



Invest in Lesotho's **Cereals Sector**

LESOTHO

Lesotho's location, climate and soil present opportunities to invest in cereal processing for export to the region and major markets.



Cereals



Introduction

The project is about adding value to cereals such as maize, oats, wheat, sorghum and sunflower by investing in processing facilities.

Potential products include maize meal, instant infant porridge, healthy snacks, confectionery, breakfast cereals, pasta, oil, and animal feeds for export. The immediate market is the SADC region. In the longer-term products could be exported to the

EU and USA, subject to compliance with health standards. There are potential sites for processing in Leribe, Berea, Maseru and Mafeteng.



Strengths & Opportunities

Lesotho's soil, relatively high rainfall and climate provide good growing conditions for cereals. The air quality is high and the water supplies pure.

Although lacking extensive plains that would facilitate commercial cereal farming on a large scale, Lesotho is an agrarian country.

70% OF THE POPULATION LIVE IN RURAL AREAS where the workforce is heavily engaged in subsistence agriculture.

Currently, Lesotho imports most of its cereals. The production of cereals such as maize, wheat, oats, sorghum and sunflower could go hand in hand with investing in processing facilities to add value to the products which could then be exported.

Investment opportunities include

- Milling, drying, storage
- Packaging; logistics, branding and marketing;
- Supplying inputs and machinery to farmers.

This project is primarily about incentivising local farmers to produce surplus crops of the right quality.



- MAIZE
- OATS AND WHEAT
- SORGHUM
- SUNFLOWER

But there are also opportunities to invest in commercial farming: foreign investors are permitted to own land in Lesotho, subject to

LOCAL INVESTORS RETAINING A

20% STAKE

From the perspective of investing in processing facilities, one of Lesotho's key advantages is its competitively priced labour. Wages compare well with those of South Africa. At the same time, Lesotho's workforce is trainable, thanks in part to a literacy rate of 76% and labour relations are relatively harmonious. 90% of the population speak English, which is taught in school.

The Lesotho National Development Corporation rents serviced factory shells at reasonable rates to investors. Potential sites can be found in Leribe, Berea, Maseru and Mafeteng. The government also offers tax incentives for investors in the agricultural sector. It levies a corporate income tax of just 10% on farms and agro-processing firms. It also subsidises agricultural inputs.

This project would align with SDGs 1, 2, 8, 9, 10 and 15.

Cereals



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Strengths & Opportunities

The breakfast cereal market in South Africa is worth approximately LSL* 4.3bn annually. Cereal products can be exported to SADC countries tariff-free.

Lesotho's membership of SADC and SACU therefore allows Lesotho to export cereal products to SADC countries without paying tariffs. Lesotho's geographical position and good road connections with South Africa permit short lead times and reasonable costs to transport produce from the Maseru area to Johannesburg, Cape Town and Durban (the port of dispatch for exports by sea).

A wide range of cereal products are AGOA-eligible, so they can be exported to the USA provided that US health standards are met. Cereal products may also be exported to the EU under the EU/SADC EPA, again subject to compliance with relevant standards.

Lesotho still imports most of its cereals from South Africa and the size of the local market is relatively small. Investing in processing facilities is therefore primarily about serving international markets and creating high quality (preferably organic) products that comply with international health standards and contribute towards a distinctive, quality Lesotho brand.



Sorghum: One of the potential products for cereal production.

The cereal sector is mostly dominated by subsistence farmers. There is an opportunity for processors to incentivise the farmers to expand production and improve quality through adopting new farming technologies, including better varieties of seeds.

Government agricultural extension services also have a role to play in upskilling local farmers.

Potential investors are advised to perform their own due diligence about the investment climate in Lesotho. The Lesotho National Development Corporation stands ready to help.



Example of a site for growing cereal crops.

*1 LSL = 1 ZAR

Cereals



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Financial Analysis

TOTAL INVESTMENT

A total investment of approximately:

LSL 15.5m

comprising fixed assets of LSL 15m and initial working capital of approximately LSL 500k will be required for the establishment of the cereal production enterprise. The graphs below illustrate a financially viable operation with the opportunity expected to generate a profit throughout its operational life.



Maize harvest being processed.

In addition to the positive NPV and IRR, the initial investment cost of the project is expected to be fully recovered in just over 5 years. The investment opportunity further responds favourably to the country's developmental objectives through its positive socio-economic impact in terms of employment creation, economic agglomeration and potential forex earning opportunities.

NET PROFIT

The enterprise's annual net profit after tax increases from approximately

LSL 3.1m

in year 1 to approximately:

LSL 9.5m

In year 10. Similarly, the projected cash flows of the envisaged project indicate that it will generate positive net cash flows throughout the 10-year operational period.

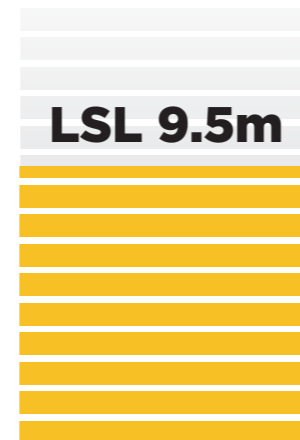
NET PROFIT

YEAR 1



NET PROFIT

YEAR 10



Financial Analysis

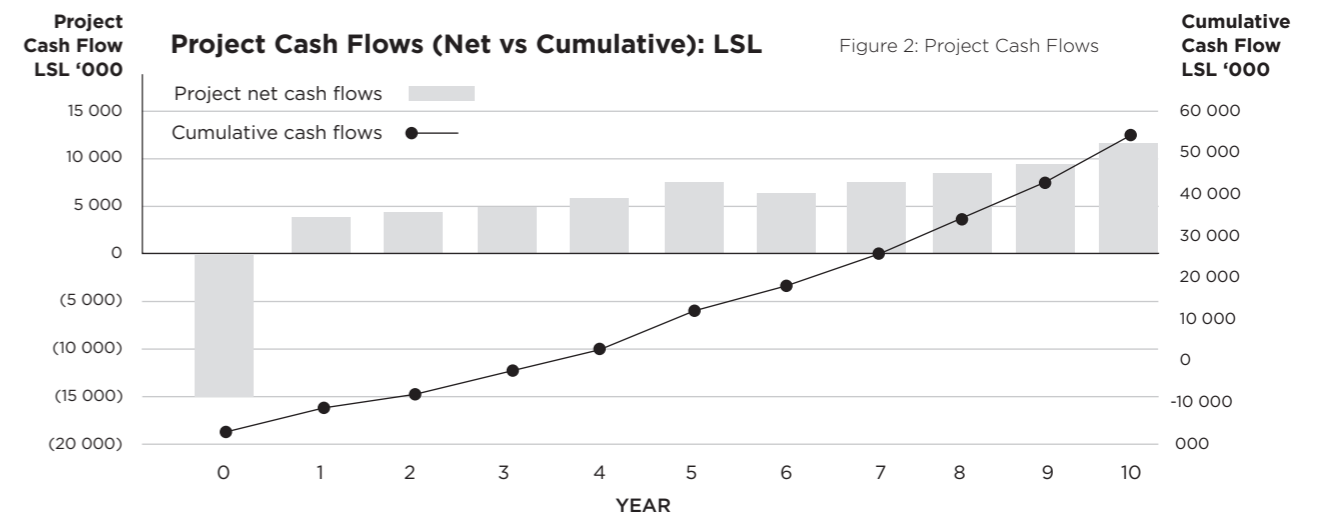
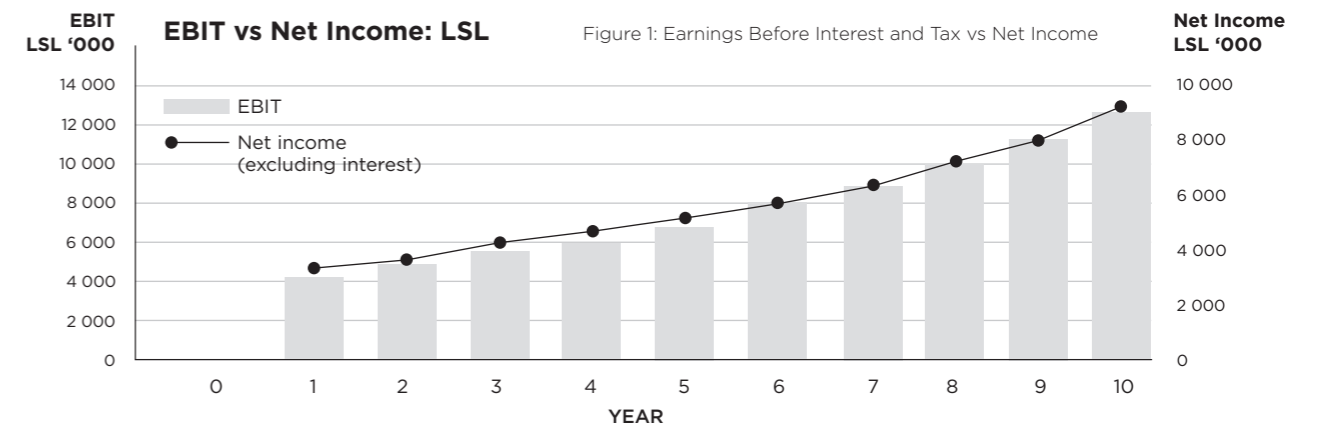


Table 1: Investment Indicators

Net present value (NPV)	LSL 24.98m
Discounted payback period	5.04 years
Internal rate of return (IRR)	34.40%
Profitability index (PI)	3

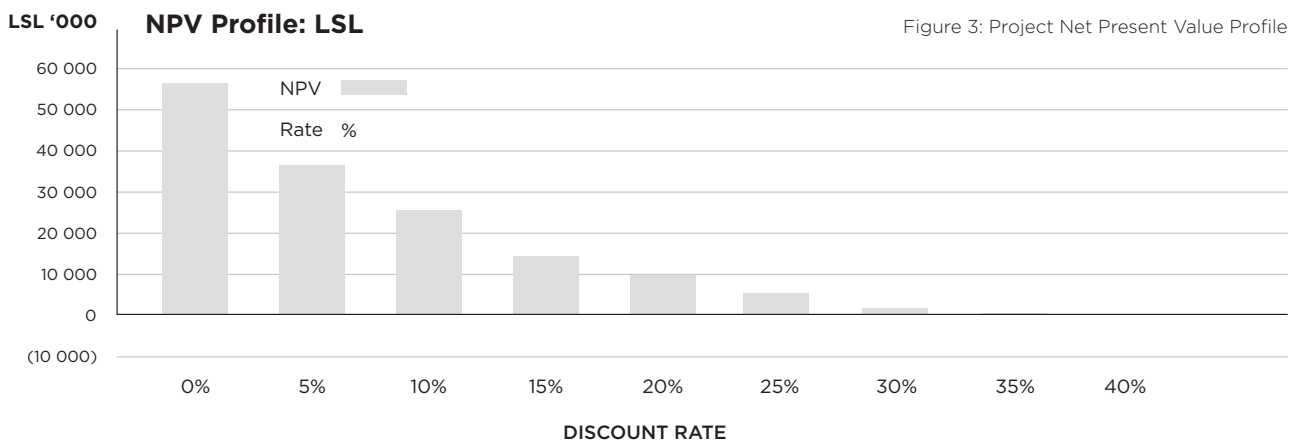
The projected future cash flows generated by the enterprise are discounted at a rate of 10%. The outcome of the discounted cash flow analysis is summarized in Table 1.

Cereals



Financial Analysis

The positive NPV at a discount rate of 10% corresponds to an IRR of 34.4% highlighting the financial viability of the cereals manufacturing investment opportunity.



Example of a site for growing cereal crops.



Maize harvest..

NOTE

The financial analysis of the cereal production investment opportunity is computed over a ten-year period. Revenue and expenditure projections are in line with industry growth prospects and market potential and have been informed by and benchmarked against industry standards and norms. In addition, assumptions relating to inflation; depreciation and salvage value; and company tax, have been worked out based on the existing laws and directives of the country. The figures above represent high level estimates

as of January 2021 and are not derived from a full feasibility study. Investors are advised to conduct their own due diligence.

For more information please contact:

General Manager: Investment & Trade Promotion
 Lesotho National Development Corporation
Email: ip@lndc.org.ls