New Markets Diagnostic for Lesotho's Textile and Apparel Sector

Andres Saldias

TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS

AGOA	African Growth and Opportunity Act
CAFTA-DR	Dominican Republic-Central America Free Trade Agreement
AfCFTA	African Continental Free Trade Area
CIF	Cost Insurance and Freight
CMT	Cut, Make and Trim
COMESA	Common Market for Eastern and Southern Africa
COVID-19	Corona Virus
CSR	Corporate Social Responsibility
CTA	Cotton, Textile and Apparel
DB	Doing Business
DFQF	Duty-Free and Quota Free
DDP	Delivered Duty Paid
EAC	East Africa Community
EBA	Everything But Arms
EIC	Ethiopian Investment Commission
EPA	Economic Partnership Agreement
EPC	Export Promotion Council
EPZ	Export Processing Zone
ETIDI	Ethiopian Textile Industry Development Institute
EU	European Union
EXW	Ex Works
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FOB	Free on Board
FTA	Free Trade Agreement
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GoL	Government of Lesotho
GSP	Generalized System of Preference
GVC	Global Value Chain
HS	Harmonized System
ICT	Information Communication Technology
IMF	International Monetary Fund
IPA	Investment Promotion Agency
ITC	International Trade Center
LDP	Landed Duty Paid
MIT	Ministry of Industry and Trade
MTS	Meters
N/A	Not Available
OTEXA	Office of Textiles and Apparel
PPE	Personal Protective Equipment
PPP	Public Private Partnership
RSP	Retail Selling Price
SADC	Southern African Development Community
SSA	Sub-Saharan Africa

SEZ	Special Economic Zone
SME	Small and Medium Enterprise
SWOT	Strength, Weakness, Opportunities and Threats
TA	Textile and Apparel
T&A	Textile and Apparel
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America
USAID	United States Agency for International Development
USD	United States Dollar
US$	United States Dollar
VP	Vice President
WB	World Bank
WEF	World Economic Forum
WRAP	Worldwide Responsible Apparel Production
WTO	World Trade Organization

1 INTRODUCTION

1.1 Background

The cotton, textiles and apparel (CTA) industry have a highly positive effect in any economy, generating skilled job positions, foreign currencies income, technological transfer, know how, domestic and international investments, industrial improvement, operation of the financial system, international image of the country and internationalization to large scale markets.

The CTA sector have been constituted in many countries in key industries for the generation of employments, economic development and exports, with diverse success examples in Mexico, China, Sri Lanka, India, Turkey, Salvador, Honduras, Indonesia, Bangladesh, Vietnam, Ethiopia, Kenya among others. In many countries, textile and particularly garment exports have been one of the key industries emphasized by policymakers as a catalyst for export of manufactured goods. Most countries in East Asia, Central America and South America for example had strong textile and garment industries based on regional market development strategies to conclude in worldwide exports.

What accounts for the emphasis in so many countries to promote exports in these industries? The reasons are: Apparel manufactures are technology and labour intensive, highly mobile and systematic form of production, with low capital dependence in the early stages (apparel manufacturing) and vertical integration of the value chain components (fibers to textiles) as main strategic target. The biggest segment of the international markets high volume demand consists of price competitive items made to buyer specifications; this business relationship is called "Private Label".

It is also a fact that any country that is willing to compete at the international level needs to develop a strong CTA value chains oriented to be competitive in fabric supply, price, quality, volume, customer service, speed to market and timely deliveries.

The Government of Lesotho (GoL) has included the Textile and Apparel (TA) among its list of key priority, due their impact in labour creation and envisioned to transform the economy and achieve higher levels of social and economic development. The key overarching policy objectives for promoting the TA is to harness the potential opportunities for creating jobs, boosting value addition and enhancing foreign exchange earnings. Indeed, these sectors are envisioned to be a catalyst for achieving the core objectives of the National Strategic Development Plan II (NSDP II); that focuses on promoting competitiveness and export led growth.

Regardless the fact that many countries don't have the raw materials available like Lesotho, international investments in these economies have significantly contributed to employment and export generation, created or revitalized operating skills and industrial capabilities by not only providing labor work - Cut Make and Trim – "CMT", but also "Full Package" integrating all the finished garments components from cotton lint (where available), spinning, yarn and synthetic fibers blends, fabric, dying and garmenting; and led to the improvement of trade-related infrastructure for these sectors, which has facilitated broader industrialization.

The Government of Lesotho prepared a comprehensive National Trade Strategy 2021-2025 that was envisioned to drive the manufacturing sectors towards its transformation as a hub of international apparel production as an engine of economic growth.

2 THE MARKETS IN CONTEXT: TRENDS IN THE GLOBAL TEXTILE AND APPAREL SECTOR

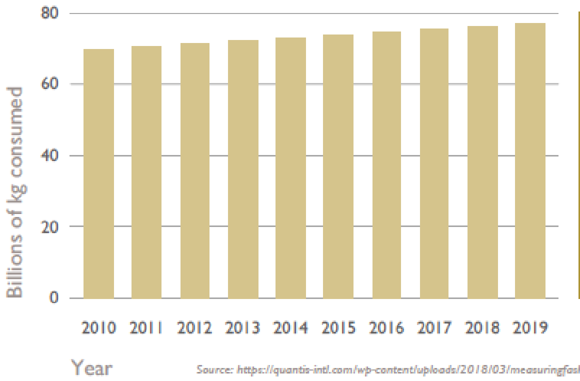
2.1 Trends in the World Textile and Apparel Market

2.1.1 Overview of the Global Context

The largest world's production of textiles and garments is located in China with approximately 1.4 billion inhabitants that currently are producing more than three million tons of finished garments. The United States and India are the countries that concentrate 54% of the world production of textile and sewing industry along with China. It is also a fact that any country that is willing to compete at the international level needs to develop a strong Cotton Textiles and Apparel (CTA) value chain oriented to be competitive in price, quality, volume, customer service, speed to market and timely deliveries.

This Chapter will describe an overview of the current global textile and apparel trends, including analysis of projections based on regular market conditions, as well as the COVID-19 market impact that erupted in 2020. Very important to mention that the analysis incorporates trends forecasted by major buyers and investors from the key markets in the industry. The role of the global apparel industries has shifted far beyond meeting a basic human need. The relationship with fashion in our modern lives has had continuous growth related to the world population growth. Based on 2018 data, the global yearly consumption of finished garments reached 11.4 kg per capita. The United States has the highest demand for apparel amounting to 37.6 kg per capita, followed closely by Europe (31.21 kg) and China (1.08 kg). This showcases that the industry has a sustainable demand, despite temporary market disruptions such as COVID-19; and will continue to grow in relation to world population growth.

Figure 1: World Consumption Kg per person yearly



Apparel consumption in kg per capita	
United States	37.60
Europe	31.21
China	1.08
World average	11.40

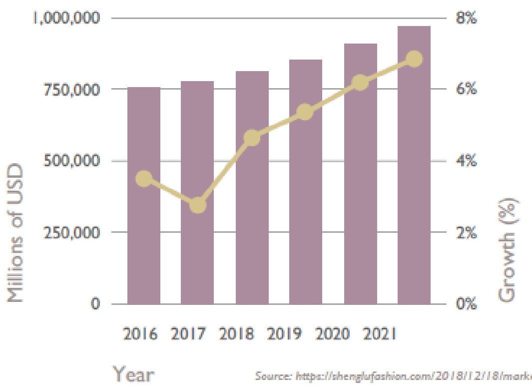
Source: https://quantis-intl.com/wp-content/uploads/2018/03/measuringfashion_globalimpactstudy_full-report_quantis_cwf_2018a.pdf

2.1.2 Projected Growth of World Textile Market

The textile mills market primarily includes yarns and fabrics. The market size is estimated based on the value of domestic production plus imports minus exports, all valued at manufacturer prices. The value of the global textile mills market totaled $748.1 billion in 2016 (around 83.7% were fabrics and 16.3% were yarns), up 3.5% from a year earlier. The compound annual growth rate of the market was 2.7% between 2012 and 2015. The Asia-Pacific region accounted for 59.6% of the global textile mills market value in 2016 (up from 54.6% in 2015), Europe and the United States accounted for a further 19.1% and 10.8% of the market respectively.

The global textile mills market is forecast to reach $961.0 billion in value in 2021, an increase of 28.5% since 2016. The compound annual growth rate of the market between 2016 and 2021 is forecast to be 5.1%. Industry leaders at the Executive Summit in the United States[1] are forecasting that by the last quarter 2021 the textile and apparel industry will recover and return to normal growth trends due the effects of the COVID-19 vaccine and new on-line consumers trends.

Figure 2: Textile market projection

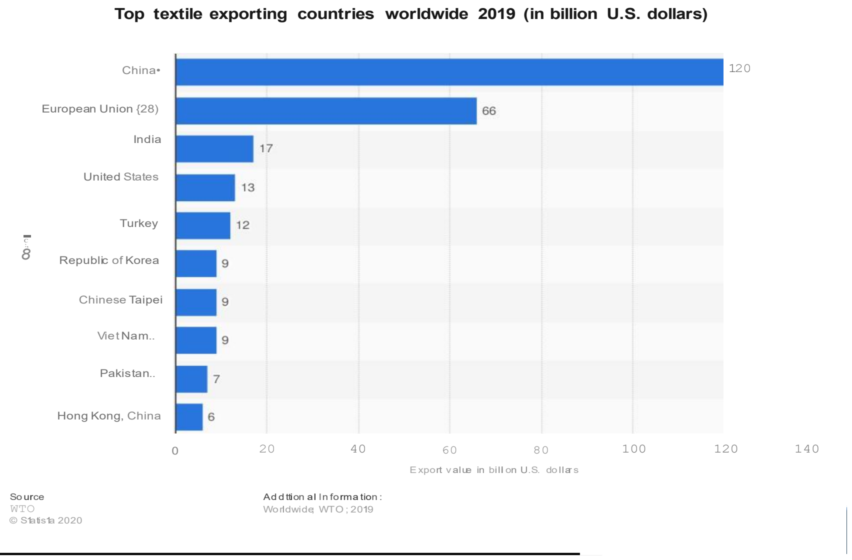


Global textile mills industry value forecast: $ million, 2016-21		
Year	$ million	% Growth
2016	748,111.6	3.5%
2017	768,631.6	2.7%
2018	804,294.8	4.6%
2019	847,454.9	5.4%
2020	899,504.0	6.1%
2021	961,008.2	6.8%
CAGR: 2016-2021		5.1%

Source: https://shenglufashion.com/2018/12/18/market-size-of-the-global-textile-and-apparel-industry-2016-to-2021-2022/

China is the largest global textile exporter in 2019 with a share of approximately 39.2%, followed by multiple countries in the European Union and India. The textile industry is intensive in technology, product development and quality standards compliance.

Figure 3: Top Textile exporting Countries – 2019 (Bill US$)



Source: WTO. 2019

2.1.3 Projected Growth of World Apparel Manufacturing Market

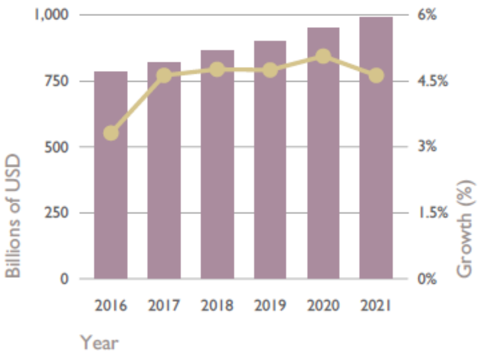
The apparel manufacturing market covers all clothing except leather and footwear as well as other technical, household, and made-up products. The market size is estimated based on the value of domestic production plus imports minus exports, all valued at manufacturer prices. The value of the global apparel manufacturing market totaled $785.9 billion in 2016, up 3.3% from a year earlier. The compound annual growth rate of the market was 4.4% between 2012 and 2016. The Asia-Pacific

[1] American Apparel Footwear Association (AAFA). Executive Summit "New Mindsets-New Realities" March 10th-11th 2021.

region accounted for 61% of the market value in 2016 and Europe accounted for a further 15.2% of the market.

The global apparel and non-apparel (home textile goods) manufacturing market is forecast to reach $992 billion in value in 2021, an increase of 26.2% since 2016. The compound annual growth rate of the market during the period of 2016 and 2021 is forecast to be 4.8%.

Figure 4: Global apparel & non apparel manufacturing projection

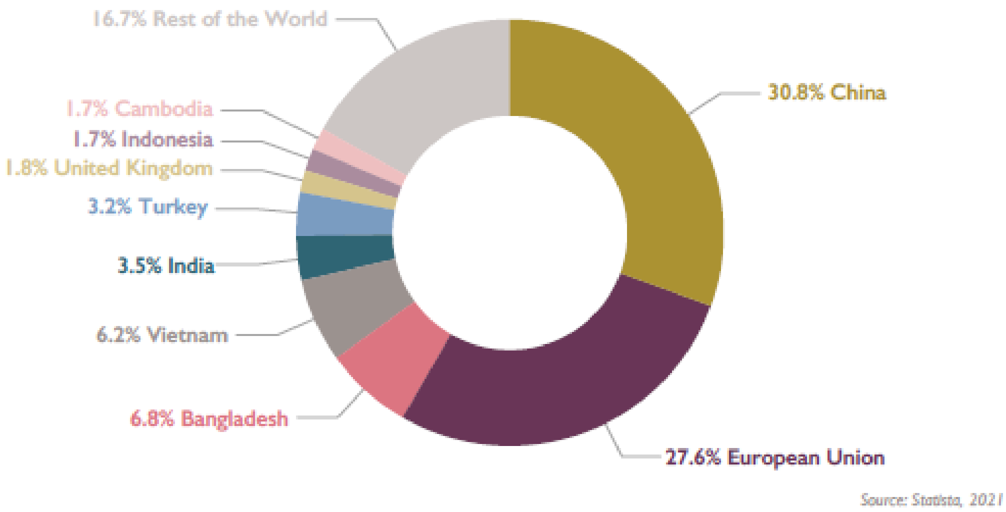


Global apparel & non-apparel manufacturing market value forecast: $ billion, 2016-21		
Year	$ billion	% Growth
2016	785.9	3.3%
2017	822.2	4.6%
2018	861.4	4.8%
2019	902.5	4.8%
2020	948.2	5.1%
2021	992.0	4.6%
CAGR: 2016-2021		4.8%

Source: Marketline 2020

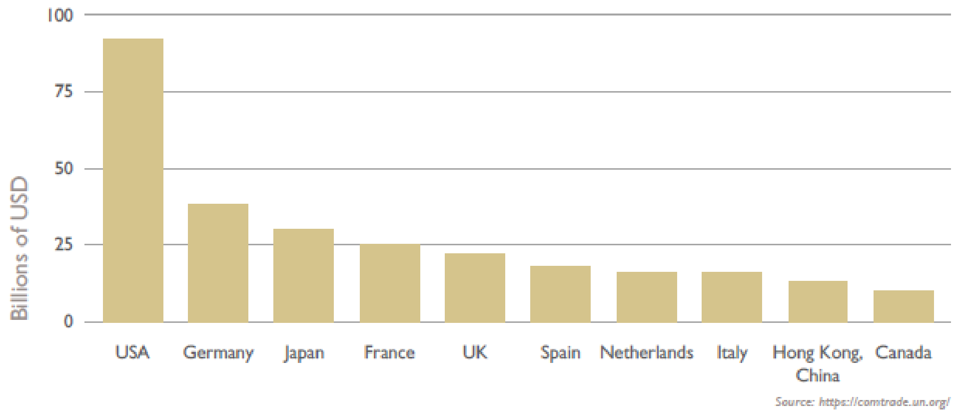
China remains historically as the number one exporter of apparel worldwide, with 30.8% of global market share in 2019. Yet, during the last 10 years, new large manufacturing countries like Bangladesh, Vietnam, India among others have gained significant market share. European exporters are distributed in 27 countries.

Figure 5: Leading Global Clothing Exporters – 2019 (% share)



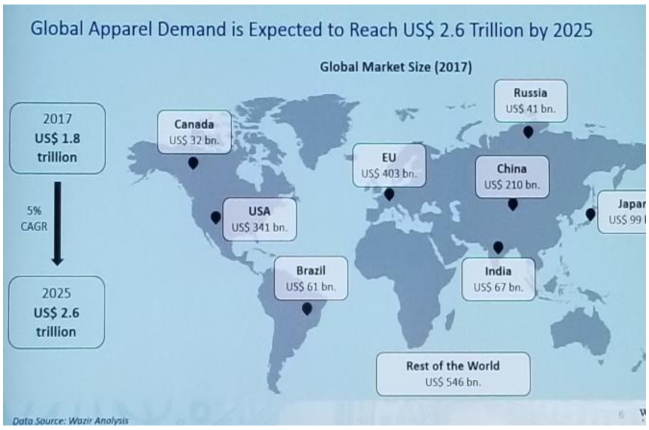
The United States market is by far the largest global apparel importer with imports of USD88 Billion in 2019, about 2.44 times larger than Germany. Japan is the third largest country importing apparel.

Figure 6: Leading Apparel importers worldwide in 2019 (US$ Bill)



2.1.4 Projected Growth of World Apparel Retail Industry

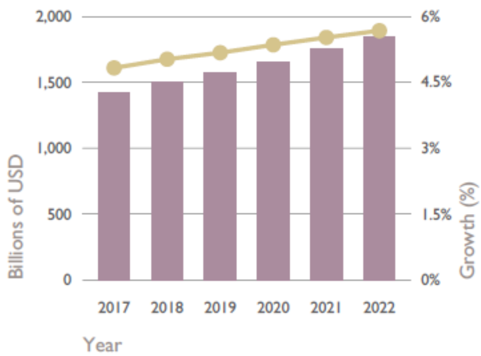
The apparel retail industry consists of the sale of all menswear, womens wear and childrens wear. The market value is calculated at retail selling price (RSP), and includes all taxes and duties.



The value of the global apparel retail market totaled $1,414.1 billion in 2017 (52.6% womens wear, 31.3% menswear and 16.1% childrens wear), up 4.9% from a year earlier. The compound annual growth rate of the market was 4.4% between 2013 and 2017. The Asia-Pacific region accounted for 37.1% of the global apparel retail market in 2017 (up from 36.8% in 2015), followed by Europe (28.5%) and the United States (23.6%).

The global apparel retail market is forecast to reach $1,834 billion in value in 2022 and $2,600 billion in 2025, an increase of 29.7% since 2017. The compound annual growth rate of the market between 2017 and 2022 is forecast to be 5.3% and by 2025 to be at 5.0% being the largest consumers Europe (27 countries), United States and China. Nevertheless, these projections are still under review after COVID-19 market adjustments to online sales new trend and retail temporarily closures.

Figure 7 Global apparel retail industry projected to grow by 5.3% through 2022



Global apparel retail industry value forecast: $ billion, 2017-22

Year	$ billion		% Growth
2017	1,414.1	1,249.2	4.9%
2018	1,485.0	1,311.8	5.0%
2019	1,561.7	1379.6	5.2%
2020	1,645.0	1453.2	5.3%
2021	1,735.7	1533.3	5.5%
2022	1,834.0	1,620.2	5.7%
CAGR: 2017-2022			5.3%

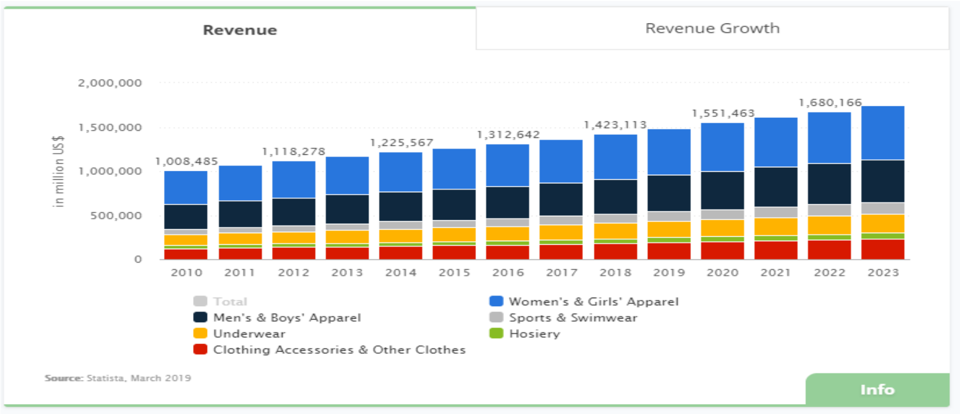
Source: Marketline.com

These market's facts are extremely important for Lesotho to visualize the long term investment opportunities at the TA value chain for policy making purposes as well as the business perspective. It represent a sustainable market growth to justify investment promotion strategies to incorporate value addition industries in the country; from textiles (yarn and fabrics) to finished garments (apparel), based on demand sustainability and potential for the sector.

2.1.5 Projected Growth by Product Category

The major product category projected to be consumed through 2023 will continue to be the women's and girls apparel, followed by men's and boys apparel which defines the trend in the industry.

Figure 8: Projected Revenue Growth by Apparel Product



Source: Statista. 2019

2.2. Major Markets Opportunities for Lesotho

As described, the two major markets for Lesotho are the US with 68.9% and South Africa with 26.6% of total exports, both representing 95.5% of total apparel exports. The following sector identifies current market conditions, in order to better understand the trends to find the opportunities to promote investments and gain more market share at these two targeted markets.

2.2.1 The US market

The industry globally is having an historically difficult time: 44 retailers have already landed in bankruptcy according to a tracking by S&P Global Market Intelligence. J.Crew, Neiman Marcus, Brooks Brothers and J.C. Penney among many large global brands have filed bankruptcy in May, 2020.

The value of apparel imports in the US has fallen sharply in 2020 (19% reduction), as direct consequence of the pandemic market disruptions and retail closures, affecting global suppliers with cancellations and/or orders postponement in factories around the world: Bangladesh, Vietnam, Cambodia, Ethiopia, Kenya, Turkey and India among others. The total apparel imports have declined to USD71B, the lowest in the last five years. As per the American Apparel and Footwear Association, the US apparel imports from China reduced 49% in the first 8 months of 2020[2] and by end of the year the total reduction was 26%, the largest fall in value from all US apparel global suppliers.

Figure 9: US Apparel Imports Major Suppliers 2016-2020

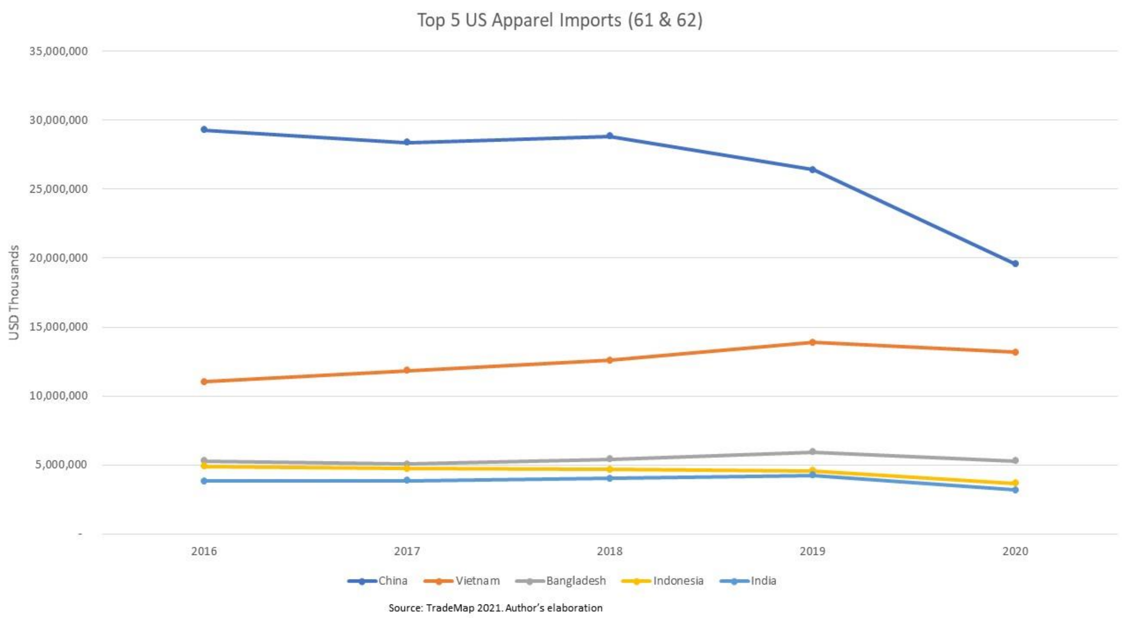
2 American Apparel and Footwear Association. 2020 www.aafaglobal.org

US Apparel Imports HS 61 & 62 (USD Thousands) – Mayor Suppliers						
Country Supplier	2016	2017	2018	2019	2020	2020-2019 % CHANGE
Total	83,969,155	83,556,640	86,728,335	87,522,802	71,187,345	-19%
China	29,297,047	28,393,403	28,827,575	26,396,703	19,545,369	-26%
Viet Nam	11,045,987	11,849,669	12,599,635	13,886,019	13,182,320	-5%
Bangladesh	5,308,778	5,061,399	5,429,200	5,928,627	5,284,106	-11%
Indonesia	4,902,014	4,745,426	4,676,429	4,566,242	3,668,834	-20%
India	3,822,129	3,874,759	4,025,407	4,262,386	3,202,512	-25%
Cambodia	2,214,530	2,231,163	2,524,411	2,821,768	3,056,993	8%
Mexico	3,538,924	3,703,642	3,519,803	3,288,850	2,439,325	-26%
Honduras	2,680,529	2,595,937	2,730,246	2,981,125	1,991,527	-33%
Jordan	1,289,832	1,393,454	1,524,663	1,830,866	1,568,773	-14%
Sri Lanka	2,058,625	2,047,239	1,817,899	1,873,888	1,541,334	-18%
Pakistan	1,347,682	1,364,500	1,464,688	1,555,641	1,503,458	-3%
El Salvador	1,986,788	1,954,207	1,967,970	1,903,541	1,347,333	-29%
Guatemala	1,423,485	1,377,001	1,506,003	1,456,317	1,243,415	-15%

Source: TradeMap. 2021. Author's elaboration.

Below chart clearly shows the market share reduction from the largest 5 suppliers to the US market in 2020.

Figure 10: Top 5 US Apparel Suppliers 2016-2020



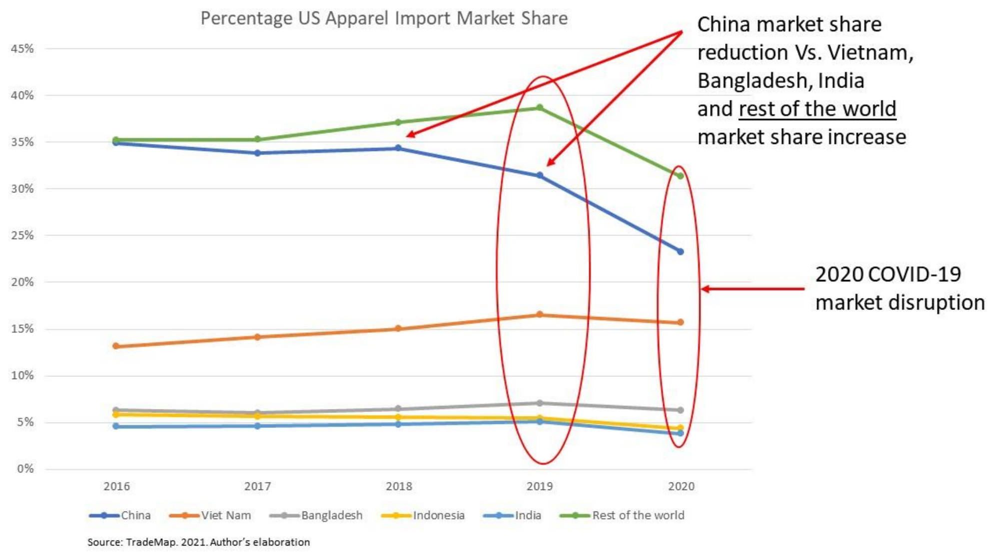
The impact of the coronavirus pandemic on apparel has been swift and dramatic at the largest global apparel importer. This historical momentum shows extremely difficult factors that will affect the way that the supply chain will behave in the present and future, including Lesotho. Around the world, lockdown measures saw stores shuttered and discretionary spending fall. Large sections of the global population were suddenly working from home with restricted leisure activities – and little impetus to shop for new clothes. Retail sales plummeted. In the US, sales at apparel and apparel accessory stores in May were down 63% year-on-year, following an 87% decline in April. Other large apparel markets sales in Europe and Asia were also showing between 60% to over 80% declining in the same period. The next chart showcases the dramatic drop in sales from January to May 2020.

Figure 11: Textile and Apparel Retail Jan-May 2020

Important to mention that multiple retailers and manufacturers alike leave China to avoid the kinds of supply disruptions that came in conjunction with the corona virus, including labor rights violations and tariff increases in the United States or so call "trade war". The evidence shows that this trend has started already in 2018, with important reduction in apparel imports, while other countries are becoming significant players and increasing their presence in the market.

Below chart clearly evidences China's percentage reduction of total imports while other countries like Vietnam, Bangladesh, India and multiple countries around the world are increasing their market share, showing the imminent opportunity to supplement the buyer's demand from alternative sourcing countries. Nevertheless, is very important to clarify that U.S. fashion companies will continue to have China as one of their essential apparel-sourcing bases, due their flexibility in providing the entire value chain components, from raw materials to finished goods.

Figure 12: US Apparel Import Market Share (percentage of total) 2016-2020



Global industry leaders consider that market conditions are still in the recovery process with an unknown time frame to return to regular sourcing forecasts and business increase in the entire apparel value chain around the world. Nevertheless, industry leaders believe that the resilience is already in process and will speed up once retails are fully opening and the vaccines allow more traffic. This reality entails great opportunities to promote Africa as sourcing alternative to become partners, simply by the fact the buyers and investors are interested in learning more and being involved with other suppliers around the world, in their effort to diversify their sourcing out of China.[3]

2.3.2 The South African Market

The African Continental Free Trade Area (AfCFTA) is a free trade area founded in 2018, with trade commencing as of 1 January 2021. It was created among 54 of the 55 African Union nations. The free-trade area is the largest in the world in terms of the number of participating countries since the formation of the World Trade Organization. Lesotho has signed but not yet ratified the agreement. The agreement initially requires members to remove tariffs from 90% of goods, allowing free access to commodities, goods, and services across the continent. The United Nations Economic Commission for Africa estimates that the agreement will boost intra-African trade by 52 percent by 2022.[4] It could unite 1.3 billion people, create a $3.4 trillion economic bloc and boost trade within the continent itself.

South Africa apparel and the textile sector employed 200,000 people in 1987, mostly in Cape and Natal provinces. But by 2006, dozens of factories had closed, the workforce halved, and manufacturers were struggling as the market was flooded with cheap Asian imports. South Africa is no longer a competitive producer of textiles due to higher labor cost.[5] According to the Lesotho United Textiles Employee union, a South African apparel industry worker wage is $584 monthly.[6]

The value of apparel imports in South Africa has reduced 20% in 2020 as direct consequence of the pandemic. The total apparel imports have declined to USD1.5B, the lowest in the last five years. China continues to be the larger supplier with 49% of market share showing a total reduction of 16% in 2020. Lesotho is the 4th largest supplier (6.8% of total) showing a considerable 30% reduction in 2020. During 2020 all suppliers to the South African market have shown reductions.

Figure 13: South Africa Imports Major Suppliers 2016-2020

South Africa Apparel Imports HS 61 & 62 (USD Thousands) Mayor Suppliers						
Exporters	2016	2017	2018	2019	2020	2020-2019% CHANGE
Total	1,620,884	1,677,407	1,858,495	1,862,632	1,493,207	-20%
China	824,087	819,366	895,638	869,119	732,297	-16%
Eswatini	152,563	189,604	195,616	198,347	160,661	-19%
Mauritius	108,982	115,361	137,301	137,121	106,945	-22%
Lesotho	114,939	128,733	139,782	145,555	102,020	-30%
Madagascar	91,951	85,737	97,935	93,958	78,287	-17%
Bangladesh	65,324	65,339	88,883	91,754	72,843	-21%
India	68,960	78,213	86,076	91,230	62,770	-31%
Viet Nam	24,479	23,478	29,602	35,280	27,658	-22%
Turkey	22,715	21,206	23,657	26,386	18,973	-28%
Cambodia	10,372	10,841	15,105	20,895	15,594	-25%
Italy	15,064	14,024	17,224	17,000	13,888	-18%
Pakistan	11,592	11,864	11,807	12,796	12,741	0%

Source: TradeMap. 2021. Author's elaboration.

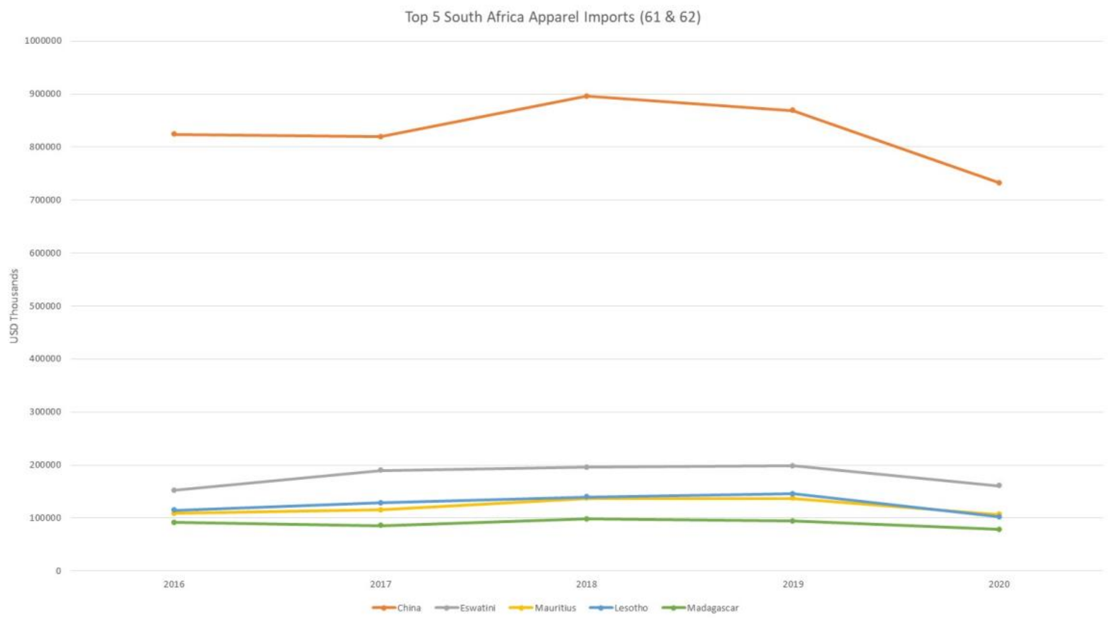
South Africa's clothing industry has not escaped the impact of the Covid-19 pandemic on heavily burdened consumers, with retail sales in the South Africa clothing and textile industry reaching the worst decline ever recorded in 2020. Local manufacturers are pulling out all the stops to get back market share from imports, as they continue to face supply chain disruptions brought on by the

3 American Apparel and Footwear Association. 2021 www.aafaglobal.org
4 United Nations Economic Commission for Africa | Ideas for a prosperous Africa (uneca.org)
5 https://www.textiletoday.com.bd/south-african-unveiling-agenda-textiles-apparel-industry-retrieval/
6 Lesotho United Textiles Employee Union. July 2021.

pandemic. According to Stats SA, "Retail sales in the SA clothing and textile industry fell 6.9% overall during 2020. This is the worst decline ever recorded and the only year of contraction apart from 2009 at the height of the global financial crisis when sales declined 3.2%."[7]

Below chart clearly shows the market share reduction from the largest 5 suppliers to the South African market in 2020.

Figure 14: South Apparel Import Market Share 2016-2020



Source: TradeMap. 2021. Author's elaboration.

3. THE GLOBAL APPAREL SOURCING NEW SCENARIO. HOW RESILIENCE LOOKS LIKE.

In order to understand where the investment opportunities exist, it is very important to understand the hard reset of the textile and apparel industry, as COVID-19 is changing the world.

The American Apparel and Footwear Association (AAFA), that represents more than 1,000 world famous name brands, its management and shareholders, its nearly four million U.S. workers, and its contribution of more than $400 billion in annual U.S. retail sales, considers that market conditions are still in the recovery process with an unknown time frame to return to regular sourcing forecasts and business increase in the entire apparel value chain around the world.

The following analysis is extracted from several apparel industry leaders' vision and recovery strategies obtained from several sources: Virtual trade shows and webinars, virtual AAFA Global Sourcing and Trade Conference, Virtual Trade with Africa Business Summit and personal communications with US brands senior sourcing VPs, directors and decision makers during 2020 and 2021.

[7] https://www.news24.com/fin24/companies/sas-clothing-industry-trying-to-stitch-itself-together-following-worst-decline-to-date-20210630

Apparel industry leaders strongly believe that it is time to focus on the resilience in the supply chain and how the industry will adjust to face this new scenario. Even though there a several opportunities to source in different regions and continents, it takes time to build credibility together, understand ease to doing business and regulations, human rights and compliance. The industry believes that there is not going to be another China that dominates the industry. The supply chain resilience is on the works to find alternative and imaginative ways to partner with factories from different countries in order to become competitive and respond to the new market scenario.

- **Transparency as the new trend in global supply chain**

  In current scenario during COVID-19, companies can't manage business with emails only, there is a need of data management, visibility to information or so called "transparency". This will lead to proper sourcing data analytics, retrieving live data rather than reviewing long spreadsheet and contribute on track shipments as well as to reduce quality defects and chargeback before the goods leave the origin.

  Technology and process digitalization requires greater capacity to drive engagement and collaboration in different ways. This offers opportunities to retail and factories building more trust as key to face this crisis.

  The response to post Pandemic new reality for factories and buyers is to improve the quality, speed to market and cost control as a response to supply chain current challenges, by incorporating transparency and collaboration platforms along with new virtual tools with digital technology to see factories in real time, regardless the remote work. Therefore, digitalization is imperative to understand data better, to process data and making predictive decisions to react quickly.

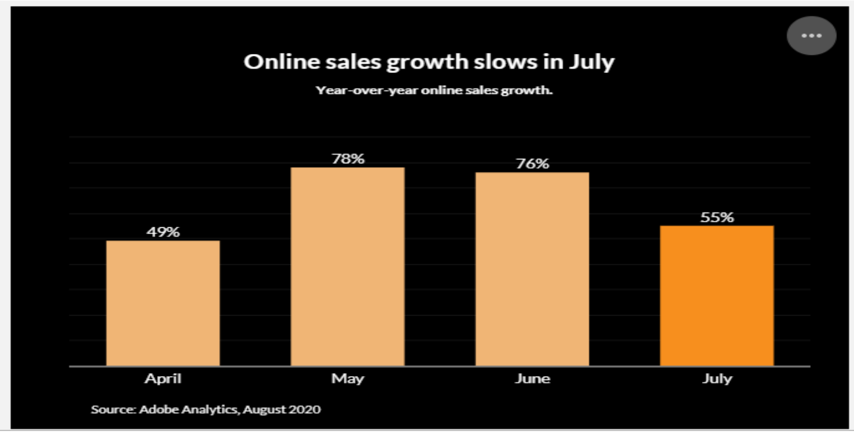
- **E-commerce, speed to market and technology**

  Retails have converter into e-commerce facility centers, becoming the "click and collect" Business to Consumer (B2C); order online and pick up in the curve. With the global pandemic keeping people at home, 2020 may be remembered as the year in which fashion retail made a definitive shift online.

  Consumers have dramatically shifted from in-store to on-line, while businesses faced layoffs and focused on cash preservation. Ecommerce sales were up 55% to $66.3 billion in July compared with July 2019, which is a slowdown from June 2020 when online sales were up 76% to $73.0 billion year over year. Online sales will continue maintaining strong presence as a trend in the years to come, reported by industry leaders at the 2021 AAFA Executive Summit.[8]

Figure 15: Online sales growth in July 2020

[8] American Apparel and Footwear Association Executive Summit. March 2021

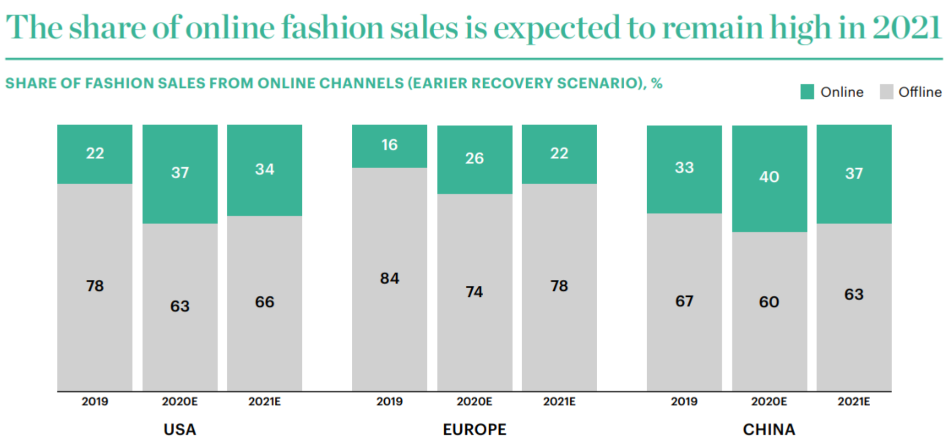


Source: Adobe Analytics. 2020

Over the next year, momentum in e-commerce will only accelerate. Fashion executives see digital as the biggest opportunity by far for 2021, with 70 percent of executives expecting growth of more than 20 percent in their e-commerce channels (based on information available September 2020)[9].

The pandemic proved to be an inflection point for the apparel sector. In many countries, a general trend towards greater market share for online retailers has accelerated – and if that continues it will affect the whole value chain, demanding speed to market to respond to brands at wholesale and retails. Below chart shows this trend in large apparel consumer markets.

Figure 16: Online 2021 sales projections



Source:https://www.mckinsey.com/~/media/McKinsey/Industries/Retail/Our%20Insights/State%20of%20fashion/2021/The-State-of-Fashion-2021-vF.pdf

South African e-commerce grew by 66% in 2020, outpacing earlier estimates thanks to coronavirus-induced lockdowns and a decline in brick-and-mortar retail sales. Although the latest burst has doubled the industry's turnover in just two years, post-pandemic growth rates are expected to be more subdued. While many sectors of the economy were crippled by varying degrees of lockdown in 2020, online retailers experienced a boom in sales as South

[9] https://www.mckinsey.com/~/media/McKinsey/Industries/Retail/Our%20Insights/State%20of%20fashion/2021/The-State-of-Fashion-2021- f

Africans avoided shopping malls and stores in favour of home deliveries. Online sales topped R30.2 billion, 50% higher than totals forecast according to a study by World Wide Worx.

The losses incurred by traditional retailers, which recorded consecutive lows for nine months in 2020, correlate with gains made by South African online retailers, which doubled their combined market share to 2.8%. South Africa's largest online retailer, Takealot, grew its revenue by 41% to more than R3.3 billion.[10]

- **Reconfiguration of Supply Chains**

The industry trends are visualizing a risk plan assessment with mitigation plans by diversify the sourcing partners (not all eggs in one basket), reconsidering Minimum Order Quantities (MOQs) and being able to do smaller runs.

As indicated in this report, some companies were already moving or planning to move out China (as an effect of the trade war and higher labor costs mainly), to places like Vietnam, Bangladesh, Central America and Haiti and will continue as a trend. The supply chain will be more global with Near and Off Shoring, looking to expand to a wider range of suppliers in different regions. Yet, the industry is very skeptical on how to handle inventory, considering shorter runs and on demand production as part of the new reconfiguration, along with supply chain visibility and transparency as part of the resilience process.

This reconfiguration will require buyers and suppliers to improve the product development time; reduced sampling lead times; better control in material waste, vendor compliance and human rights; and be transparent on the production lead times. All these opportunities are the challenges to improve the work-flow and the supply chain in the current time and near future.

- **Labor conditions and human rights**

Labor and human rights issues have challenged the industry's efforts to reimagine and reinvent global supply chains, from ensuring the welfare of supply chain workers during the current pandemic to the growing array of country-based labor and human issues faced by companies as they diversify their supply chains. US companies are taking an integrated, holistic supply chain approach to Corporate Social Responsibility (CSR). The recent reported forced labour issue related to Xinjiang, China is having an immediate impact of non-economic factors on China's prospects as an apparel sourcing destination in 2021.

Keeping people at the value chain is the most important asset. Health, operating, keeping facilities safe and healthy is critical for suppliers, as pre-requisite to work with US buyers. Therefore, companies needed to make sure the workers are being taken care, so supply chain reacts when the market comes back.

CSR has switched to extremely different expectations, because the administration of doing the right things has changed to more than just an audit, being accountable for all labor conditions aspects.

Companies share something in common: Social justice needs to be improved, especially now. Companies don't compete in human rights and protecting the planet, companies are pursuing

[10] https://www.businessinsider.co.za/sas-online-retail-has-more-than-doubled-in-two-years-but-the-best-is-probably-over-2021-5

to collectively identify support to drive change better together as industry, because all these affects people’s lives.

COVID is really positioning some positive impact in the industry. Shareholders, NGOS and consumer are looking to evaluate the responsibility of the company. Questions are how companies responded to COVID and stakeholders evaluating CSR to better understand its impact in the supply chain. Companies are willing to support medical care, providing handwash stations, sanitizations and take comprehensive approach to support this unprecedented time. All these elements should work together as industry and survive the pandemic.

Companies have an open dialogue with suppliers regarding audits, including self-assessment activities trying to accommodate to suppliers as they have strong alliances. There should be no requirements or changes for finish products audits but dialogue with factories will be encouraged to adapt to this new sourcing relations scenario.

- **Speed to market**

Speed to market relates to digital players offering low cost, ‘fast fashion’ on a 1-2 week cycle in order to satisfy the demand with low inventory and thus, cash protection. Brands and retailers are redoubling their efforts to boost their digital presence, and this is likely to lead to the closure of more physical stores. Online-focused operators tend to reduce inventory, and often near-shore supply of their products to respond quickly to demand. This has created opportunities as well as challenges.

New expectations are now being set, including the need for tools and digitalization, yet this does not happen from one day to another in textile and apparel factories. Industry leaders and investors are questioning where and how to start, which requires the setting of new ways to operate, leveraging data, remote and new technology. "COVID is considered the leader to promote innovation, yet all organizations need to be committed to the change." (Maria Hinchcliff, VP of Raw Material Quality, Development, Sourcing and Sustainability at Wacoal America. Sept. 2020). Furthermore, some products have emerged in importance, hence availing new opportunities for their production. Such products include PPE, sanitizers, medications etc.

Market trends are to continuously move and diversify out of China. Global apparel importing companies are looking not only for apparel partnerships, but also looking to build supply chain investments, which is an extremely important revealing factor for the purposes of the Lesotho value chain proposition to a textile and apparel sector’s growth strategy.

3.1 What investors and buyers pursuing to find sourcing partners?

Potential buyers and investors in the textile and apparel will perform all due diligence before identifying destinations for their business; Therefore, it is extremely important that Lesotho understands this qualifying criterion in order to better adapt their industry settings to current market conditions against competitors globally.

Below analysis is presented with this purpose, that will clearly provide the buyer’s and investors criteria when evaluating targeted sourcing partners and potential investment targeted locations, including AGOA countries like Lesotho. Based in this rationale, the United States Fashion Association survey 2020[11], showcases industry leaders and apparel companies’ insights regarding the strengths

[11] Fashion Industry Benchmarking Study. United States Fashion Association. 2020

and weaknesses of each primary sourcing destination from the apparel community globally. The results reflect the impact of uncertainty and the threat of trade wars on the fashion industry. The survey requested the respondents to rate them against five criteria with the most significant impact on sourcing decisions, with below results:

1. **Speed to Market:** 1) The United States, Mexico, and Central America Free Trade Agreement – Dominican Republic (CAFTA-DR) members continue to demonstrate substantial competitiveness in lead time due to their geographic proximity to the U.S. market. 2) China and Vietnam again scored higher in speed to market than most of their Asian and African competitors in 2020. This result can be attributed to these two countries' overall higher efficiency in supply chain management based on their more sophisticated and advanced local textile and apparel industries. 3) Respondents say sourcing from the EU, in general, can offer a shorter lead time than many Asian suppliers. This result is reasonable as textile and apparel mills in many developed EU countries have actively adopted modern digital and automation technologies to improve their speed to market capabilities. 4) shipping from the EU to the U.S. is also shorter in the distance than from Asia.

2. **Sourcing Cost:** 1) Consistent with the survey results from 2017 to 2019, respondents in 2020 again say Bangladesh offers the most competitive price, followed by Vietnam, Indonesia, Cambodia, India, and Sri Lanka. Outside Asia, Egypt is regarded as a sourcing base that can offer arelatively competitive price too. 2) Respondents say sourcing from Asia overall will incur a lower cost than from the Western Hemisphere and other parts of the world. In addition to the factor of lower labor cost, more accessibility to cheaper textile raw materials (such as yarns and fabrics) produced locally is another critical competitive advantage of Asian apparel manufacturers. 3) As apparel manufacturing remains mostly labor-intensive, not surprisingly, respondents say sourcing from the United States and the EU, where the wage level is among the highest in the world, will be most expensive.

3. **Flexibility and agility:** 1) Regarding the capability of quickly adjusting the delivery, volume, and product of the sourcing order upon requests of customers, China scored the highest based on its unparalleled production capacity and integrated production networks. A recent study further shows that few countries can compete with China in terms of the great variety of apparel products it produces for the U.S. market.[12] 2) Meanwhile, respondents see other primary sourcing bases have similar performance in flexibility and agility, except EU and members of the African Growth and Opportunity Act (AGOA), which received the lowest rating score.

4. **Risk of labor and social compliance:** 1) According to respondents, the United States and the EUdemonstrate a notable competitive edge against other sourcing destinations in terms of labor andsocial compliance. 2) Respondents still regard sourcing from Bangladesh involves relatively higher compliance risks in general, with the rating score for the country stood at 2.0, the same as last year. In early 2019, due to Cambodia's deteriorating record against core human rights and labor rights conventions, the EU Commission triggered the formal procedure that could lead to the withdrawal of Cambodia's trade preferences under the EU's Everything But Arms (EBA) program.

5. **Risk of environmental compliance:** 1) Respondents see the risk of environmental compliance and labor & social compliance highly correlated. 2) In general, respondents see sourcing from developed countries, such as the United States and EU countries, involves a relatively low risk

12 Lu, Sheng. (2019). How the tariff war is shifting 'Made in China' sourcing strategy for U.S. apparel retailers.*Apparel Magazine (RIS).* Retrieved from https://risnews.com/how-tariff-war-shifting-made-china-sourcing- strategy-us-apparel-retailers

of environmental compliance. In comparison, respondents see the environmental compliance risk relatively higher when sourcing from developing Asian countries,such as Bangladesh, and Cambodia, and AGOA members. 3) Two contributing factors could be related to the rating scores. One is that more restrictive environmental regulations and effective enforcement mechanisms, in general, are implemented in the developed economies[13] On the other hand, developing countries have to bear a more substantial burden of managing and reducing the environmental impact of the fashion industry, as most apparel are produced there today.

Below chart showcases the respondents these results per region, sourcing destination criteria, with the most significant impact on sourcing decisions[14]:

Figure 17: United States Fashion Association Survey Results - 2020

Respondents results per region on sourcing destination criteria

Region	Sourcing destination	Speed to market	Sourcing cost	Flexibility and agility	Risk of labor and social compliance	Risk of environmental compliance
Western Hemisphere	USA	● 4.0	◆ 1.5	△ 3.0	● 4.0	● 4.0
	Mexico	△ 3.5	△ 3.0	△ 3.0	△ 3.0	△ 3.0
	CAFTA-DR	△ 3.5	△ 3.0	△ 3.0	△ 3.0	△ 3.0
	Colombia	△ 3.0	△ 3.0	△ 3.0	△ 3.0	△ 3.0
Asia	China	△ 3.5	△ 3.5	● 4.0	△ 3.0	△ 3.0
	Vietnam	△ 3.0	△ 3.5	△ 3.5	△ 3.0	△ 3.0
	Bangladesh	◆ 2.0	● 4.5	△ 3.0	◆ 2.0	◆ 2.0
	Indonesia	◆ 2.5	△ 3.5	△ 3.0	◆ 2.5	◆ 2.5
	India	◆ 2.5	△ 3.5	△ 3.0	◆ 2.0	◆ 2.5
	Sri Lanka	◆ 2.5	△ 3.5	△ 3.0	△ 3.0	◆ 2.5
	Cambodia	◆ 2.5	△ 3.5	△ 3.0	◆ 2.5	◆ 2.0
Rest of the world	Europe	△ 3.0	◆ 2.0	◆ 2.5	● 4.0	● 4.0
	Turkey	◆ 2.5	△ 3.0	△ 3.0	△ 3.0	△ 3.0
	AGOA	◆ 2.0	△ 3.0	◆ 2.5	◆ 2.5	◆ 2.5
	Egypt	◆ 2.5	△ 3.5	△ 3.0	△ 3.0	△ 3.0

Note: The results are based on respondents' average rating for each country on a scale of 1 (much lower performance than the average) to 5 (much higher performance than the average). In the table, ● means strength as a sourcing base (rating score between 5.0-4.0); △ means average performance (rating score between 3.0-3.9); ◆ means weakness as a sourcing base (rating score between 1.0-2.9). However, the results do NOT reflect the author's evaluation of each country.

It is important to recognize that AGOA countries need to improve speed to market (throughout integration of the textile and apparel value chain) against near-shoring countries and Asia. Sourcing cost shows average performance. No country can yet compete with flexibility and agility with China as the only country scored 4 due their strong textile industry. Risk of compliance in Africa needs to improve as per the buyer's views.

Concerns about compliance risk often stem from incidents such as non-payment of wages, civil unrest, and factories being unwilling to collaborate. Some respondents admit that external factors such as international news reporting also have an impact on the perception of compliance risk, given the sensitivity of the issue. Some respondents think many countries are "a mixed bag, with some world-class suppliers and some very high-risk suppliers."[15]

The results suggest that no sourcing destination is perfect, which explains why U.S. fashion companies use a mix of sourcing bases to balance cost, speed, flexibility, and risk management. On the other

[13] Muthu, S. S. (2020). Assessing the environmental impact of textiles and the clothing supply chain. Woodhead publishing: Cambridge, United Kingdom.

[14] Fashion Industry Benchmarking Study. United States Fashion Association. 2020

[15] Fashion Industry Benchmarking Study. United States Fashion Association. 2020

hand, China, Vietnam, Mexico, and CAFTA-DR members overall are still regarded as the most balanced sourcing destinations against all the four criteria, which offers these countries and regions unique competitive advantages as preferred sourcing destinations.

A recent study by the U.S. International Trade Commission (USITC)[16] finds that nationwide, U.S. apparel imports from AGOA countries grew faster than the world average. During the examined period of 2016–2019, U.S. apparel imports from AGOA enjoyed a Compound Annual Growth Rate (CAGR) of 11.8% (compared with 1.3% CAGR of all countries), from USD1.0 billion in 2016 to $USD1.4 billion in 2019. However, the region overall remained a small apparel supplier to the U.S. market, accounting for only 1.7 percent of the market shares in 2019.

In the same survey from the Fashion Industry Association, 2020, several trends related to AGOA countries are worth noting:

Figure 18: Impact of AGOA on Apparel Sourcing Survey Results

Impact of AGOA on Apparel Sourcing from Sub-Saharan African (SSA)

Items	2019	2020	2020 vs.2019
My company has increased the sourcing value or volume from members of AGOA since 2015	27.6%	36.8%	9.2%
The third country fabric provision is important for my company to use AGOA for apparel sourcing	24.1%	42.1%	18.0%
My company has made or will make more investment in AGOA members, such as building factories or expanding sourcing capacities	6.9%	15.8%	8.9%
In the next five years, my company will strategically adjust or redesign supply chain based on AGOA	13.8%	15.8%	2.0%
The temporary nature of AGOA discourages our company to invest and source more textiles and apparel from the region	44.8%	26.3%	-18.5%

Close to 37 percent of respondents say they have been sourcing more apparel from the region since AGOA renewal in 2015, a substantial increase from 27.6 percent in the 2019 survey, showing their company's efforts to diversify sourcing from Asia, given the current circumstances explained in this report.

42.1% percent of respondents say AGOA and its "third-country fabric provision" are critical for their sourcing from the SSA region, a notable increase from 24 percent in our 2019 survey. Several studies point out that due to limited yarn and fabric production in the region, the "third-country fabric" provision, which is more liberal than the "yarn forward" rules of origin, provides a necessary incentive for U.S. fashion companies to source from Africa. The official trade statistics also explains why AGOA and its "third-country fabric" provision matter—as much as 98 percent of U.S. apparel imports

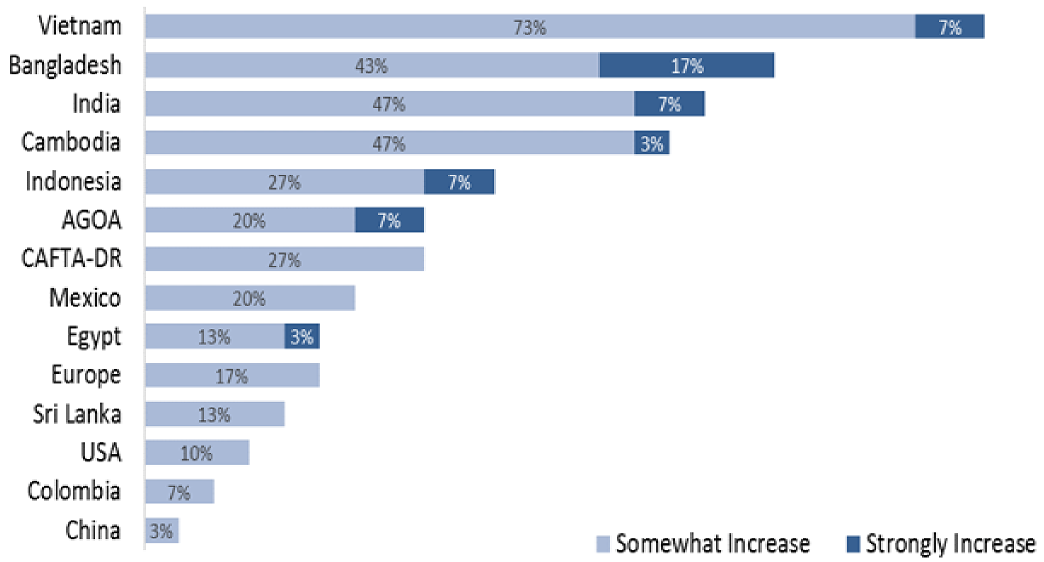
[16] U.S. International Trade Commission, USITC. (2020). *U.S. trade and investment with Sub-Saharan Africa: Recent trends and new developments* (Publication Number 5043). Retrieved from https://www.usitc.gov/publications/332/pub5043.pdf

currently claim the AGOA benefits. Of these apparel imports, virtually ALL of them use the "third-country fabric" provision (97.7 percent in 2018 and 97.1 percent in 2019)[17].

The survey also indicates that the 15.8% of U.S. fashion companies respondents say they "have invested or plan to invest in the AGOA region to expand the apparel production and sourcing capacity there", which has increased from the 6.9% in 2019, showing an increased expectation in the region. 15.8% of respondents plan to "strategically adjust or redesign their supply chain based on AGOA," which is close to the 13.8% found in the 2019 survey. Among the various factors contributing to U.S. companies' hesitancy in investing in the region, around 26 percent of respondents say the temporary nature of AGOA and the uncertainty associated with the future of the agreement have discouraged them. Other studies find that the legal environment in the region not being conducive to attracting U.S. direct investment is another major cause[18].

In addition, it is also very important to identify those respondents say the AGOA region needs more investment to improve its infrastructure, value chain integration from cotton to clothing and production capability before African countries can become more attractive apparel-sourcing bases. The following figure shows that 20% of respondents would somewhat like to increase business in AGOA countries in the next two years, and an impressive 7% strongly agree to start sourcing from the region. This is an excellent key point demonstrating willingness to increase business and to visualize the trends from Lesotho's largest apparel importer.

Figure 19 Industry Perception on change in company's sourcing destination (%)



Source: Fashion Industry Benchmarking Study. United States Fashion Association. 2020

With AGOA's expiration date quickly approaching, the discussions on the future of the agreement and the prospect of sourcing from the region begin to intensify. In addition to the proposal for renewing AGOA, several other options also have been under consideration. Notably, on March 17, 2020, the Trump administration officially notified Congress of its intention to negotiate a free trade agreement (FTA) with Kenya. The FTA negotiation officially kicked off on July 8, 2020. This is a critical move—if successfully reached, the U.S.-Kenya FTA could become a model trade agreement and eventually

[17] Office of Textiles and Apparel, OTEXA. (2020). U.S. imports under trade preference programs--apparel. Retrieved from https://otexa.trade.gov/agoa-cbtpa/catv1.

[18] International Trade Commission, USITC. (2020). *U.S. trade and investment with Sub-Saharan Africa: Recenttrends and new developments* (Publication Number 5043). Retrieved from https://www.usitc.gov/publications/332/pub5043.pdf

replace AGOA. Nevertheless, the Biden administration has not placed a priority to any fast track to these negotiations[19].

4 COST STRUCTURE AND COMPETITIVE FACTORS IN LESOTHO TEXTILE AND APPAREL INDUSTRY

The focus of the study is to identify markets and investment opportunities in Lesotho's textile and apparel value chain in products categories that the country currently has competitive advantages. These products were identified based not only on the last 5-year exports analysis, but also from literature review and interviews with different stakeholders from the public and private sectors in the country.

As a result of this scoping, the list of the most commercially viable products in the value chain in order to identify markets and investment opportunities are:

1. Woven apparel, including shirting, blouses, uniforms (school, army, industrial, security guards and corporate) men's/women's/children (6200 HS)

2. Knitted apparel, including T-shirts (6109 HS), Men's / women's/ babies shirts, Polo shirts and Jerseys (6105-6110 HS)

3. Men / women denim apparel (6203-6204 HS)

This section will analyze the cost structure competitive factors from the investor and buyer's perspective when sourcing business partners, as well as the actual conditions in Lesotho textile and apparel industry from a business perspective and approach.

It will also provide a general chart of investments needed, both at the Textile and Apparel industries and the cost structure of the apparel business in Lesotho. This will guide to key recommendations to the Government of Lesotho on the most suitable policies and interventions to enhance the competitive advantages to promote new investments in the country and to increase exports in targeted markets.

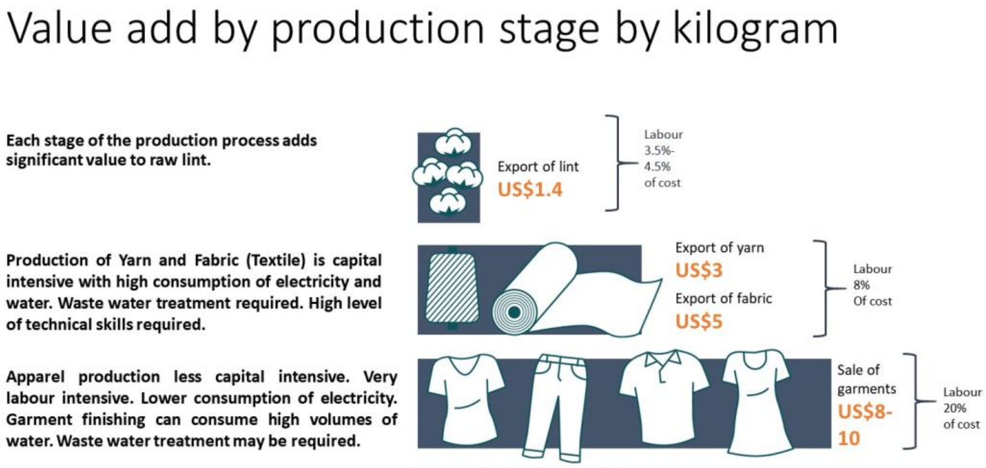
4.1 Value Addition, Investments and Costs in the Textile/Apparel industry

This analysis summarizes what the TA investors will be evaluating at the time of identifying the most suitable countries to allocate their business.

The chart below identifies the stages to add value to cotton lint, as well as the main competitive components needed and the labor share in producing value added products.

[19] American Apparel and Footwear Association (AAFA). Africa Working Group. June 2021.

Figure 20: Cotton Value Addition in the Export Value chain by stages



Source: Author's elaboration. 2021

Each stage of the process adds significant value to raw lint. Exporting lint requires 3.5% to 4.5% of labour cost to produce one kilogram. At this stage the cotton production requires organizational development skills at farmers level (cooperatives, associations), genetics to improve length of cotton fiber to produce finer yarn count structures, agronomic information for crop management to avoid diseases, pests and other contamination, harvesting technologies to ensure quality during collection, laboratories and equipment to improve know how and productivity, support of industry experts to increase yields and competitive costing, basic inputs (i.e. seed and pesticide) irrigation systems and finance access facilitation for investments intensive in technology.

Production of yarn and fabrics is capital and technology intensive, with high consumption of reliable energy and water supply. Exporting yarn/fabric requires around 8% of labour cost to produce one kilogram.

Lesotho has not developed cotton lint production in the country. Nevertheless, multiple countries are very competitive in the textile portion of the business by providing yarn and fabrics with imported lint and/or yarn with excellent qualities, sustainable volume supply and competitive pricing. Multiple countries in Africa have developed production infrastructure to produce yarn and fabrics with imported lint, mainly from India or Egypt, including Uganda and Tanzania raw materials offerings.

The textiles opportunities in Lesotho requires a comprehensive understanding of the best manufacturing practices from yarn to apparel. In order to understand the product complexities on the diverse range of product and manufacturing techniques required to service the requirements of the international markets, the consultant has compiled these value chain production components from different factories around the world: Indonesia, Myanmar, Vietnam, Bolivia, Mexico, El Salvador, Honduras, Ethiopia, Tanzania, Madagascar, Mauritius, Kenya, India and Sri Lanka.

Annex C presents this brief summary, explaining these main components and projected investment per production unit that can generally be applied to different product categories. It also includes general productivity concepts to better understand the international supply chain needs, not only from the volume demand from expanded markets but also the fabric and apparel quality requirements. These elements are very important for the Government of Lesotho to understand, in order to evaluate a strategy to promote investments at the textile and apparel sectors.

Production of garments is less capital intensive, yet very labour intensive with a cost of about 20% of the garment, creating massive workforce needs. It has a number of characteristics that are significantly different to the spinning and fabric manufacturing (textile) elements of production. The most notable of these are:

- It has the capacity to employee many thousands of workers
- The majority of workers can be taken on without previous skill and experience
- The overwhelming majority of workers are female
- The majority of workers will be in the 18 to 35 age group
- The apparel industry can be less capital intensive than upstream industry depending on the technology adopted.
- The apparel industry is less dependent on stable electricity supply as it is possible to operate a sewing floor using electricity generator equipment although this does add cost.
- While there is a strong correlation between factory and installed technology, the largest contributor to factory efficiency is the methodologies adopted by the factory to recruit, train, communicate with and motivate staff.

Another important distinguishing feature of this stage of the value chain is the extensive variability of product, construction methods, trims, processes and finish. The sewing floor assembles the garments but a large amount of planning, coordinating and preproduction processes have to carried out by skilled personnel or so called middle management; to ensure that there is no disruption of work flow through the sewing floor.

Annex C presents a summary of the various stages at the Cut, Make and Trim (CMT) factory production processes through a finished garment ready for export. It also includes important vendor compliance and code of conduct templates and labor productivity factors, in order to be considered as part of the recommendations to improve current and promote new apparel factories in Lesotho.

4.2 Textile and Apparel Cost Structure: Lesotho analysis.

Challenges faced in all countries related to the cost squeeze, with market pressure asking for keener pricing while asking for more value. The challenge faced by Governments is how to retain and expand market share and to provide better value to promote domestic or foreign investors. Thus, in addition to the presented macro analysis of the textile and apparel industry, it is important to present the costing analysis to produce a final product and to understand Lesotho's constraints and opportunities.

Below is a cost sheet analysis that investor's and/or buyers perform when sourcing business partners. This will contribute to better understand the main components of the final price per garment; and will guide the GoL on the strategics views on how to promote investments for a sustainable growth of the industry and to ensure a long-term vision in job creation, value added products and market sustainable growth, even in the event that the country loses the AGOA benefits at their main export market.

Figure 21: Apparel Exports Cost Sheet Analysis: Lesotho Business Analyis

INTERNAL COST:	
COMPONENT COST	**% OF TOTAL**
Yarn/Fabric	53-62
Direct/indirect labor	17-20
Miscellaneous materials (linings, labels/trims)	12-16
Embellishment - Wash (basic/specialty)	2-4
Packaging	3-5
Factory Profit	Variable 10-15% **EXW PRICE[20]**

Capital, technology and know-how intensive needs

Skilled workers Intensive and efficiencies needed

EXTERNAL COST:	
Transport (to nearest port - Durbin)	2-5 **FOB[21]**
Transport to destination port	**CIF[22] PRICE**
Import Duty paid (0% AGOA- EU and AfCFTA)	17-32% (Large competitors like China, Bangladesh, Vietnam, etc.) **LDP[23] PRICE**
Transport to Buyer Warehouse/DC	**DDP[24] PRICE**
Service profit on CIF Price	Variable 10-20%

Service providers and know how intensive needs

FINAL PRICE DDP = INTERNAL + EXTERNAL COST

Source: Author's elaboration.

4.2.1. Internal cost business analysis

Yarn/Fabric 53%-62% of the cost business analysis: Lesotho apparel industry does not have control on the major cost component in the value chain. Lesotho has a single vertically integrated spin-yarn dye-weave textile mill that specializes in the manufacture of denim fabrics, which allows them to have a better cost control and provide full package services to international markets, without the dependence of imported materials.

[20] Ex Works (EXW) requires the supplier to produce and package the product at a pre-agreed unit price, usually for collection at the factory. Incoterms. 2020

[21] Free on Board (FOB) requires the supplier to produce and package the product at a pre-agreed unit price, and deliver it to vessel at the port of departure, cleared for export. Incoterms. 2020.

[22] Cost, Insurance and Freight (CIF) requires the supplier to produce and deliver the product at a pre-agreed unit price to the destination port, with goods insured during transit. Incoterms. 2020

[23] Landed Duty Paid (LDP) requires the supplier to produce and deliver the product at a pre-agreed unit price to the Customs Warehouse in the importing country. The price includes delivery, shipping, insurance, duty and customs clearance. Incoterms. 2020.

[24] Delivered Duty Paid (DDP) requires the supplier to produce and deliver the product at a pre-agreed unit price to the retailer's warehouse. The price includes delivery, shipping, insurance, duty and customs clearance. Incoterms. 2020.

The CMT (17% to 20% direct indirect cost) industry in the Lesotho uses 97% of imported knitted fabrics from Asia. In the woven apparel sector, India is the largest woven fabric supplier (34%) and South Africa (25%) along with other far east countries: Pakistan, China, Bangladesh and Vietnam (32%). This clearly demonstrates that Lesotho is dependent on imported fabrics, thus their ability to provide “speed to market” is extremely limited, as they have to include the transit time from their suppliers (about 31 to 42 days), import into the country and produce CMT operations, with the additional shipping time to final markets (31 - 42 days). This eliminates multiple opportunities to continue growing the industry and showcases that the lead time from receiving an order (CMT Contract) from the buyer to CMT - EXW exports, is about 80 days or 16 weeks, while other competitor countries are providing 8 to 12 weeks lead times. Some CMT firms can run some specific quick response orders by having basic colors and structure fabric stored in their warehouse, in order to produce an 8 to 10 weeks lead time; yet, in this scheme the manufacturing firms have to cover the financial cost to retain inventory fabric in their warehouse.

The investments in this portion of the business, as described in the previous section is related to capital, technology and know how. A number of textile and apparel producing countries have established very successful competitive industries without domestic access to fibre raw materials (cotton). Indonesia is a case in point as it buys cotton fibre from the United States. Kenya and Ethiopia buys yarn from China due to quality standards, volume capabilities, logistics, service, production lead times and competitive pricing.

Moreover, it is important to recognize the lack of knowledge about the existence of yarn and fabric suppliers already working in the African region, with reduced transit times to supply the Lesotho CMT industry. These are missing opportunities to stablish regional partnerships through the incorporation of the “African regional value chain” concept rather than importing the inputs from the far east.

As an example, the following countries have already passed a rigorous factory compliance audit as well as certified the fabric with US standards or so called “nominated fabric suppliers”: Mauritius, Tanzania, Madagascar and Ethiopia among others are providing fabric to CMT exporting factories already, considered as the best strategy to replace fabric suppliers from the far east and to engage current and future buyers to gain more market share. These countries demonstrate that success in the textile and apparel business is not limited by the absence of all their inputs in the production chain. Moreover, based in the consultant’s interactions and actual trade linkages provided to US large buyers like Global Brands, PVH, G-III Apparel, Jockey, PUMA among others, they are committed in the search to find more full package producers in Africa, with the incorporation of regional fabrics, rather than CMT factories only.

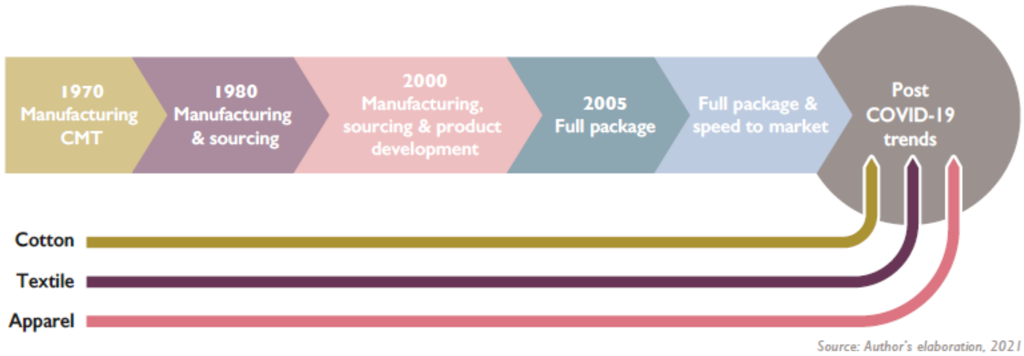
Africa has several spinning, weaving and knitting competitive companies already, including Uganda as one of the world’s best cotton lint; thus the region should focus on quickly developing this portion of the business which is technology, research and investigation intensive. Mauritius is focusing on the textile milling sector due to its high cost of labor, about double or triple than Lesotho, Tanzania, Ethiopia, Madagascar and Kenya, but yet quite profitable industry as it pertains to more than half of any garment cost.

Major challenge for Lesotho is to have access and control of this major component of the garment cost – 53% to 62%, creating a “textile hub” for the full package and CMT business not only in Lesotho, but also to several factories in Southern Africa like Eswatini and Namibia that have excellent CMT capabilities, as well as to the large US market targeted exporting firms in East Africa. Lesotho offers competitive electrical and water cost, along with good business environment. Nevertheless, a comprehensive “textile promotion investment package”, showcasing all current incentives including additional infrastructure for rent (factory sheds) needs to be developed to target and pursue potential investors that fully understand the business decision to have better control of the value chain components and respond to current international markets demand trends and realities. This implies large investments inflow, about USD 31 million for a modern spinning, knitting/weaving and dyeing and finishing factory; as specified in Annex C.

Ideally, it is preferable to have the entire production chain in a single country. However, a number of textile and apparel producer countries have established very successful competitive industries without domestic access to fibre raw materials. Indonesia is a case in point as it buys cotton fibre from the United States. Kenya buys fibre and fabric from China due to quality standards, volume capabilities, logistics, service, production lead times and competitive pricing. Lesotho, land locked has a develop their CMT industry based in imported fabrics. These countries along with many others demonstrate that success in the textile and apparel business is not limited by the absence of all their inputs in the production chain.

To find fabric suppliers is one of the most important challenges in the apparel value chain globally. See chart below explains the current TA global supply chain sourcing trends. The graph represents the supplier becoming a critical partner of buyers, providing not only CMT business, but more importantly providing full package solutions as a response to the *speed to market* trend in order to remain competitive in global markets.

Figure 22: Global Supply Chain Shift



The ability to source yarn and fabric in order to provide the so-called "full package" in addition to labour to deliver a fully assembled finished garment is the way that many factories compete in global markets. Garment firms locally and internationally are changing progressively into this strategy. The simple Cut, Make and Trim (CMT) model which implies only the utilization of local labour is becoming increasingly competitive as there are many players already involved such as Bangladesh, Vietnam, Sri Lanka, Honduras, Dominican Republic, Turkey, Mexico, Ethiopia and others. These countries are offering labour costs as low as US$1 cents per sewing minute vs Lesotho US$ 2 cents. In order to compete Lesotho ready made garment producers needs to offer more than labour to be competitive.

There is certainly room to promote textile investment in Lesotho, indeed, the attraction of vertically integrated factories from yarn production to apparel is the major markets trend after COVID-19. An established spinning plant could also provide a stimulus for further development in the downstream value chain such as investment in knitting/weaving plants with integrated apparel manufacturing. In addition, the apparel exports growth that several African countries have achieved through AGOA has triggered new knitting and weaving factory investments in the region. Currently there is a very strong market trend where US buyers are seeking to source from a complete "Sub Saharan African regional value chain" substituting fabrics from China or Southeast Asia with regionally sourced raw materials for manufacturing their apparel requirements.

In all these scenarios, the opportunity for Lesotho is tangible and should be understood from this business approach perspective, considering the existence of a large CMT production firms currently using imported materials from the far east.

Direct - Indirect labor 17-20% of the cost business analysis: Direct labour (production at factory floor) and Indirect labor (factory back-office labour) or so-called Cut Make and Trim (CMT) covers 17%-20% of the final apparel cost. In this portion of the apparel business, profitability in the CMT factories is related to production systems, sewing machines technologies and skilled workers that can reach high sewing efficiencies[25]. The majority of manufacturing firms in East Africa and Southern Africa are reaching between 60% to 75% efficiency.[26]

Time management is the central element of a sewing factory's costing analysis as it provides information regarding the direct labour cost. Essentially the methodology of measuring performance and motivating increased production performance is based on the time factor on the sewing machine floor. The time that sewing machinists spend on the machine floor is the basis for factory costings and efficiency factors.

It is standard to calculate the minute-cost based on the following simple formula: The first calculation is based on the number of available minutes on the production floor per operator. This is the number of machinists multiplied by the number of minutes each one works per day. Each garment is assigned a minute value which is the sum of the time it takes for a competent machinist to complete each sewing operation. The total sewing floor minutes available divided by the garment minute value then gives the daily target production at 100% efficiency. This is an unachievable figure as it does not consider several factors such as change of sewing thread by colours, machine calibration and adjustments, bathroom time, manipulation and transportation, unexpected stops, and workers average skills (most efficient factories globally will reach 85-90% efficiency).

As part of the cost business analysis, before starting the industrial production process the factory should produce a test sample in order to understand all operations involved, construction issues, what machinery would be the most recommendable to perform efficiently and to calculate the timing of individual operations. In this process called "product engineering", the simplest method to calculate minutes is by using a stop watch to collect time information for each operation. This entire process is called "line balancing" in order to reach the best efficiency and workroom organization as possible.

Once the number of minutes per garments and the projected efficiency rates are established (for example a basic T-Shirt requires 10 production minutes) it is possible to calculate a per minute cost of operating the factory. This is used as the basis for calculating the final cost of any garment.

Lesotho has several trade unions representing workers' rights and promoting better salary conditions with employers. There is also one Textile and Apparel Association providing advocacy for the exporting firms including their participation to set the minimum wage with the Government. Lesotho recently reached a minimum wage rate increase starting July 1st 2021, from Lesotho Loti 2,120 to Loti 2,416 (USSD 162) for skilled workers and from Loti 1.900 to Loti 2.166 for entry level (USD 150).[27] Below figure shows the minute cost in Lesotho at current wages rate.

---

[25] Measured in terms of performance against time targets for garment assembly.

[26] Andres Saldias. Visits to 40 factories in East Africa. 2019, and virtually coaching 15 factories in Southern Africa. 2020-2021.

[27] Lesotho National Textile Allied Union. July 2021.

Figure 23: Minute Cost Calculation

$$\text{MINUTE COST} = \frac{\text{Monthly worker wage}}{\text{Available minutes per month * projected efficiency}}$$

LESOTHO COST:

Monthly wage = US$ 162.00 (Lesotho skilled wage, July 2021.)

Available minutes per month =
8 hrs* 60 minutes * 24 days= 11,520 minutes.

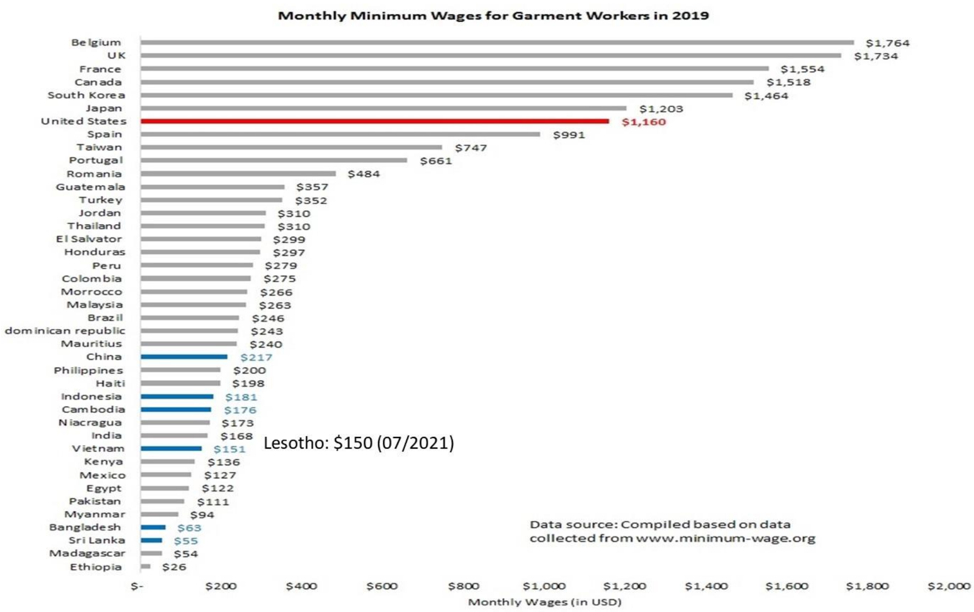
Projected workers efficiency 70% = 8,064 minutes.

$$\text{Minutes cost} = \frac{\text{US\$ 162.00}}{\text{8.064 minutes}} = \text{US\$ 0.02 per minute}$$

Source: :Author's elaboration

With this same costing scheme, important to mention that Ethiopia minute cost is USD 0,013 at 60% efficiency, while Kenya minute cost is about the same than Lesotho at 70% to 75%% efficiency. Below figures shows monthly wages for garments workers per country, clearly showing competitor's countries for Lesotho CMT industry:

Figure 24: Monthly Minimum Wage for Garment Workers in 2019



The calculation of production minutes is not only a costing issue, it is also a powerful production control tool in order to calculate daily production quota for workers as well as for machinery assignment. Control systems will establish check points to verify that the projected production at the projected efficiency is being performed on an hourly and daily basis.

It is very common and recommendable that factories will encourage the workers to produce above assigned daily quotas to make extra income to the basic wage or so called "production bonus" (based in minutes per garment). There are several schemes to consider so the workers improve and speed up their skills reaching better efficiencies and being rewarded with a productivity bonus; which benefits both the factory owners with increased output and workers with increased income. Most of the workers will be very motivated to work harder to get this bonus and improve their income, as long as the bonus system is transparent and properly managed by workers and factory owners. Quality control must be very embedded throughout the production process as achieving high volumes must not be at the expense of quality.

Lesotho factories are attempting to implement production bonus, yet per the National Clothing Textile Allied the workers are not making any extra income as the set targets are not being reached[28]. The United Textiles Employees stated that any kind of production incentives are not clear and not transparent, thus workers are not motivated.[29]

Labor conditions and rights compliance is an extremely important factor in Lesotho, due the concentration in CMT apparel industry. While the application of Lesotho's labour laws is regulated by the inspectorate of the Lesotho Ministry of Employment & Labour, many retailers / brands (including Levi Strauss, The Children's Place, the Gap, etc.) that source garments from Lesotho also monitor factory conditions in their Lesotho vendors. A donor driven International Labor Organization (ILO) program "Betterwork Lesotho" provided a six-year program (2010-2016) involving factory compliance with the local and global standards[30]. This program provided training and advisory to the Government and firms by providing compliance audits with positive experience improving labor conditions. Unfortunately, this program ended in 2016 and since then the country has not continued or created a similar institution. [31] In Annex C a full description of vendor compliance audits example and code of conduct templates are presented.

A report published by AGOA on January 2021 said that the United States government says it is "disheartened" by Lesotho's failure to address its human trafficking concerns. This puts the country on the brink, with the real risk of losing their eligibility for the African Growth and Opportunity Act (AGOA) on which the apparel sector is anchored.[32] Nevertheless, a new program combatting gender-based violence and harassment (GBVH) has just launched in Lesotho, with Levi Strauss, The Children's Place and Kontoor Brands among the companies funding the initiative. The program was established in response to reports of abuse within Nien Hsing Textile, a manufacturer that produces jeans for Levi Strauss & Co., The Children's Place and Kontoor Brands.[33]

As part of this certification and compliance process, the Worldwide Responsible Accredited Production (WRAP) is the world's largest factory-based certification program for manufacturers of clothing, footwear and other sewn products. The WRAP program, which is an optional but highly recommended certification, endorses facilities for compliance with the principles which assure safe, legal and ethical manufacturing processes. The WRAP certificate is a recognized symbol of a

[28] Lesotho National Textile Allied. Virtual interview. July 2021
[29] Lesotho United Textiles Employees. Virtual interview. July 2021
[30] Lesotho Ministry of Industry and Trade. 2017
[31] Nthabeleng Molise. Remoho Compliance Solutions. Virtual Interview. Lesotho, July 2021
[32] https://agoa.info/news/article/15827-lesotho-45-000-textile-jobs-at-severe-risk.html
[33] https://sourcingjournal.com/denim/denim-brands/lesotho-garment-workers-gender-violence-harassment-program-levis-kontoor-263853/

commitment to uphold social and ethical standards.[34] Six factories have already WRAP certification in Lesotho. There is not accessible information from these six factories if they have renewed their certification to date of this report, as they fluctuate from 6 months to 2 years.

As per the Lesotho National Textile Allied Union, the South African factory owners are better understanding and communicative with the worker's rights and needs, while the Taiwanese factory owners have a communication language barrier to listen and understand the workers aspirations[35].

From these cost factors business analysis, improving CMT labor skills and workers conditions is highly recommendable in Lesotho. The garment exporters are the leaders in developing skills through in-house training, like in Lesotho factories as there is no single training institute in the country to support and supply skilled workers to the industry[36]; while other countries like India, Kenya, Ethiopia or Sri Lanka have dedicated training institutes to develop these capabilities, both founded by public and private sectors.

Enterprise Survey data from the World Bank (2018) shows that 44.4 percent of exporting apparel firms identify skill levels as a major or severe constraint in Lesotho. The skills that are most in demand include managers, supervisors, mechanics, and skilled machine operators who can operate several machines. Most production workers had no formal education in sewing machine operation at the time of joining the factories and received a few weeks of training on the job. The Government of Lesotho offers a tax incentive—training or tertiary education costs for Lesotho citizens are allowable at 125 percent for tax purposes—yet, most factory managers are not aware of this incentive. [37] During the virtual consultations with different Lesotho stakeholders to find out the impact of this policy, there was no registered data about its usage or impact.

Another challenge in Lesotho is to build a strong middle management, in order to fulfill key positions with the vision to create know how and future entrepreneurs that fully understand the business, and gradually become into potential newly investors and business owners. This is a strategic view on how to growth the sector by utilizing the local talent in Lesotho. Currently these roles are expatriates mainly from India, China and Taiwan.

There are largely several tiers of labour skills, Lesotho would need to improve on all these tiers and develop specific training programs for each. These are illustrated in the diagram below:

Figure 25: Skills categories

[34] Home | WRAP (wrapcompliance.org)
[35] Lesotho National Textile Allied Union. Virtual interview. June 2021.
[36] Lesotho United Textiles Employees. Virtual interview. June 2021
[37] Unlocking the potential of Lesotho's Private Sector: A Focus on Apparel, Horticulture, and ICT. World Bank. 2019

- Factory/shop floor skills.Unskilled and semi-skilled technical workers, such as machine operators,quality inspectors.
- Technical skills or middle management that are highly specialised.Formal training is required for these.These include textile/mehanical/industrial/electrical engineers, patternmakers, mechanics, IT specialists, designers, laboratory technicians etc.
- Management,supervisory and soft skills.These may also include sector specific training.However the key aspect here is the leadership that organises the development and management of skills and technology that operationalise a textlie mill or facillity.

Projected investment in a sewing floor (CMT) to produce around 800,000 units per month of garments rated at 18 to 22 minutes per garment will be around USD300,000 – USD350,000 depending in what technology to use, which is significantly lower than the USD31M investment needed for a textile factory. Labour needed will be around 2,000 sewers at approximately 70% efficiency; description of these projections is contained in Annex C.

Embellishment – Wash 2%-4% of the cost business analysis: This is the process of adding ornamental elements to the product. Some embroideries or prints will change the look of the garment and will add value and diversity to the customer's product. The use of embellishment helps brands to distinguish their products, are an important design element and the ability to offer this service helps the manufacturing company to access a wider range of buyers by offering more added value to a basic T-shirt or denim apparel.

Lesotho has only two embroidery and two screen printing shops with 76 workers on all. Apparel factories would need to upgrade their factories or promote the creation of additional supporting firms to incorporate this value added, that not only will contribute to a better price point on finished garments, but also will created additional skilled jobs in the country. To gain this market share, apparel merchandising teams should focus on targeting clients and product segments that require embellishment as part of their brand.
As for denim wash there is no industrial capabilities in Lesotho. This is the reason why unfinished garments are shipped to laundry facilities in South Africa, in order to be washed with several chemicals like enzymes, stones and other specialty washes; garments then are finished (after laundry) either at local facilities in South Africa or returned to Lesotho for final processes. Therefore, this added value cost is not produced in Lesotho, on the contrary its creating additional transit time (negatively affecting speed to market), product manipulation and labour cost (at South Africa wage rates) in the entire production process, thus reducing competitiveness in this specific market segmentation oriented to embellishment and fashion. As an example, a basic 2 pocket, 11 oz fabric denim pant sale EXW price is $6.00 unit, while a fashionable wash would place the same pant at $9.00 unit (EXW); which is the real business objective adding value to specific market segmentations.

As these processes are related to water usage and disposal, water effluent and discharge systems are requested as part of the environmental compliance in the apparel industry globally. This factor needs to be considered at time of building infrastructure services for additional industrial parks in Lesotho (sheds).

Miscellaneous materials (linings, labels/trims) and packaging 15% - 21% of the cost business analysis: Garments assembly process (CMT) requires a variety of different trims (12%-16% of cost) to be incorporated like buttons, sewing threads, linings, labels, polybags, zippers, etc. Most of these trims are imported from China or Taiwan. This is another line of business that can be produced in the country (additional investments) as part of the satellite supporting firms to supply the export apparel industry in Lesotho.

As for packaging (3%-5% of cost), there are two firms in Lesotho supplying the apparel industry, creating 86 labor positions. With larger growth of apparel exports, the immediate impact is the need to creating more supporting firms like the packaging and miscellaneous materials.

Other production costs business analysis: Production costs are very competitive for world standards in Lesotho. Ethiopia shows lower production costs than Lesotho in labor and water. Nevertheless, Lesotho presents excellent advantages with one of the lowest costs of electricity and corporate tax in the region. Even though labor cost is much higher than Ethiopia, productivity metrics are better in Lesotho, showing a more productive labor force, that explains why the country remains as the second largest apparel exporter from Africa.

Factory rent is also quite attractive, at 0.70 -1.30 USD sqmt/month; lower than Kenya at US$ 2.25 per square meter to US$ 3 sqmt/month; and Ethiopia 2.75 – 4.00 sqmt/month. Nevertheless, there is no more available rent sheds in the country. It is very encouraging the recent announcement by the Prime Minister of Lesotho made by June 17th 2021, that the country is building a new industrial park that will have 51 shells, with the first 14 under construction financed by the GoL and to be completed by September 2021 with occupancy expected by end of the calendar year. To finance the remaining 37 shells the government is looking to do long-term land rentals of between 40 and 99 years to incentivize private investors to construct remaining shells and have time to make a return on their investment.[38]

4.2.2. External cost business analysis

Lesotho borders with South Africa only and depends on efficient customs and border services to transport their exports to the port. It was mentioned by the Lesotho Textile Export Association that current border procedures may result in delays in lead times due complex import and export formalities and regulations, as well as lack of sufficient coordination between all actors involved in cross-border trade. Waiting time on the South African border can be up to 16 hours[39]. The lack of proficient customs procedures remains an impediment to export development. Nevertheless, exports flows and transport cost are not an impediment to remain competitive and deliver the products to ports on an FOB scheme and still comply with committed delivery dates.

Factories who have strong management capacity in place and an international network of freight forwarders, should then shift their focus on providing buyers with Delivered Duty Paid (DDP) pricing, as this clearly provides an increased profitability, oftentimes even more than that earned managing a large manufacturing factory (intensive in labor). In addition and more importantly; it positions the export company with the ability to better negotiate prices by utilizing the zero import duty status by quoting DDP prices, which includes the savings on import tariffs. If factories are providing Ex Works price, the zero-import duty impact is being managed by the broker in Hong Kong or Taiwan who is ultimately providing the DDP pricing to the end buyer; or by the designated buyer's freight forwarder.

Below a figure that explains in detail what would be the seller (factory) responsibility on a DDP working basis.

[38] World Bank notes. June 2021
[39] Lesotho Textile National Association. Virtual interview. June 2021

Figure 26: Buyer – Seller Responsibilities - Inconterms

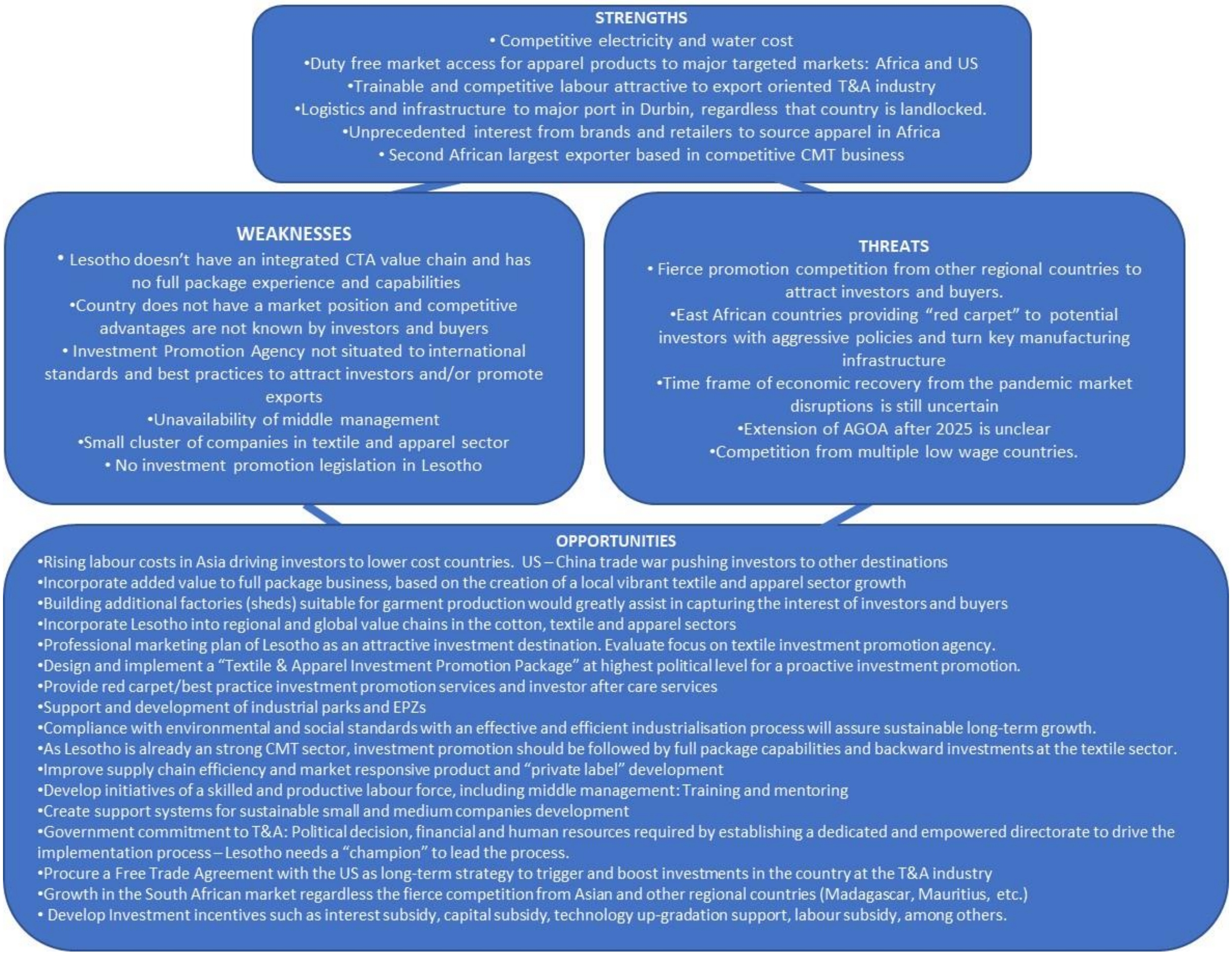
	A	B	C	D	E	F	G	H	I	J	K	L	M
1	Incoterm	Loading on truck	Export - Customs declaration	Carriage to port of export	Unloading of truck in port of export	Loading charges in port of export	Carriage to port of import	Unloading charges in port of import	Loading on truck in port of import	Carriage to place of destination	Insurance	Import - customs clearance	Import taxes
2	EXW	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	N/A	Buyer	Buyer
3	FCA	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	N/A	Buyer	Buyer
4	FAS	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	N/A	Buyer	Buyer
5	FOB	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	N/A	Buyer	Buyer
6	CFR	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	N/A	Buyer	Buyer
7	CIF	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Seller	Buyer	Buyer
8	DAT	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	N/A	Buyer	Buyer
9	DAP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	N/A	Buyer	Buyer
10	CPT	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	N/A	Buyer	Buyer
11	CIP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer
12	DDP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	N/A	Seller	Seller

Source: International Chamber of Commerce. Incoterms 2020.

As widely explained in this report, the trend during the COVID-19 resilience process is that potential investors and buyers will not only be looking to produce goods EXW or FOB on a Cut, Make and Trim – CMT basis. The market trends are heavily moving towards finding partners that can provide Full Package and connecting services - on Delivered Duty Paid basis (DDP). For these purposes, the exporting firms would need a specialized exports and documentation processing team to arrange, manage and provide these services to the buyers warehouse, as well as a network of freight forward and transportation companies located at their targeted markets, specifically the US market, where the duty savings is extremely crucial to compete against other large supplier to this market.

4.3 Market Access and Investment Opportunities in the textile/apparel value Addition in Lesotho: A SWOT Analysis

Figure 27: SWOT analysis of Investment Opportunities in the TA value chain in Lesotho



5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

This study provides a comprehensive reference of the situation at the Textiles and Apparel (TA) industry in Lesotho, identifying the strategic views to promote investment opportunities from an international market driven perspective.

The apparel industry has been central to Lesotho's economy. It accounts for around one third of Lesotho's gross domestic product, 41% of total exports by 2020. It employs more than 40,000 people and accounts for 92 percent of manufacturing jobs. There are about 52 garment exporting factories and one vertically integrated textile mill (denim), owned by FDI from Taiwanese and South African investors, that have chosen Lesotho as a production base to take advantage of duty- free imports to the US market through the AGOA, duty free access to South Africa, low level of wages, an available, compliant, well educated workforce, reasonable infrastructure and an enabling legislative environment.

The value chain exporting industry in the country is based on providing Cut Make and Trim (CMT) services to large importers mainly to the United States and South Africa. The country does not offer "full package", which is the incorporation of additional production processes: Design, fabric development, yarn and fabric vertical integration. The supply chain of fabric is from Asian based supplying firms mainly, creating a high dependency on imported materials to run the apparel manufacturing processes.

The exports destinations major markets are USA (68.9%) and South Africa (26.6%). The US is by far the largest importer of apparel on all products categories worldwide (imports over UDS71B – 2020 COVID year), showing a huge market potential for investment attraction purposes and exports growth. South Africa is also another potential market (imports USD1.5B – 2020 COVID year) to continue growing Lesotho exports. From the investor's perspective, the US market may be particularly volatile given that the preferences granted by AGOA are guaranteed until 2025, while the South African market has a longer-term vision due to the free trade status.

After a sustainable exports growth through 2017 with the highest value (USD 448M), exports have been declining through 2020 (USD 384M), with not market recovery to reach similar levels than 2017. No additional investments to increase production have been stablished in the country, regardless the US market size opportunity; while South Africa shows similar steady trend of market reduction with same pattern of not newly investments to take advantage of this nearby market. Regardless the COVID-19 market disruptions, during 2020 exports have increased from 2019 by USD 12.9M oriented mainly to the US market, showing the continuous interest from this market to Lesotho production. The apparel exports industry has been relatively stable during the last three years, yet no new factories have been installed in Lesotho.

Despite the existence of a strong CMT industry in Lesotho, the TA sector has not attracted the FDI that other countries have reached in the region, like Ethiopia and Kenya during the last decade. This is reflected by the same number of companies operating in Lesotho.

Market conditions are still in the recovery process after the pandemic effects in the apparel global supply chain, while the effects of searching alternative sourcing destinations out of China is a clear trend from the retail, wholesale and licenses buyers, creating great opportunities to promote Lesotho as sourcing alternative, due its track record of CMT exports and global buyers already operating in the country. Nevertheless, the AGOA region needs more investment to improve its infrastructure, value chain integration from cotton to clothing and production capabilities before African countries can become more attractive apparel-sourcing bases.

Production costs are very competitive for world standards. Lesotho presents excellent advantages with one of the lowest costs of electricity and corporate tax in the region. Factory rent is also quite attractive, at 0.70 -1.30 USD sqmt/month; lower than Kenya at US$ 2.25 per square meter to US$ 3 sqmt/month; and Ethiopia 2.75 – 4.00 sqmt/month.

Therefore, Lesotho needs to upgrade their investment promotion strategy by incorporating added value to current or new CMT operations in the country.

> As a response to Covid-19 market disruptions, global apparel importing companies are looking not only apparel CMT partnerships, but mainly looking to build supply chain investments at the textile sector, which is an extremely important revealing factor for the purposes of the Lesotho value chain proposition and apparel sector's growth strategy

Lesotho is currently producing CMT garments for some of the most high profile brands in the world. Obviously, content with the quality, price and service of Lesotho's industry, these brands have provided sustainable larger orders of basic knitted and woven apparel manufactured in the country. It is imperative that Lesotho continues to be a destination of choice for these and more brands. Nevertheless, the major challenge becomes explicit with the new scenario after the market disruptions forcing the Government of Lesotho and other TA stakeholders to clearly understand the need for new investment in the value chain by promoting a focused investment strategy in order to attract investors as a response to the "speed to market" trends, and reduce the dependency on the Far East fabrics that will position the sector as a major player within the global investment community.

Current Lesotho apparel industry is focused in providing labour only, multiple competitor countries are offering labour costs as low as US$1 cents per sewing minute vs Lesotho US$ 2 cents. In order to compete Lesotho ready made garment producers needs to offer more than labour to be competitive.

SHIFTING FROM CMT TO FULL PACKAGE PRICE (17%-20% + CMT 53%-62% OF COST)
Raw material: cotton lint, cotton yarn, synthetic fibers/blends
Textile mills investment Fabric product development in house: Speed to market. Fabric Quality Control laboratory certifications
Regional value chain integration. Speed to market and service. US buyers preferred strategy.
FABRIC + CUT MAKE AND TRIM Improved logistics, shorter lead times – speed to market Skilled labour needs, increased revenue to factories, better profits yield and market control
FULL PACKAGE PRICE

Based in these strategic views and acknowledging that investors perform a costing analysis when allocating investments from a business – cost efficiency structure, the major challenge for Lesotho is to have access and control of the major component of the garment cost – 53% to 62%, creating a "textile hub" for the full package and CMT business not only in Lesotho, but also to several factories in Southern Africa like Eswatini and Namibia that have excellent CMT capabilities, as well as to the large US market targeted exporting firms already existent in East Africa. In addition to competitive electrical and water cost, the country provides good business environment.

Nevertheless, a comprehensive "textile promotion investment package", showcasing all current incentives including additional infrastructure for rent (plug and play industrial sheds) needs to be developed to target and proactively pursue potential investors that fully understand the business decision to have better control of the value chain components and respond to current international markets demand trends and realities. The recent GoL announcement regarding the construction of additional 14 sheds financed by the

Government of Lesotho would be an excellent booster, including the private sector participation to build another 37 sheds. Yet, these infrastructure needs to provide all vendor conformity factors in terms of services (water treatment/discharge, reliable electricity, IT, etc.), environmental and safety compliance.

Having the textile portion included as part of the Lesotho investment promotion and export strategy provides the following competitive advantages:

> It is clear that Lesotho needs to move from CMT to full package operations to become a major player on a sustainable growing market (value adding). The country does not have control on the major cost component in the value chain: Fabric production

- Speed to market with shorter lead times
- Better price control and negotiation power as all garment components are part of the export price, and not only labor.
- Buyer's preference to have all components in a single country or region.
- Remove dependency from the far east materials

> There are missing opportunities to stablish regional partnerships through the incorporation of the "African regional value chain" concept rather than importing the inputs from the far east.

Opportunities to produce fabric will depend on business plans and proactive investment promotion that will provide competitive conditions, in addition to economies of scale focusing in the US large scale consumption market mainly.

It is also important to recognize the lack of knowledge about the existence of yarn and fabric "approved nominated suppliers" already producing in the African region for the US or any other markets, with reduced transit times to supply the Lesotho CMT industry. There is a very strong market trend where US buyers are seeking to source from a complete "Sub Saharan African regional value chain" substituting fabrics from China or Southeast Asia with regionally sourced raw materials.

Very important to indicate that labor and social compliance are extremely important factors along with current transparency and human rights trends. Yet, neither the Lesotho Government or other local stake holders have prioritized nor created institutions to ensure and promote factory compliance with the local and global standards, while the buyers from the US are still contributing to pursue vendor compliance in their partner factories.

There is no single training institute in the country to support and supply skilled workers to the industry, thus the training is obliged to be provided at the factories with in-house training. The country doesn't have a training approach to generate middle management key positions roles, that currently are being filled by expatriates mainly from India, China and Taiwan, while Lesotho doesn't have access to specialized training centers to learn and occupy these positions.

Factories who have strong management capacity in place and an international network of freight forwarders, should then shift their focus on providing buyers with Delivered Duty Paid (DDP) pricing, as this clearly provides an increased profitability, oftentimes even more than that earned managing a large manufacturing factory (intensive in labor). This important business approach should be considered as a strategic view in the even that Lesotho loses the AGOA status, as the firms will be able to neutralize the import duties with added value "end to end services", which is the same strategy that multiple countries implement regardless the fact that they have to pay duties, like China, Vietnam or India. The Challenges and benefits of this strategic approach is:

DDP CHALLENGES TO FACTORIES	DDP BENEFITS TO FACTORIES
Strong management team	Better marketing position to work with buyers.
Services providers partnerships: Freight forwarders, customs brokers, warehouses, truck companies, insurance companies.	Better control of AGOA % Additional Increased profitability (10%-20%) Not contingent of labor efficiencies and labor burdens
Proper costing management through LDP – DDP.	Lowers the risk of increased tariffs if US decides to remove AGOA.
Transport administration until products arrives to destination: Port Warehouse or Distribution Centers.	Customer preference and vision of long term partnership.
LDP – DDP PRICE	**LDP – DDP PRICE**

The comprehensive analysis of the investment strategies, experiences and success stories from two African countries, Ethiopia and Kenya; have provided valuable information to the present study on the path to develop the textile and apparel industry in Lesotho. The study includes insights for the vision on how to create CMT business and add value to basic apparel by progressively creating vertical integrated industries, and understanding key factors that made these countries successful in creating and promoting investment opportunities in these sectors. In summary, below are the trigger factors:

TRIGGER FACTORS FOR A SUCCESFUL CTA DEVELOPMENT STRATEGY

- ✓ Government commitment and involvement at the highest level.
- ✓ Investment Promotion Agency (IPA) and/or solely dedicated Government branch with goals and objectives aligned with national development goals, with effective marketing and presence to identify and attract investors.
- ✓ Ability to develop fully integrated industries, starting with clothing industry, moved into textile industry creating backward linkages.
- ✓ Importance of industrial parks and EPZ for attracting FDI and generating competitive apparel exports by stablishing top infrastructure, logistics and industrial facilities.
- ✓ Taking gain of country´s comparative advantages like production costs, availability and low labor costs.
- ✓ Building on advantages generated by free trade agreements and duty free status.
- ✓ Local business entrepreneurship development.
- ✓ Integration into regional value chains.
- ✓ Ability on investments to add value to local cotton based on the large backward CMT industry .
- ✓ Favorable trade policy with adequate fiscal and tax incentives like duty free import of raw materials and inputs and back to back letters of credit.
- ✓ Investment, both private and public in labor training and upgrading capacities.
- ✓ Adoption of modern technologies and capacity building.
- ✓ Government support though firm level incentives and subsidies (financial, wages, etc.).
- ✓ Building first class infrastructure, ports, airports, roads, which made transportation efficient and cost competitive.
- ✓ Reliable and consistent source of water and energy supplies.
- ✓ Reliable socially and environmentally conscious industry, with arguments such as ethical worker's conditions, fair wages, free of sweat shop practices and free of child and forced labor.
- ✓ Large availability labor at competitive costs has been the original motivation for attracting investments.

The full package value added products (yarns and fabrics) were the result of the backward investment opportunities generated through the CMT exports industry growth along with the support of their Governments in investment and export promotion policies. Lesotho has already a well stablish and recognized CMT exports industry that should boost the investment promotion in the textile sector.

Investors also look at the following factors when evaluating an investment location: Market characteristics: Market Access (AGOA, Africa, Europe); costs (labor, electricity, water, inputs, tax, infrastructure, transportation); Natural resources (availability and regulations); infrastructure (Industrial parks, SEZ, EPZ, transportation, services communications, technology); Policy framework (Economic and social stability; incentives; trade and investment agreements; legal system); Business support (Investment and export promotion support services, information availability). It is thus the investment climate perceived by potential investors and the competitive conditions that will define Lesotho as an investment destination.

Among the basic requirements that textile and apparel buyers and investors analyze as the first filter in an investment decision making analysis are: Speed to market opportunities; sourcing cost; flexibility and agility (full package capabilities); and risk of labor, social and environmental compliance.

Investment promotion and investor after care services still need a more proactive approach and fine tuning in the services and organizational services structure provided by the Lesotho National Development Corporation. Lesotho does not have a national investment policy nor a foreign investment law, which is a key factor to pursue at highest government level as it is a substantial factor for the investment climate in the country.

Considering the advantages the Lesotho currently offers, there is an additional factor to be highlighted, which is the promotion exposure of the country as an investment destination, so the country is visible to potential investors through targeted and efficient promotion, due diligences and red carpet activities.

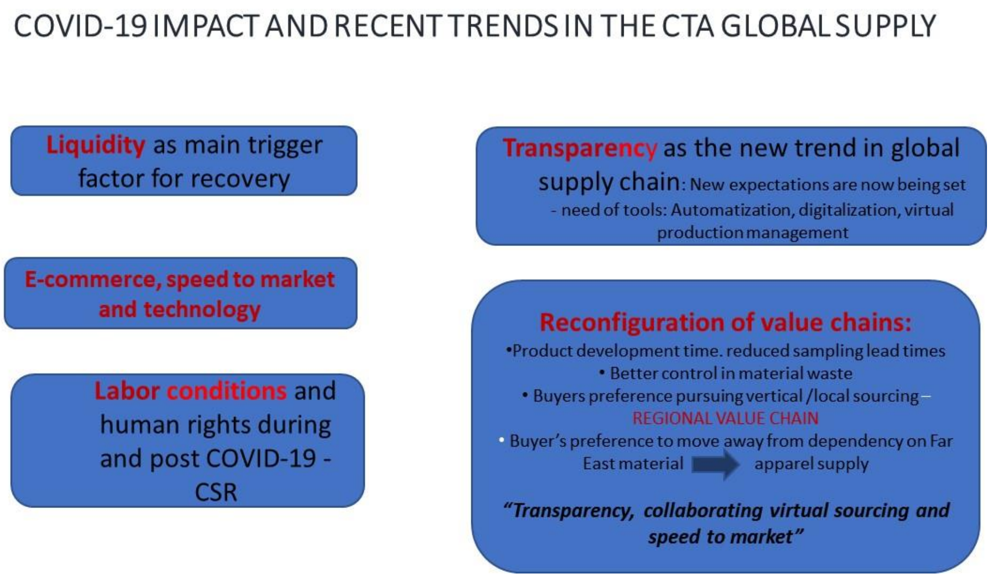
From the current investment community views, the temporary nature of AGOA is why they are holding investment back from the region.

In order to understand where the investment opportunities exist, it is very important to understand the hard reset of the textile and apparel industry, as COVID-19 is changing the world.

COVID-19 impact has changed the trends in the global sourcing supply chain. Investors (FDI and Domestic Investment) in CTA will perform due diligence before identifying destinations for their business. It is important to remember that AGOA countries need to improve speed to market (through integration of the CTA value chain) against near-shoring countries and Asia. Concerns about compliance risk often stem from incidents such as non-payment of wages, civil unrest, and factories being unwilling to collaborate. The current trend in the investment community to ensure social, health and safety factors compliance is called “transparency”.

Factories need to spend more in technology, including digital productivity control systems, strengthening the production ecosystem and responding to the “collaborating virtual sourcing” trend as traveling from buyers to visit factories is not feasible due the pandemic. Retails, wholesales and the apparel industry need to be prepared for the opportunity that COVID has created, with on-line business as the major market challenge in the supply chain; shifting to understand this global sourcing adaptation opportunities.

This reality entails great opportunities to promote Lesotho as alternative option to become partner, simply by the fact the buyers are interested on learning more and being involved with other suppliers around the world, in their effort to diversify their sourcing out of China.



Considering its natural endowments and continue being the second largest apparel exporter from the African continent (after Kenya), regardless the fact that the country is landlocked; and given the right investment environment, Lesotho should be able to develop a vibrant TA sector. The development of an integrated value-added TA industry will transform Lesotho if implemented successfully. There is the potential to create hundreds of thousands of jobs and lift economic activity across the country, through proactively attracting foreign direct investment and enabling entrepreneurs to consider Lesotho as sourcing base to penetrate the vast international markets for textiles and apparel.

5.2 Key Recommendations

The following recommendations are aimed not only to better adjust the Lesotho offering to buyers' and investors' expectations in terms of product, price and service in the TA sector; but also to position the country in a very competitive position in a fiercely competitive market, where many global actors supply the major global markets, some of them with duty-free access just like AGOA or GSP, some in closer proximity to the markets, with longer presence in the markets and very competitive labor costs per sewing minute.

Recommendations are focusing on the need to understand the cotton, textile and apparel business in order to modernize, reactivate and optimize the productive sector with added value to apparel products in all product categories (knits and woven), and are based in consideration of value chain factors with a business perspective recommending the following factors to enhance competitiveness:

Factor 1. Supporting and enhancing the CMT business. Lesotho will continue producing business through CMT operations - Direct/Indirect labor or 17%-20% of the cost. The following recommendations are presented to enhance and continue value adding to this already stablished industry in the country:

- Facilitate spaces to establish supporting industries in the country to add value to the apparel sector, specifically washing facilities with environmental permits and waste water treatment systems. There is a clear demand of these services in Lesotho, thus these value added services will stay in Lesotho and no longer be produced in South Africa, reducing a the same time the total production lead time and product manipulation.
- Promote and support the creation of "satellite supporting firms" to the industry, mainly Small and Medium Enterprises that can provide embellishment services, imports and/or

production of trims, sewing machines maintenance, textile machinery parts, packaging materials, etc., creating additional clusters supplying the large exporting apparel industry.
- Create a vendor compliance and human resources auditing public institution to ensure transparency and workers' rights protection, following the basis and positive experience provided by the former "Betterwork Lesotho Program" from ILO. This requires a political decision and prioritization on the Government of Lesotho Agenda. This specific signal would be extremely well received by the US at the time of AGOA renewal considerations.

Factor 2. Expansion of Value-Added Products in Yarn and Fabric. Expanding and promoting investments for firms to manage 53% to 62% of the cost is part of the short term strategy recommended for the country. Moreover, Lesotho has already competitive advantages providing labor (CMT) as previously presented; thus the sector can provide additional value to local and international markets by engaging the following recommendations:

- Design and build 10 industrial infrastructure plug and play sheds ready for textile production (spinning, knitting, weaving, finishing), including sewing modules (CMT) in compliance with environmental and safety regulations.
- Enhance and create specific legislation to Special Economic Zone or Industrial Business Parks to ensure tax neutrality (no taxes in machinery and inputs), designed under international vendor compliance parameters in order to source and find investors for the textile and apparel business. For these purposes it is recommended to collaborate with the Ethiopia's Investment Commission (EIC) and Ethiopian Textile Industry Development Institute (ETIDI), for lessons learned to facilitate the implementation in a country setting like Lesotho.
- Redesign the Lesotho National Development Corporation - LNDC with an operative, dedicated and exclusive branch to promote investment in the textile apparel sector, in order to pursue and promote the country competitive advantages to local and FDI. This requires a strategic role and adjusting its objectives in the search for potential investors in the supply of local cloth, so that the added value of CMT + Full Package are made in Lesotho.
- Strengthen the LNDC by pursuing participation of international cooperation for the financing of a Commercial and Investment promotion Office in the United States, without political interference and in an exclusively business-based relationship justified by results.
- Upgrade all marketing materials (investment pitch book) and globally distribute Lesotho export promotion materials to showcase the business climate, as well as to promote investors, enhancing the availability of multiple competitive advantages already available in the country.
- Promote the regional value chain among factories and industry stakeholders, encouraging the fabric sourcing needs to provide "speed to market" providing shorter lead times and export fabric to large CMT factories in multiple sub-Saharan manufacturing countries; transforming Lesotho in the major African "Textile and Apparel HUB".
- Design a labor subsidy as a compensation mechanism from the Government for the payment of wages and salaries up to 50% of the monthly wage, corresponding to the approved basic salary and up to 100 legally established workers applied only to newly stablished factories oriented to export.
- Evaluate and promote competitive financial mechanisms that allow an industrial reconversion and the establishment of new companies intensive in technology investments and industrial infrastructure in spinning and weaving/knitting factories.
- Orient the efforts of attracting investments and commercial promotion towards the search for private investments in the textile industry. Contact specialized agencies of investment promotion in the textile sector in the United States, Europe and Asia and

motivate them to establish investments in Lesotho in order to use the advantages of AGOA, AfCFTA, EPA and GSP.

- Carry out meticulous and professional work for the detection of at least one textile commercial firm with presence positioned in the American market, in order to generate and attract specific investments for the installation of a textile factory in Lesotho. This management can be carried out in its last stage at the highest level, involving if necessary the Primer Minister of Lesotho.
- As the textile sector is highly intensive in energy consumption, it is important to have a formal written policy to maintain the current energy cost for current and future investors.
- Implement an Investment Law in Lesotho.

Factor 3. Generating capabilities to trading through Delivery Duty Paid Basis.

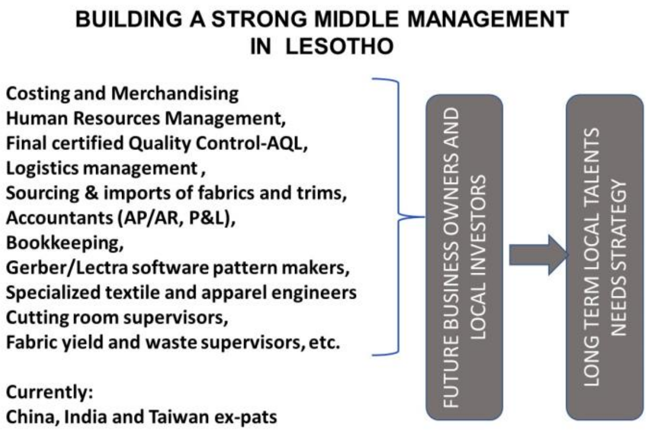
- Provide awareness at public and private stakeholders on the importance in providing connecting services with Delivered Duty Paid (DDP) pricing, involving the services sectors as part of this strategy: Transportation firms, freight forwarders, insurance companies, warehousing and customs brokers.
- Provide specialized training to cost management in the scheme "end to end services".

Factor 4. Promote the training of middle management human resources for the textile and apparel sector development in Lesotho.

This is an extremely crucial strategic factor in order to build a strong local Lesotho management base; that in the future can occupy management positions, and potentially become local entrepreneurs to continue growing the sector based on the industry business knowledge. The local technical vocational training centers as well as the university system should design programs to satisfy these needs, including the following key academic factors to support the industry establishment and growth:

- Quality Management System
- Competitive production factors Price – Quality relation
- Textile and apparel engineering
- Vendor compliance auditing to produce for international buyers.
- Marketing tools development. Corporative image and "full package" production services.
- Logistics management: Fabric/yarn sourcing and imports procedures.
- Gerber/Lectra software pattern makers.
- Cutting room supervisors and fabric yield and waste.
- Human resources management.
- Design and Product development skills.
- Accountancy: Accounts payables, receivables, book keeping, profits and losses.
- International merchandising selling techniques in the apparel global industry
- Business management and mentality towards international market and open mindedness for continuous improvement.
- Export promotion and marketing tools: Fabric samples, catalogues, company profile, digital presentation, color cards, trade shows attendance, corporate image, etc.

The following graphic specify the areas and objectives that the academic sector and government export promotion institutions in the country should develop to support the textile and apparel industry with short and long term vision.



In summary, below the contents and main components of these 4 recommended factors :

RECOMMENDATIONS TOWARDS COMPETITIVENESS

<u>Factor 1:</u> Labor (CMT business) →

17%-20% of cost.
* Low capital investment to stablish a state of the art factory
* Machinery estimated investment: USD 363.500
* Vendor compliance infrastructure, cost competitive services and sheds leasing
* Labor intensive, productivity and efficiencies

<u>Factor 2:</u> Expanding Added Value Services (Full package business) →

53% - 62% of cost
* Cotton/synthetics to apparel value chain
* Machinery estimated investment: USD 31.000.000
* Intensive in technology and know how
* Intensive in laboratories and quality standards
* Regional Value Chain existence in Africa

<u>Factor 3:</u> Trading through Delivery Duty Paid basis →

Increased profitability factors:
* Logistics and know how intensive
* Efficient transport and freight forwarders
* Service to client intensive
* Buyers preference
* Profits on CIF prices

<u>Factor 4:</u> Building a strong middle management support to above factors.

↓

Qualified Human Resources to run business

In addition, there are two transversal strategic activities recommended to ensure competitiveness and promote investments in the country:

1. **Ensure market access to major Lesotho exports**. Implement a steering committee at highest level in order to have an AGOA maintenance and extension strategy after 2025. In addition, given the importance of the U.S. market in job creation, continuous dialogue with the United States over the post-AGOA trade regime will be recommended, throughout Free Trade initiatives that will ensure a long term vision for FDI promotion and sector continuous growth.

   In addition, it is recommended that this Committee should promote a Memorandum of Understanding with the American Apparel and Footwear Association (AAFA) in order to become active members of their Africa Committee, which has the vision to promote AGOA extension at the US Congress lobby; as this duty free regime benefits their members in order to continue sourcing from the continent.

2. **Proactive and targeted investment promotion with a well-structured and well financed Exports and Investment Promotion Agency is critical to attract investors**. A successful implementation of a country's export and investment attraction strategy is directly correlated with the strategy and structure of the local investment and export promotion entity of the country, in this case LNDC. Best practice investor services to provide reliable and accurate information and show first-hand the opportunities available in the T&A sector in Lesotho to potential investors, with the support from the highest levels of Government, will be critical for companies to establish a base in Lesotho. As important and at the same level, investor after care services to current and new investors would be instrumental in securing new and expanding existing investments and helping create linkages and integration into local, regional and global value chains.

   It is recommended the development and implementation of a set of IT tools for export and investment promotion and an investment guide. Specifically, the tools required by international best practices should include:

   - Website (content management system): a modern and updated website with a content manager to facilitate its easy updating and containing all current incentives and investment legislation in the country.
   - Exporter firm database: records managers of companies with potential to export or that currently export.
   - Investment prospecting and monitoring database: a database subscription service for prospecting and monitoring investments.

   In addition, the following key recommendations are necessary to generate effective investment promotion tools and personnel training based in international best practices:

   - Benchmarking investment promotion services with successful exports and investment business models in other countries.
   - Developing economy success stories. Sector development and key lessons.
   - Integrating image building as part of the Investment Promotion Strategy
   - The investor's perspective: site selection.
   - Overview of the investment promotion cycle, CTA sector opportunities
   - Commercial promotion.
   - External and internal networks.
   - Market intelligence, investors lead generation, and qualification.

- Making contact: initial contact, proactive campaign missions, company presentations, fairs, shows and official missions, social media, and IT tools.
- Investor facilitation—site visit execution, public relations, image building, and country competitive advantages marketability.

As a summary, there are great opportunities for the Lesotho Textile and Apparel sector, starting with the Government decision to prioritize the sector through a well develop action plan at the highest level, to discuss and implement the strategic views presented in this report, showcasing a political decision, with proper financial and human resources required by establishing a dedicated and empowered directorate to drive the implementation process through a designated “champion” to lead the process.

The objective is to enlarge the exporting base providing full package operations, enhancing and improving production costs throughout the value chain and leveraging proactive investment promotion specific activities, upgrading the current investment policies and incentives in order to satisfy existent large demanding markets.

BIBLIOGRAPHY

- Office of Textiles and Apparel (OTEXA), U.S. Department of Commerce
- Unlocking the potential of Lesotho's Private Sector: A Focus on Apparel, Horticulture, and ICT. World Bank. 2019
- USAID Southern and East Africa Trade and Investment Hub.
- Global Value Chains, Sustainable Development and the Apparel Industry in Lesotho. International Centre for Trade and Sustainable Development. Mike Morris / Justin Barns. 2016
- Lesotho Ministry of Industry and Trade. 2017
- American Apparel Footwear Association (AAFA). Executive Summit "New Mindsets-New Realities" March 10th-11th 2021. www.aafaglobal.org
- https://www.textiletoday.com.bd/south-african-unveiling-agenda-textiles-apparel-industry-retrieval/
- United Nations Economic Commission for Africa | Ideas for a prosperous Africa (uneca.org)
- https://www.news24.com/fin24/companies/sas-clothing-industry-trying-to-stitch-itself-together-following-worst-decline-to-date-20210630
- Adobe analytics. 2020
- https://www.mckinsey.com/~/media/McKinsey/Industries/Retail/Our%20Insights/State%20of%20fashion/2021/The-State-of-Fashion-2021-vF.pdf
- https://www.businessinsider.co.za/sas-online-retail-has-more-than-doubled-in-two-years-but-the-best-is-probably-over-2021-5
- Fashion Industry Benchmarking Study. United States Fashion Association. 2020
- https://risnews.com/how-tariff-war-shifting-made-china-sourcing- strategy-us-apparel-retailers
- Muthu, S. S. (2020). Assessing the environmental impact of textiles and the clothing supply chain. Woodhead publishing: Cambridge, United Kingdom.
- www.usitc.gov
- Looking Beyond the Horizon: A case study of PVH's commitment to Ethiopia's Hawassa Industrial Park
- http://ethiopianchamber.com/Data/Sites/1/2012%20EC/Attachments/Ethiopian%20Leather%20Sector%20Profile.pdf
- Sector Mapping Textile and Apparel Industry. 2019. MSINGI
- https://agoa.info/news/article/15316-ethiopian-footwear-on-the-rise-includes-data.html
- Country Benchmarking Report 2020. MSINGI
- Incoterms. 2020
- www.minimum-wage.org
- https://sourcingjournal.com/denim/denim-brands/lesotho-garment-workers-gender-violence-harassment-program-levis-kontoor-263853/
- wrapcompliance.org
- ITC. www.trademap.org
- Statista, 2019-2021
- Comtrade.un.org
- https://trendeconomy.com
- Global Trade Tracker
- MSINGI Benchmarking Report. 2019
- Global Competitiveness Report 2019. World Economic Forum
- Doing Business, 2020. World Bank
- https://shenglufashion.com/2018/12/18/market-size-of-the-global-textile-and-apparel-industry-2016-to-2021-2022/

ANNEX A: LIST OF INTERVIEWED INSTITUTIONS

Institution/Firm	Name of Respondent	Position
Prime Minister's Delivery Unit Ministry of Trade and Industry	Mary Motebang	Director of Trade at Ministry of Industry of Trade
Prime Minister's Delivery Unit Ministry of Trade and Industry	Lhelohonolo Chefa	Assistant to head of the unit
Prime Minister's Delivery Unit Ministry of Trade and Industry	Makali Nathane	Director and project manager for the private sector competitiveness and diversification
Prime Minister's Delivery Unit Ministry of Trade and Industry	Makopano Mosake	Lesotho Enterprise Assistance Program Manager
Lesotho Revenue Authority	Motalepula Nkhabu	Audit Manager responsible for compliance
Lesotho Revenue Authority	Marreka T.	Deputy Comissioner
Lesotho Revenue Authority	Matseliso M.	First Clearance Auditor
Remoho Compliance Solutions	Nthabeleng Molise	Senior Business Compliance Advisor
Lesotho National Development Corporation	Sekete Phohlo	General Manager for investment and trade Promotion.
Lesotho National Development Corporation	Thabo Rakhetsi	Research Officer
Lesotho National Development Corporation	Mamoiloa Raphuthing	Planning and Research Manager
Lesotho Textile Exporters Association	Malihabiso Cicily Majara	General Secretary
National Clothing Textile Allied Union	Tsepang Makakaole	General Secretary
United Textiles Employees	Solong Senooe	General Secretary

ANNEX B: REVIEWED LITERATURE

- Lesotho National Trade Strategy 2021-2025. Ministry of Trade and Industry
- National Trade Policy Framework 2021-2021. Ministry of Trade and Industry
- Lesotho Invest, Live and Prosper. Lesotho National Development Corporation. 2021
- Unlocking the Potential of Lesotho's Private Sector. A focus on apparel, horticultura and ICT. The World Bank. 2018
- Africa's Inspired Apparel Sourcing Hotspot. Lesotho Textiles, Apparel and Footwear Manufacturing Industry. Ministry of Trade. 2017.
- Supporting Lesotho's Economic Diversification and Trade Integration. World Bank. 2018.
- Workers rights consortium assessment in Lesotho. Workersrights.org 2019.
- National Investment Policy in Lesotho. Government of Lesotho. 2015
- Lesotho Case Study Global Value Chains, Sustainable Development and the Apparel Industry in Lesotho. International Centre for Trade and Sustainable Development. 2016.
- Lesotho's Export Textiles & Garment Industry. Mark Bennet. 2006.
- Lesotho Garment Industry Subsector Study. Department for International Development. 2002.