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Infrastructure and Export Competitiveness in Lesotho

I would like to thank the U.S. International Trade Commission for the opportunity to testify today. I would also like to thank the government and the people of the United States of America for their generosity and the opportunities presented to Lesotho by the African Growth and Opportunity Act (AGOA). Lesotho is also fortunate to have recently commenced implementation of the \$362.6 million Country Compact with the Millennium Challenge Corporation (MCC), a grant which will help to address some of the infrastructure issues discussed here today. Lesotho serves as one of the best case studies in how U.S. policymakers have utilized trade preferences to encourage economic development abroad. As the vast majority of Lesotho-U.S. trade is in the apparel sector, my testimony will focus on some specific issues affecting export competitiveness in Lesotho's apparel sector, as well as conditions generally in other key infrastructure sectors. I will offer suggestions on how to address these infrastructure issues at the close of my remarks.

Overview:

It is important to note that Lesotho is a landlocked country. We are in the unique position of being entirely dependent on one country, South Africa, for many transportation and customs services. Everything Lesotho imports or exports must go through South Africa, Lesotho's one and only immediate neighbor.

That said, the U.S. is the largest trading partner for Lesotho. Approximately 40% of our exports are destined for the U.S. market, and over 85% of that total is apparel. The apparel industry in Lesotho is the largest formal sector employer, supporting approximately 46,000 workers, 85% of whom are women. However, it is important to note here that the economic and industrial impact of the apparel sector is not limited to those directly employed in the production of apparel. The sector as a whole is tied to numerous other economic activities in Lesotho, including the road freight and passenger transport industry, the packaging industry for apparel products, water, electrical, and telecommunication utilities for factories, and food vendors and traders for workers, and more.

These jobs are directly enabled by the special rules of origin and tariff treatment Lesotho receives under AGOA. Accordingly, the survival of a large portion of Lesotho's apparel sector is dependent on competitive product pricing in the U.S. market. As Lesotho's products are as much as 45 days of 'free on board' travel from ports in South Africa to harbors in the U.S., any inefficiency in moving products off the production line, to packaging and land transport to the ports or rail lines in South Africa negatively impacts the competitiveness of Lesotho's products in the U.S. market. Lesotho's apparel industry is therefore dependent not only on

access to adequate industrial, land and maritime transport infrastructure, but also reliable access to affordable electricity, water and sewer services, and information and communications services.

Breakdowns or inadequacies in any of these key infrastructure sectors can have a negative impact on Lesotho's industrial competitiveness, thereby preventing the country from taking maximum benefit from preferential tariff treatment under AGOA.

Land Transport:

I will begin with the land transport sector. As Lesotho is a small, landlocked and mountainous country, this sector is a critical foundation for every industrial activity in Lesotho, especially export oriented industries such as apparel. Poor land transport infrastructure impacts a number of industries in Lesotho, and has specifically hindered development in transportation dependent industries such as tourism.

With respect to the apparel industry, Lesotho has four major apparel production hubs: in Maseru, the capital; in Maputsoe and Nyenye in the Northern District of Leribe, and at Mafeteng in the South. Each of these hubs is approximately 5-6 hours of land transport time to ports in Durban, South Africa, generally by truck and then by rail to the port. Mafeteng's location further to the South adds about an hour of additional travel time as Mafeteng's closest border crossing at nearby Zastron, South Africa is not suitable for commercial traffic, as the bridge is not designed for heavy trucks and the border crossing is not equipped for commercial traffic and customs transactions.

Dependence on costly road transport increases costs and creates uncertainty for our export producers due to the high costs of fuel and the recent fluctuation in fuel prices. In addition to normal transportation costs, there are the time-consuming border and customs handling costs associated with land transport from Lesotho through the border in South Africa and South African Customs. Air transport is far too expensive an alternative to land transport.

While the Government of Lesotho has placed a high priority on maintaining and expanding land transport infrastructure, particularly around strategic projects such as apparel hubs and the Lesotho Highlands Water Project, transportation costs are still high and have increased recently due in large part to the global energy crisis. While road upkeep is generally good, less than a quarter of Lesotho's roads are paved and expanding the road or rail network is challenging and costly due to the mountainous nature of our country - over 80% of Lesotho lies 1,800 meters above sea level. Additionally, the increasing proportion of public works funds necessary for road maintenance must also be considered as we expand our land transport capacity.

Electricity:

Access to electricity in Lesotho is relatively scarce and expensive compared to other countries in the region. While it may appear that Lesotho generates most of its own electric energy and supplements only a small percentage of domestic requirements with electricity imports from Eskom in South Africa, this percentage is misleading as Lesotho must employ load shedding practices due to insufficient electrical production capacity domestically and insufficient supply from abroad.

The uncertainty of access and high costs associated with power supply in Lesotho has worsened in 2008 due to increasing demand regionally and in South Africa. In fact, Lesotho's electricity consumption actually decreased by 18% in the first quarter of 2008 due to power scarcity and load shedding practices.

The lack of sufficient electric power capacity has directly hindered economic expansion in Lesotho. Economic growth is feeding this demand, but our growth is hindered by the lack of available and affordable power. Load shedding forces firms to resort to costly emergency power generation, generally through diesel power generators – another area negatively impacted by the spike in global fuel prices experienced over the last 2 years. In addition to the extra costs of emergency generation capacity, interruptions to electric power affect our firms' ability to utilize other key infrastructure and business resources, such as internet access or other basic communication services.

Water and Sewer:

While water is one of Lesotho's greatest resources, water and sewer infrastructure is lacking in much of the country, particularly in rural areas. Many rural areas lack basic water services and some key industrial centers lack sufficient sanitation and treatment services. For industrial purposes, our textile industry depends on water use and wastewater discharge from washing, chemical use in dyeing and finishing, and management of scrap and solid waste. Inadequate access to water treatment services is a continuing challenge for developing textile operations at Maputsoe, Nyenye and Mafeteng. Lesotho's MCC Compact will substantially improve the water supply for industrial and domestic needs from Roma to Maseru and the

surround areas, but additional water sector development is necessary in many other areas of the country.

Information and Communication Technology (ICT):

ICT infrastructure density in Lesotho is low, especially in rural areas. Lesotho has a very low prevalence of internet and landline telephone users - the World Bank estimated Lesotho's rate of internet users at about 3.5 per one hundred people last year. Cellular phone service has rapidly improved over the last few years to help compensate for the lack of land lines, but service coverage remains an issue in rural areas.

While access to ICT infrastructure is better in major urban areas, service interruptions for cellular and internet service remains a challenge. Because of the lack of ICT infrastructure, transaction costs for financial services and long distance calls remain high. A major priority of Lesotho's Millennium Challenge Corporation (MCC) Compact is to improve access to credit and reducing financial transaction costs, which can consume as much as 15% of the value of a cashed check.

Industrial Infrastructure:

The Lesotho National Development Corporation (LNDC) develops and rents industrial infrastructure. However, LNDC is unable to meet its growth objectives because of inadequate financial resources and foreign investment. LNDC lacks the financial capacity to develop industrial sites and buildings to house industrial projects in its planned industrial projects pipeline. In addition, LNDC lacks

financial capacity to develop commercial, retail and residential properties for existing development sites in major urban centers like Maseru.

Conclusion and the Way Forward:

To take optimal advantage of AGOA, Lesotho requires greater investment in infrastructure. The resource requirements for developing these sectors are enormous. The very sectors which are most underserved in Lesotho – electric power generation, roads, and water – are the most expensive sectors to develop and maintain. The U.S. Government and international donor community can better address these infrastructure gaps by:

- Devoting more trade capacity building funds to physical infrastructure, and supporting additional financing mechanisms for private sector investments.
 - The global financial crisis has exacerbated the cost of capital for these already capital intensive projects, making government intervention or special partnership mechanisms all the more necessary.

- Encouraging Public-Private Partnerships.
 - The U.S. has led the way in encouraging public-private partnership schemes through endeavors such as the MCC.
 - MCC's granting government a stake in the development and maintenance of infrastructure projects is helping the Government of Lesotho develop systems to better select, plan, and administer infrastructure projects.

- The maintenance and administrative capacity developed through this stakeholder process will also help to keep rehabilitation costs down for major infrastructure projects.
- Additionally, the international donor community must focus more on encouraging regional organizations to develop integrated infrastructure projects.
 - Regional cooperation helps to reduce transaction costs and share risk.
 - Regional organizations are well suited to provide a coordination mechanism for special assistance to link transportation networks, i.e. roads, rail, and ports.

Close:

I would like to again thank the Commission for the opportunity to testify today, and would be pleased to answer any questions you may have.