) learned of the passing away of Dr. Anton Rupert, who was instrumental in setting up the Corporation nearly 40 years ago.

Dr. Rupert died peacefully in his home in Stellenbosch on the 18th January, 2006.



From left to right: Mr. Wynand van Graan, Dr. Anton Rupert and the Hon. Patrick 'Mota

After Lesotho gained independence in 1966, the then Prime Minister, The Right Honourable Dr. Leabua Jonathan decided to explore ways in which to alleviate poverty in the country. He invited Dr. Anton Rupert, a successful South African businessman to be an honorary economic advisor to the Government of Lesotho.

True to his well-known saying, "If your needy neighbour does not eat, you cannot sleep", Dr. Rupert accepted the invitation. He conceived the idea of establishing a development corporation for Lesotho to be staffed by experienced personnel. Dr. Rupert seconded a top executive from his Rembrandt Group, Mr. Wynand van Graan to become the Corporation's first Managing Director.

Under very trying times and with unwavering support from the Government of Lesotho, Mr. van Graan laid a firm foundation upon which LNDC has been built.

Dr. Rupert also sponsored a free Medical Shuttle Service to Lesotho which was administered through the LNDC. The service provided free medical specialist services to Basotho for over 25 years.

At his Memorial Service on the 25th January, 2006, His Majesty King Letsie III represented the Basotho nation.

The Management and Staff of LNDC also sent messages of condolences to his family.



Dr. Rupert standing beside an ambulance

*May His Soul
Rest in Peace!!*

REFOCUSING AND REORGANISING OF LNDC

Q A strong wind of change is gathering momentum in the international trading system. On its path lie losers and winners. Losers are those who fell or are likely to fall by the wayside because they have no grip. Winners are those who proactively positioned themselves to withstand the might of the wind. Lesotho happens to lie at the crossroads where she either has to sink or swim.

This dire situation has necessitated LNDC to realign its resources in accordance with the challenges posed by these unfavourable economic conditions.

The Lesotho National Development Corporation has undergone many facelifts since its inception in 1967. The last of these facelifts was in 2001 whereby the Corporation was comprehensively restructured.

Lesotho has managed to build its garments manufacturing industry mainly from special market access preferences provided by the large developed countries like the United States of America (US) and those in the European Union (EU).

Unfortunately, this comfortable carpet is now being pulled under Lesotho's feet by the forces of globalization and liberalization of trade within the World Trade Organisation (WTO) stewardship. To survive, Lesotho has no other choice but to act swiftly.

LNDC happens to be one of the most critical instruments that the Government of Lesotho has at its disposal to fend off the challenges that it faces.

For LNDC to live up to expectations it must position itself to deliver. In order to deliver, it must know the problem, refocus its strategies and acquire the right arsenal in order to attack and win the battle.

It is against this background that the Management of LNDC has deemed it imperative to assess its strengths and weaknesses, its capacity and structure in order to realign and equip itself for the challenges ahead.

Although LNDC has performed remarkably well over the years, it is currently faced with the most daunting challenges which present themselves as serious threats as well as important opportunities. The most notable of these challenges are:

- Export product and market diversification
- Integration of the garments manufacturing sector
- Protection of the garments manufacturing sector and jobs
- Creation of a conducive legal and regulatory framework for private sector development.
- Support and development of the indigenous private

sector

- Poor performance of the equity portfolio
- Provision of physical infrastructure
- Strengthening of LNDC's financial position
- Acquisition of human resources and institutional capacity
- Enhancing good governance
- Restoring and maintaining the image of the Corporation.

Acquisition of human resources and institutional capacity is a critical starting point entailing human, financial and physical resources that are necessary for the Corporation to fulfil its mandate of generating wealth and job creation for Basotho.

On the positive side, unlike in 2001 where retrenchments took place, the current restructuring process involves creation of additional jobs to fill in the gaps that have been identified in the LNDC corporate structure.

"The Blueprint for Refocusing and Reengineering LNDC in Accordance with its Core Mandate to Optimise Delivery", will be presented to the LNDC Board of Directors for approval. If approved some of the findings in the report will be implemented with effect from 1st April, 2006.

ESIPP Connection with Local Business

LNDC accompanied two Basotho businessmen involved in the manufacture of construction materials and steel products respectively, to attend a Light Engineering Investment Promotion and Business Cooperation meeting in Mauritius on 14th – 17th February, 2006.

The forum was organised by the EU-SADC Investment Promotion Programme (ESSIP) in collaboration with the Centre for Development of Enterprise (CDE) and the European Investment Bank (EIB). ESIPP is a joint programme of the European Union (EU) and the Southern African Development Community (SADC) designed to attract foreign investment into the SADC region and promote long-term investment cooperation agreements in specific key sectors on a structured, continuous and sustainable basis.

The Light Engineering Sector includes products such as cutlery, hand tools, hardware, mo-

tor vehicle parts and accessories, electronic components and industrial machinery.

At the forum business people from the region presented a carefully selected variety of new and high quality business development projects in the sector to interested European and other international investors. LNDC facilitated the packaging of several projects from Lesotho, six of which qualified to be presented to potential joint venture partners from Europe.

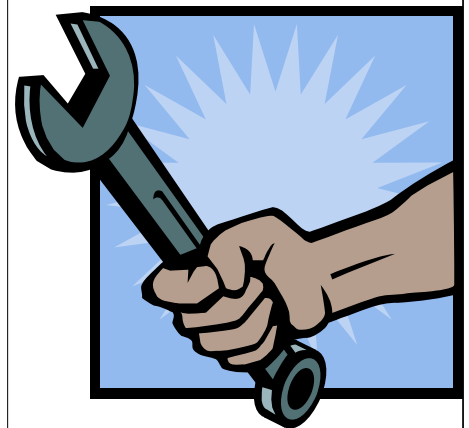
As a result of Lesotho's participation at the forum:

- Possible joint ventures between Lesotho, EU and third country promoters and entrepreneurs are now being developed.
- There is improved access to financial and development institutions (EIB, CDE etc.) through contacts with high ranking representatives of Ministries and intermediary organisations.
- Some business development projects which demonstrate sound potential could receive additional assistance in the form of grants from ESIPP.

LNDC, as an ESIPP partner was provided with a free stand where it promoted Lesotho's investment opportunities to regional and international investors in sectors that present diversification opportunities from the em-

battled clothing and textile sector. LNDC hosted more than 30 visits to its stand. More than 12 of these visits will be followed up.

The role of LNDC within the programme is to lead its development within Lesotho. To this end, the Corporation has been promoting the programme to private sector groups in the country.



Electronic component

Hand tools

Promotion of Linkages for Basotho Businesses

Chinese investors have expressed interest in investing in partnership with local businesses in identified areas. These areas include food processing, shoe manufacturing, water bottling, packaging, consumer electronics and electrics.

The investors are members of 11 Chinese Business Associations which met with LNDC during its participation at the China International Fair on Investment and Trade (CIFTI) in the last quarter of 2005. The Associations represent the interests of over 2,000 Chinese businesses.

LNDC has already distributed information regarding these investment opportunities to the Lesotho Chamber of Commerce, local business associa-

tions and specific private sector businesses involved in the identified areas. The Chinese business community has also been given contact information of the local businesses.

Other enquiries from China related to trading of specific health foods with Lesotho. These enquiries have been referred to the Ministry of Agriculture and Food Security as well as the Ministry of Trade and Industry, Cooperatives and Marketing.



Third from Left: The Honourable Dr. Timothy Thahane, Minister of Finance and Development Planning, leader of the delegation from Lesotho.

World Bank Study on Competitiveness and Diversification

Garment manufacturing for export to the United States (US) market has been a success story for Lesotho's economic growth and export performance. In particular, as a result of Lesotho's certification for benefits under the African Growth and Opportunity Act (AGOA) in 2001, Lesotho experienced phenomenal growth of its garment sector.



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However, Lesotho's ride at the crest of the wave has been seriously undermined as the World Trade Organisation pushes for a more liberalised global trade regime.

Lesotho's dependence on one product (garments) and one market (US) can no longer be sustained now that bigger and more competitive garment producing countries are crowding

her out. It is necessary, therefore to move to higher value textile products and/or change entirely to new export products.

It is against this background that the LNDC/ComMark Apparel Project and the Ministry of Trade and Industry, Cooperatives and Marketing have commissioned an export product and market diversification study. The study is funded by the World Bank through the Department for International De-

velopment (DFID). The study is due for completion in April, 2006.

AGOA is steadily shedding off some of its major attractions to foreign investors which makes investment promotion increasingly challenging.

The findings of the study will inform LNDC on other productive sectors and identify Lesotho's comparative competitive advantages in global trade.

New Factory Opens at Maputsoe Industrial Estate

The Honourable Mpho 'Meli Malie, Minister of Trade and Industry, Cooperatives and Marketing officially opened a new clothing and textile factory, Kopano Textiles at the Maputsoe Industrial Estate on the 29th March, 2006.

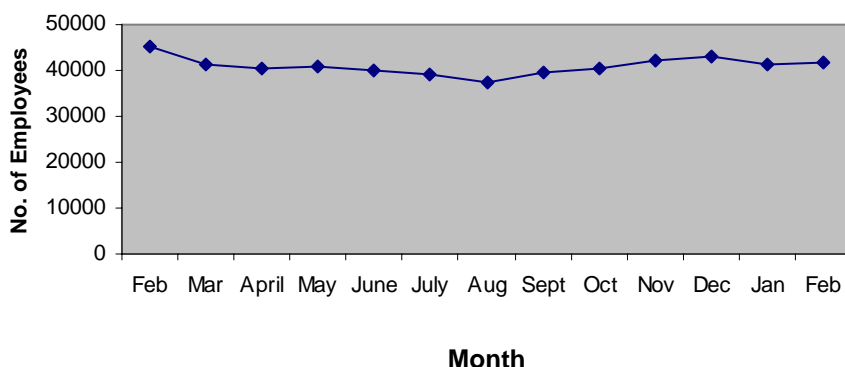
Kopano Textiles is a joint venture between three Taiwanese companies. It will manufacture t-shirts and jeans for export to the United States and the promoters of the company plan to start construction of a knit fabric mill by the end of this year.

In July this year, employment at the factory will have increased to 3,000. Investment in the project is valued at over M37 million.



General Performance of the Manufacturing Portfolio

Employment (Feb 2005 - Feb 2006)



In addition to product and market diversification, LNDC in close collaboration with the Government of Lesotho, is also focusing on:

- Integration of the garment industry
- Enhancing competitiveness of the garment industry (through training of workers leading to increased productivity)
- Development of requisite infrastructure
- Creation of investor-friendly legal and regulatory framework.

Integration of the garment industry has already started with the establishment of a denim fabric mill in 2003. Plans are advanced to secure a knit fabric mill.

In this regard LNDC is involved in extensive promotion and a number of fabric manufacturers have already been contacted and some of them have been to Lesotho on site visits. The newly inaugurated Kopano Textiles is also planning to set up a knit fabric mill before the end of this year.

The Inter-ministerial Task Team which was established by the Right Honourable the Prime Minister in 2004 addresses all bottlenecks that include requirements for policy change and infrastructure.

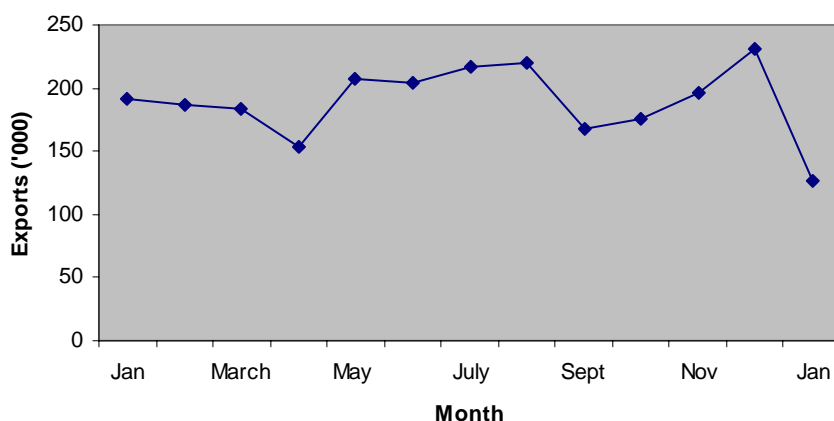
Aggressive investment promotion efforts by LNDC are beginning to bear fruit as a demand for factory shells increases due to setting up of new companies, in particular companies from the Republic of South Africa (RSA).

While the situation is not back to normal and may never be, there is a slow recovery which will be further enhanced by the improved incentive regime coupled with LNDC's new strategy

of product and market diversification.

Out of the seven (7) new LNDC assisted companies that have started operations since January, 2005, four (4) are not related to garments. They are involved in food processing, manufacture of duvets, carrier bags and laundry soap respectively, for export to RSA and for the local market. The new companies have so far created 905 jobs and their total investment is estimated at M54 million.

Export Values in million Maloti (Jan 05 - Jan 06)



Tax Relief for Exporters



From left to right: Dr. M. Majoro, Principal Secretary, Ministry of Finance and the Honourable Dr. Timothy Thahane

In a bold step, the Government of Lesotho (GOL) has thrown a life line to exporters by slashing company tax from 15% to 0% with effect from 1st April, 2006 to lessen the cost of doing business in Lesotho.

The announcement was made by the Hon. Dr. Timothy Thahane, Minister of Finance and Development Planning in his budget speech of 2006/2007 to Parliament on the 8th February, 2006.

In terms of the budget, the 0% will apply to income earned on manufactured exports going beyond the Southern African Customs Union (SACU) region, while those that are within SACU will attract 10% company tax. The preferential zero rate will only apply to firms which are up-to-date on their tax payments. The tax rate for non-

manufacturing companies has been reduced from 35% to 25%.

GOL has heeded the plight of the clothing and textile industry which is struggling to stay in business due to fierce competition in the international trading arena. The end of 2004 heralded the expiry of the Multi Fibre Agreement (MFA) pitching Lesotho to compete against industrial giants such as China. In addition, the strong local currency also made exports from Lesotho to become expensive for buyers in the United States, the country's major garment export market.

Expressing his views on the impact of the budget to industrial development, the LNDC CEO, Mr. Peete Molapo said, "The budget addresses the present

shock suffered by the economy. In particular, the budget enhances the stability of existing firms and therefore protects the jobs that have been created".

"Not only that, the corporate tax relief will prove to be a useful tool in selling Lesotho as a destination of choice for potential investors", he said.

The cost of doing business in Lesotho has emerged as one of the major concerns of the manufacturing sector compounded by the continuing lack of orders from buyers. The reduction/elimination of corporate tax is a step in the right direction sending a clear message to investors that GOL is committed to improving the existing investment climate.

Other reforms planned by GOL in this regard include:

- The acceleration of financing and construction of Metolong Dam to provide adequate water to industries;
- Improving road, energy and communications infrastructure;
- Simplifying and streamlining of immigration, customs and work permit procedures and processes;
- Reducing the time it takes to register a company from the present 92 days to under one week;

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Lesotho National Development Corporation

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Block A, Development House
Kingsway Street
Private Bag A96
Maseru 100, Lesotho

Phone: +266 22312012
Phone: +266 52000214
Phone: +266 52312012
Fax: +266 22310038

We're on the Web!
www.lndc.org.ls



- Reducing the 564 hours it takes to pay taxes to less than 24 hours.

Stakeholders such as the Lesotho Electricity Corporation have also joined in the crusade by not increasing tariffs for the manufacturing sector for 2006/7. The LNDC began two years ago by first suspending rental increases for industrial buildings and then slashing rentals by 10% starting July, 2005. All of these concessions are aimed at preserving existing jobs and creating opportunities for further job creation for the Basotho nation.



Why Lesotho?

Stability

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

Labour

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

Market Access

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

Financial Incentives

- 15% corporate tax on profits earned by manufacturing companies and free repatriation of profits.
- No withholding tax on dividends distributed by manufacturing

companies to local or foreign shareholders.

- Long-term loans and/or equity participation.
- Unimpeded access to foreign exchange.
- Export finance facility.
- Import VAT credit facility that provides for an input tax credit upon importation and local purchasing of raw materials and capital goods.
- Bank administered foreign currency accounts are permissible.
- Double taxation agreements with R.S.A., Mauritius, U. K. and Germany.
- Export processing zone status for exporters.

Industrial Infrastructure

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

