

# Impact of COVID-19 on Manufacturing Industry in Lesotho: Case study of LNDC-Assisted Companies

FINAL REPORT



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## 1. INTRODUCTION AND BACKGROUND

The manufacturing industry in Lesotho, like in other countries across the globe, faced supply chain disruptions and halts to production following the announcement of national lockdown in March 2020 by the Prime Minister. The Lesotho National Development Corporation (LNDC), which has been mandated to oversee and implement industrial policy on behalf of the Government of Lesotho, undertook a survey to assess the extent to which the LNDC-assisted companies have been affected by the lockdown. The study was commissioned in collaboration with the Central Bank of Lesotho (CBL) and the Bureau of Statistics (BOS).

The report has been consolidated based on submissions from sixty-four (64) companies out of seventy-six (76) which constitutes 84% response rate on the survey. It is also important to note that activities of LNDC-assisted companies do not reflect the national manufacturing activity, hence the study will only account for companies under the LNDC portfolio at 84% response rate as indicated. The manufacturing activity by LNDC-assisted companies contribute about seventy percent (70%) of total manufacturing at the national level.

The LNDC hosts seventy-six (76) companies in its eight (8) industrial estates, which are located across the country. Most of the companies (26%) originate from China and RSA; and serve the US and RSA markets, respectively. Some of these companies were established as far back as 1989, with majority of companies established between 2006 and 2020.

Figure 1: Origin of companies

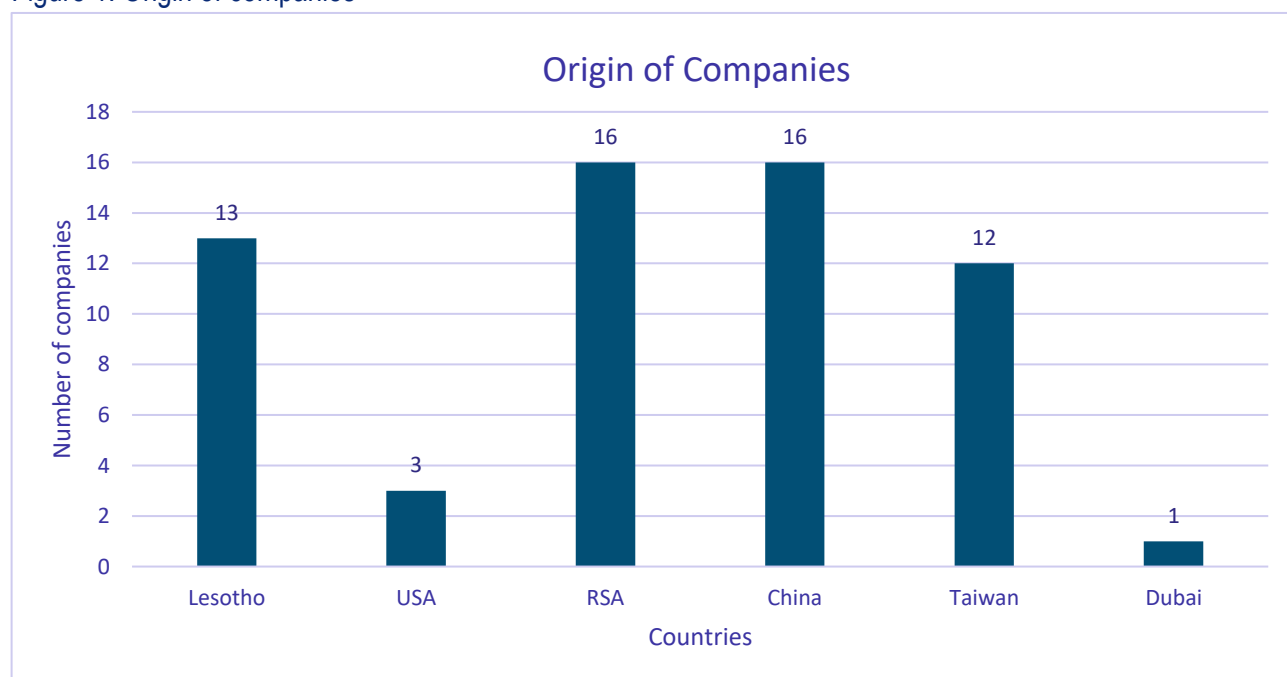
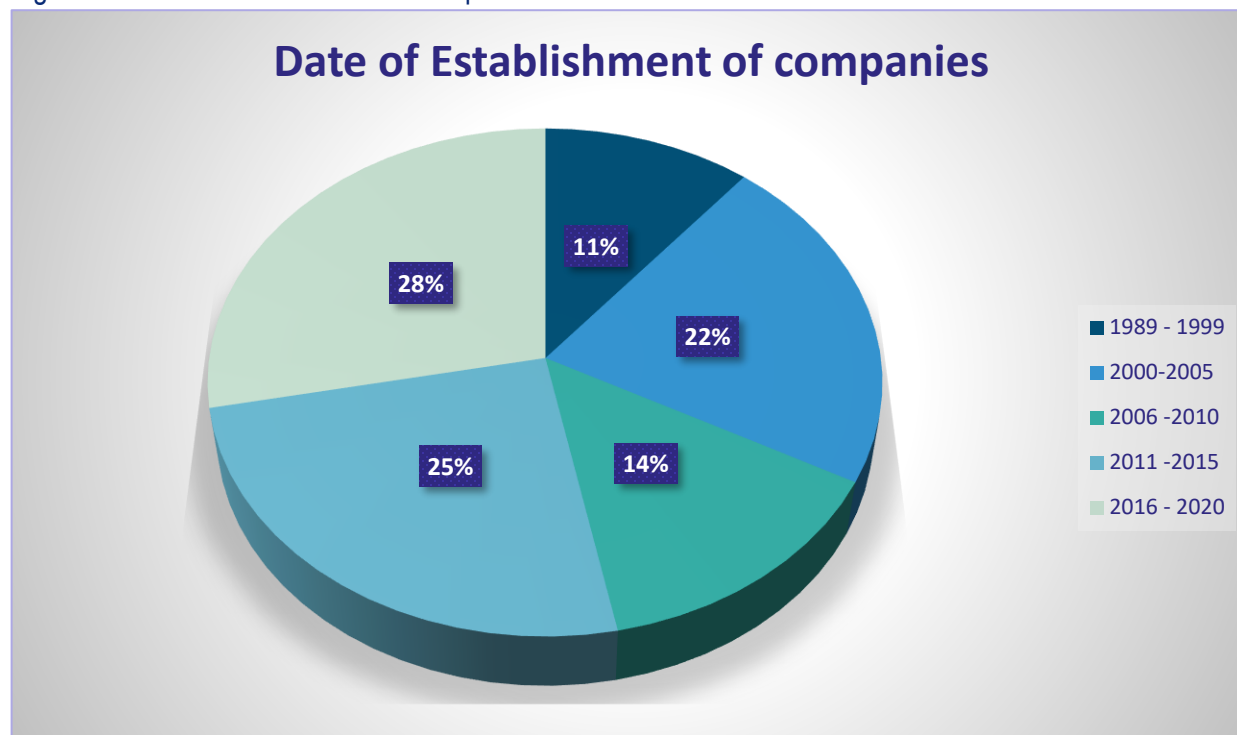
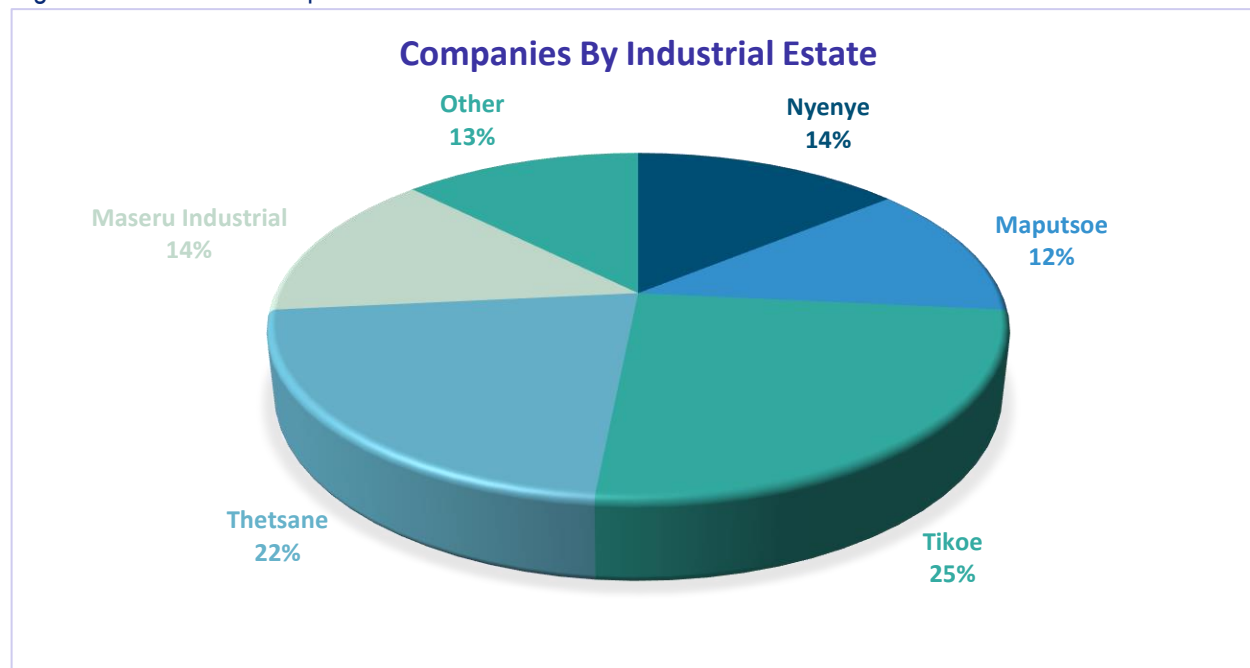


Figure 2: Date of Establishment of companies



Most companies located in Maputsoe and Nyenye in the north export to the Republic of South Africa (RSA) while companies that export to the US are mainly located in the Maseru district at Thetsane, Maseru and Tikoe industrial estates.

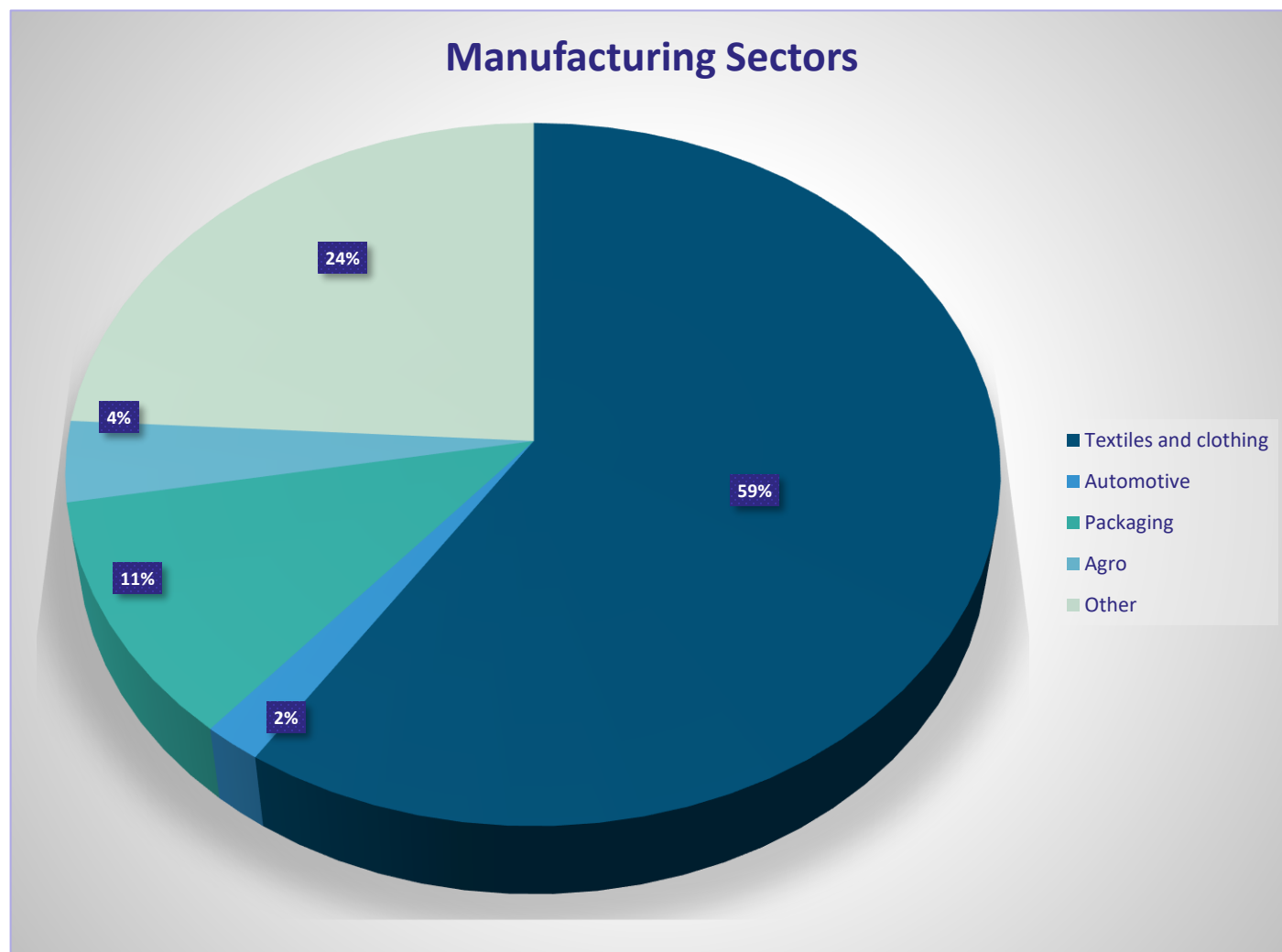
Figure 3: Location of companies



## 1. CORE COMPANY ACTIVITIES

The manufacturing industry comprises the textile and clothing sector as the main industry, complemented by support industries such as the packaging, print and embroidery. Other sectors such as the agro-processing and automotive constitute low percentages as shown in the pie chart below.

Figure 4: Proportion of sectors represented



In the textile and clothing sector, the companies are mostly engaged in CMT operations with two (2) companies running in-house dyeing activities and six (6) companies undertaking onsite laundry services.

## 2. PRODUCT ANALYSIS

The main products produced by the companies are textiles and garments, packaging materials, light electronic products, pharmaceuticals, and agro-processed foods. The table below provides a summary of key products:

Table 1: Main products manufactured

| SECTOR                         | MAIN PRODUCTS PRODUCED   |
|--------------------------------|--|
| <b>Textiles and garments</b>   | Menswear, ladieswear, jackets, tracksuits, leggings, t-shirts, gown, overalls, jeans, underwear, school uniforms, combat suits, freezer suits, lab coats, medical gowns, workwear, chef wear, footwear, fabrics and yarn |
| <b>Packaging</b>               | Plastic bags, shopping bags, plastic hangers, water bottles, refuse bags, courier bags   |
| <b>Assembly</b>                | Circuit breakers, sockets, electrical extension cords  |
| <b>Automotive</b>              | Fabric and leather car seat covers   |
| <b>Pharmaceuticals</b>         | Cosmetics, rosehip creams, rosehip oil   |
| <b>Agro-processed products</b> | Packaging rice, samp, beans and split peas, rosehip tea, rosehip powder  |
| <b>Other products</b>          | Steel products and furniture, plastic recycling, sponge mattress   |

During the lockdown period, some companies explored the opportunity to manufacture personal protective products (PPE), which were marketable and allowed to be traded. These companies switched operations from their normal production to production of PPE due to various reasons which included limited raw materials to address current orders and operational downsizing. The table below provides a summary of products traded during the lockdown period:

Table 2: PPE Products traded during the lockdown period

| Products Produced        | Number of companies |
|--------------------------|---------------------|
| Facemasks                | 5                   |
| Medical gowns and aprons | 2                   |
| Plastic bags             | 1                   |
| Sanitizers               | 2                   |
| Hand sanitizer bottles   | 1                   |

Some companies managed to continue with the production of main products during the lockdown period as indicated in the table below. However, the capacity of operations was kept at the lowest levels to comply with the regulations:

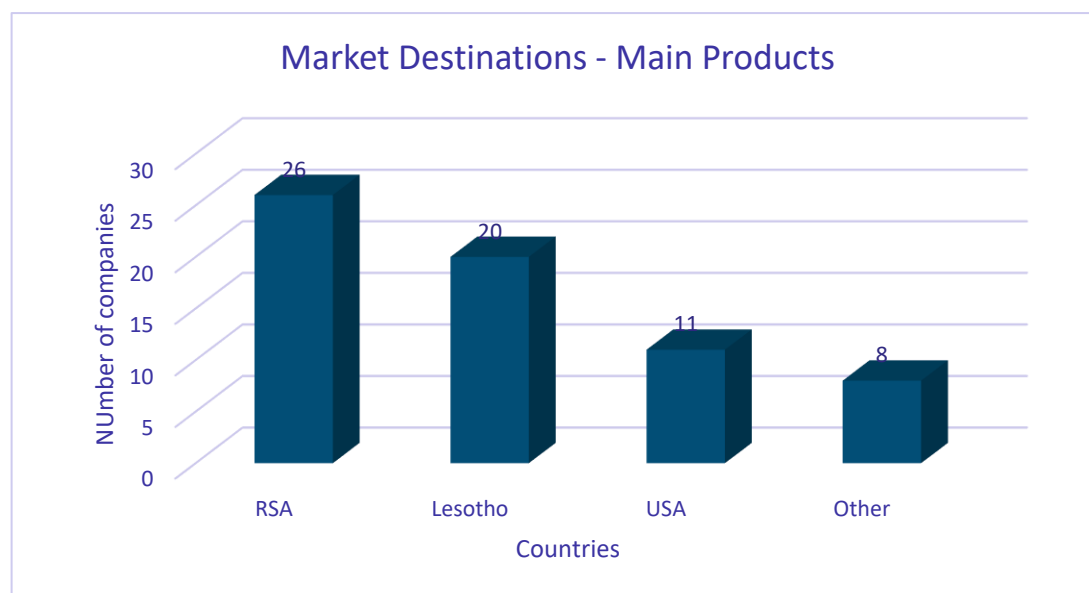
Table 3: Main products produced during lockdown

| Products       | Number of companies |
|----------------|---------------------|
| Garments       | 4                   |
| Water bottles  | 1                   |
| Food packaging | 1                   |
| Cosmetics      | 3                   |

### 3. MARKET DESTINATION ANALYSIS/EXPORT MARKET

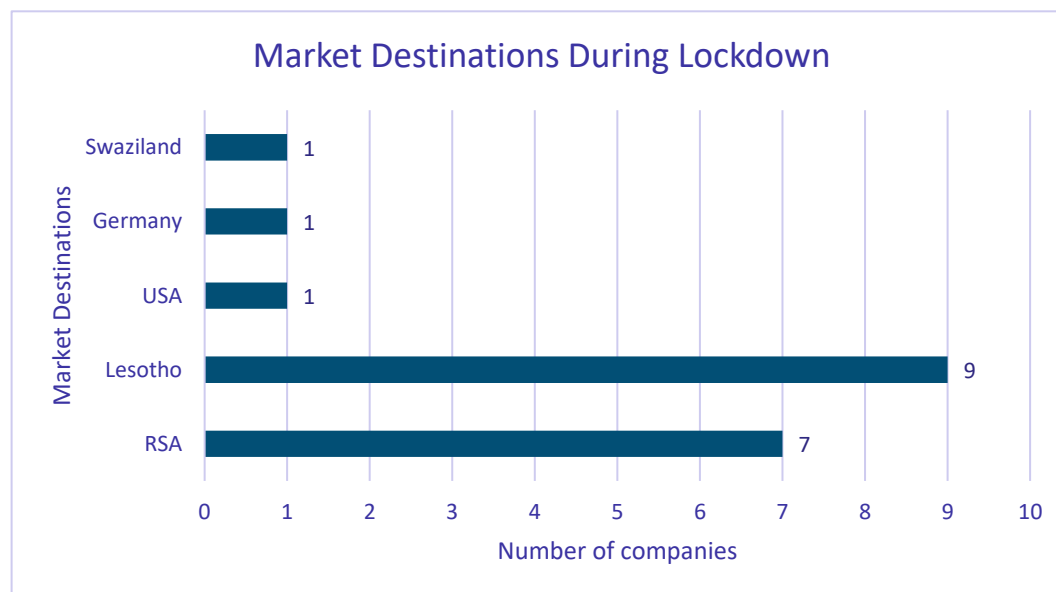
The main export destinations for Lesotho's products has mainly been the US and the RSA. Recently, companies have started to tap into markets of other SACU and SADC countries. Despite the long-standing access to the European market, Lesotho has so far managed to export limited products to Europe except for diamonds. For both US and RSA, the main export product is textiles and garments.

Figure 5: Market Destinations for main products



Half of companies supply the domestic market are subcontracted by main exporting companies targeting the US and RSA as the main traditional markets. During the national lockdown, some companies managed to explore new opportunities by exporting various personal protective products to RSA.

Figure 6: Market Destinations targeted during lockdown



Most products manufactured during the lockdown were destined for the local market to meet the demand for personal protective equipment. Some companies managed to export to RSA while other companies were able to export to USA, Germany and Swaziland.

#### 4. INPUTS ANALYSIS

The raw materials used in the manufacturing processes in Lesotho are imported from various countries and these include:

Table 4: Inputs imported for manufacture of main products

| Source of raw material         | Products imported   |
|--------------------------------|---|
| <b>RSA</b>                     | Leather hides, knitted and woven fabrics, plastic retainers, machine parts and accessories, copper, metal, screws, Bottles, Boards and edging, soles and footwear accessories, Cotton twill, Nylon, Glue, grains, chemical products, lining, fibre, aloe vera extract |
| <b>China</b>                   | Socket covers, fabrics, textile accessories, Denim  |
| <b>UK</b>                      | Conduit powders and nuts  |
| <b>Dubai</b>                   | PP Natural, PS Black, GPPS  |
| <b>India</b>                   | Fabric lining, denim  |
| <b>Taiwan</b>                  | Fabrics and textile accessories   |
| <b>Vietnam</b>                 | Fabrics and textile accessories   |
| <b>Zimbabwe</b>                | Tobacco, filters, ink glue  |
| <b>Other African countries</b> | Cotton  |

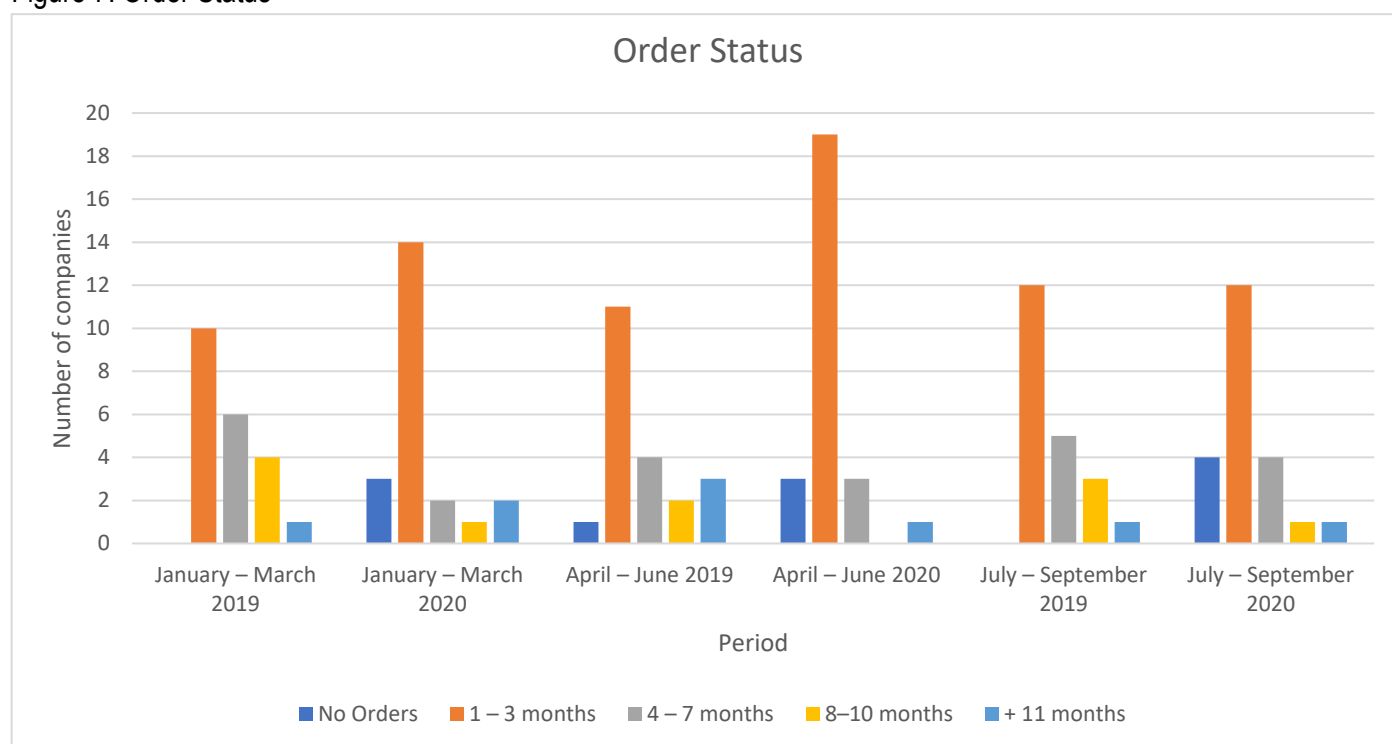
The presence of a strong raw material base provides a strategic competitive advantage, which Lesotho lacks; hence, the overdependence on importation of raw materials constrains the production capacity particularly for products that could potentially be produced at a cheaper cost in Lesotho. As shown in the table above, Lesotho imports almost every input that goes into production. This challenge also affects Lesotho's lead time to markets. Most of these inputs are sourced from RSA. During the lockdown, all inputs that went into production of personal protective products were sourced from RSA. These included glycerin, alcohol, packaging materials, cantic flakes, elastic, tallow oil, leather components, grains and

fabrics. Inputs imported constituted list of essential goods and services in particular, items such as fabrics were used in the production of face masks. Therefore, fabrics for garments production could not be imported as it did not form part of the essential goods and services.

## 5. ORDER STATUS ANALYSIS

The status of orders was also affected by the lockdown. Across all quarters reported, the length of orders secured by the industry was 1-3 months. Most companies reported lack of orders in January – March, April – June and July - September periods. The figure below provides status of orders reported by companies between January 2019 and September 2020.

Figure 7: Order Status



The number of companies that reported orders of duration beyond 11 months has been relatively low across all quarters. This signifies that the industry managed to secure short-term contracts relative to long-term contracts. This status also signifies that the buyers are precautionary in terms of placement of orders, ensuring that limited exposure is made in that regard.

Between January 2020 and September 2020, companies lost orders for 1-3 months duration which had been secured, resulting in reduction in order levels shown in Figure 7. Some companies also reported loss of orders of duration 4-7 months. Figure 8 below provides graphical representation of the orders lost over time.

Figure 8: Cancelled Orders



About five (5) companies reported loss of orders of duration more than 8 months, which is a significant loss in terms of order duration as companies mostly secure short-term orders relative to long-term orders

## 6. INVENTORY ANALYSIS

The status of the inventory of inputs has also not shown a good picture as most companies reported low levels of inventory that are depleting fast. This is because most companies import raw materials based on levels of secured orders. Considering closed borders and order cancellations, companies have therefore not had inventory in stock. For those companies that had ordered inputs from countries such as China, due to closed borders, the materials could not be transported to Lesotho as expected. However, it was encouraging that some companies (19%) did report inventory that is lying idle due to low production levels and hence managed to resume with production upon lifting of lockdown restrictions.

Figure 9: Inventory Status

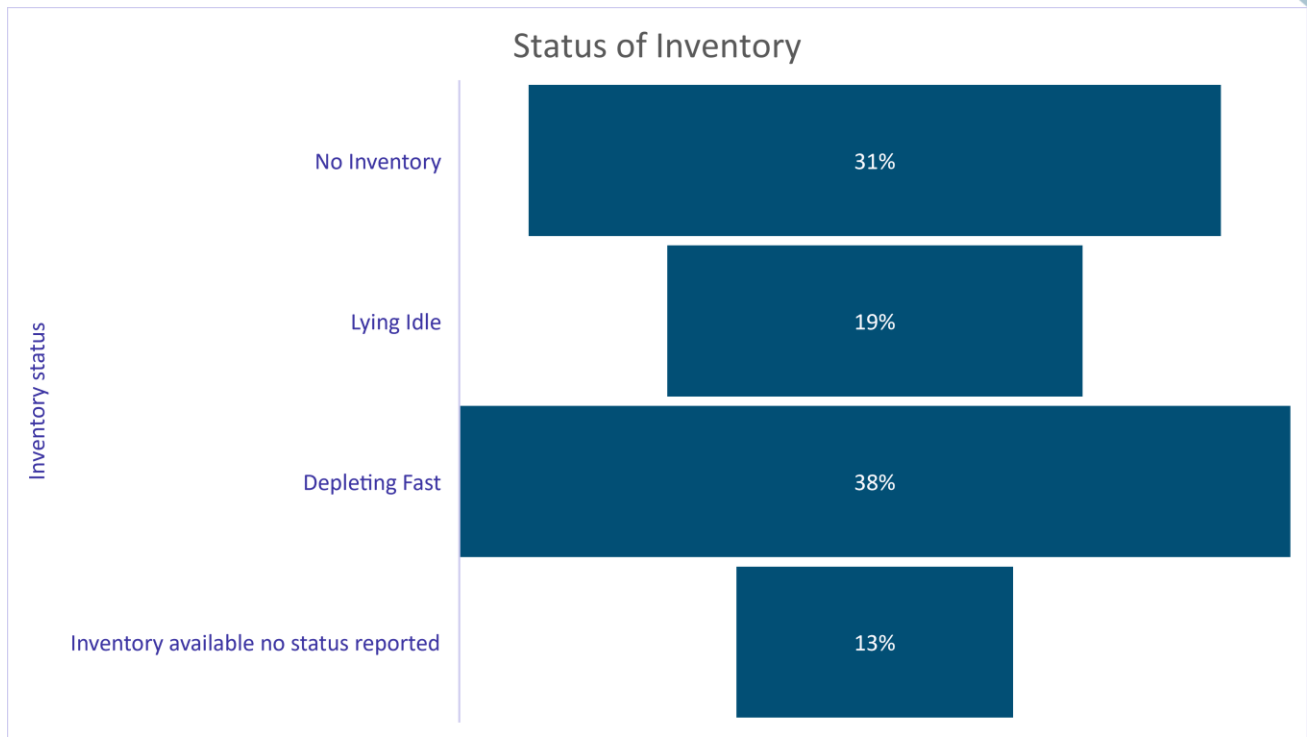
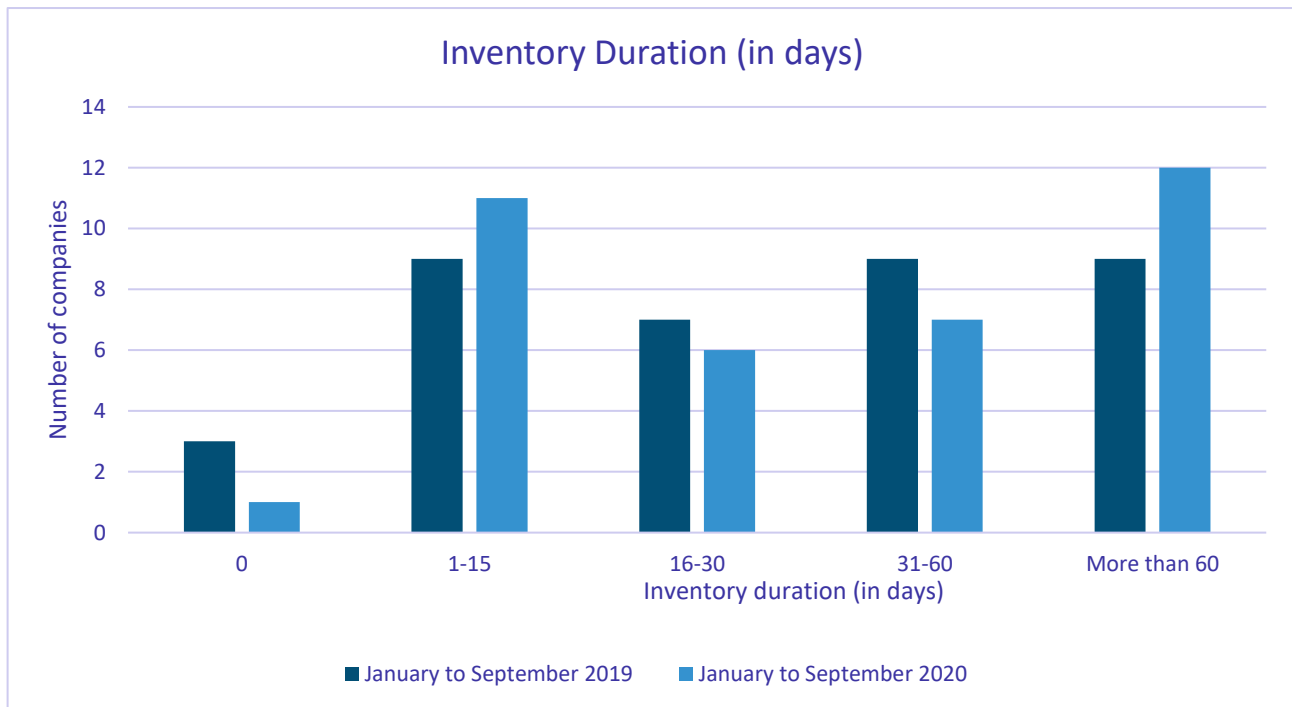


Figure 10: Inventory Duration



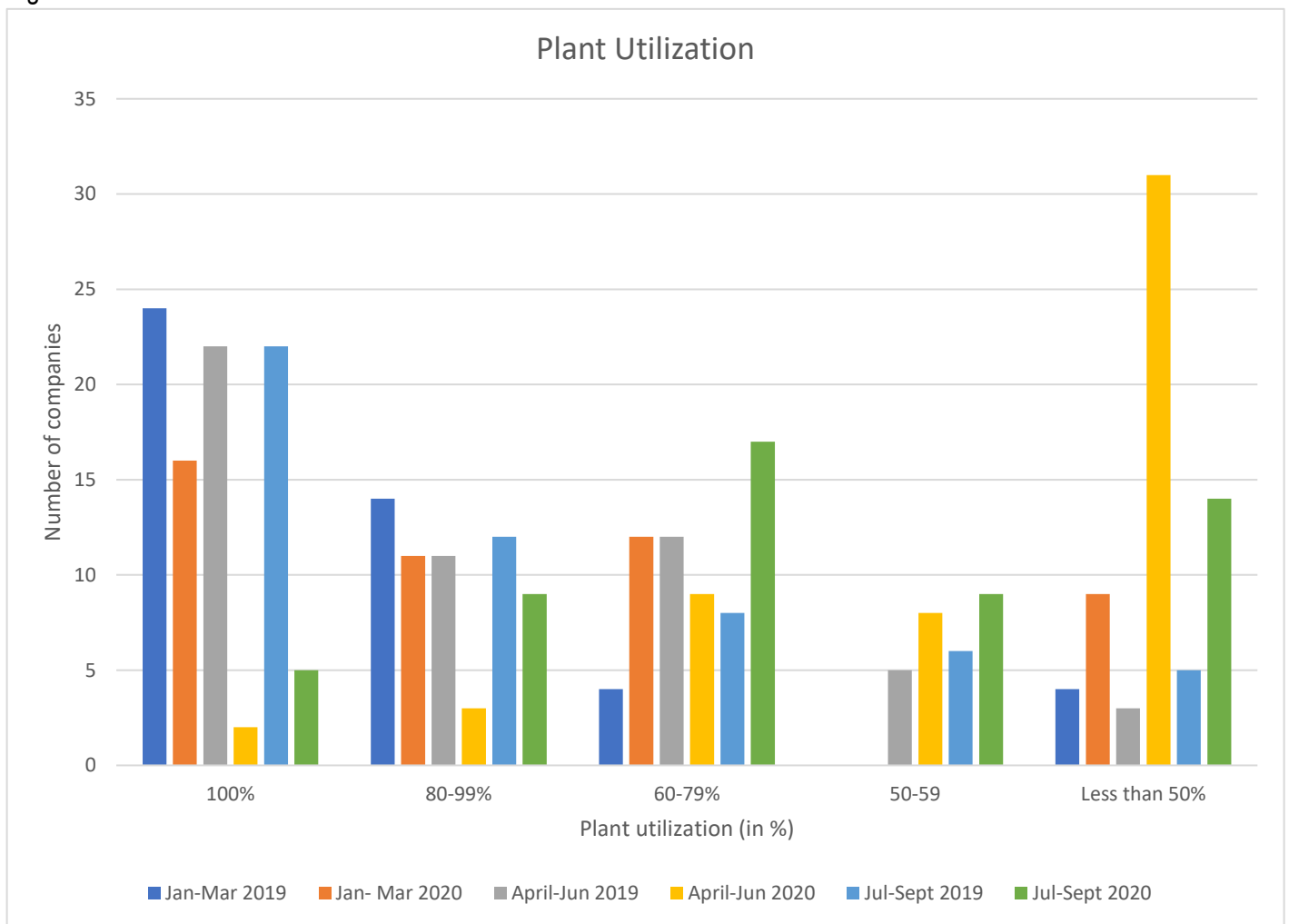
The inventory available is expected to last mostly for less than 60 days. Some companies (19%) did report that available inventory will last for more than sixty (60) days. Under normal circumstances, the inventory duration is more than ninety

(90) days on average for most companies depending on the order durations. It must be recalled that the textiles and clothing sector which also services the US market secures orders nine (9) months in advance, therefore, the inventory planning schedule ensures that inputs are sourced from East Asia on time to deliver on the orders. The companies ensure that the inventory in stock is sufficient to cover at least three (3) months on average.

### 7. PLANT UTILIZATION

The utilization of plant capacity by companies was reported to be less than 50% in April 2020 following the lockdown restrictions. Some companies (23%) reported continued low utilization levels commensurate with low levels of orders available to be processed up to September 2020. On average, the plant utilization levels range between 60% – 100% under normal circumstances.

Figure 11: Plant Utilization



## 8. REVENUE ANALYSIS

During the lockdown period, the companies reported the following revenue losses:

Table 5: Revenue status between January – September 2020

| QUARTER          | 2020 |      |           |      |      |
|------------------|------|------|-----------|------|------|
|                  | <10% | <5%  | No Impact | >5%  | >10% |
| January - March  | 22%  | 22%  | 9.4%      | 6.3% | 23%  |
| April - June     | 45%  | 9.4% | -         | 5%   | 23%  |
| July – September | 33%  | 20%  | -         | 9.4% | 19%  |

Forty-five percent (45%) and thirty-three (33%) of the companies lost most revenue in April- June 2020 and July – September 2020 respectively, which was the peak of lockdown. Over 50% of the companies reported revenue loss of 5% or more in July – September 2020. On the other hand, twenty-three percent (23%) of the companies managed to maintain relatively higher revenue levels between January and June 2020. Approximately 10% of the companies reported no revenue impact in January – March 2020. The changes in revenue are shown in terms of number of companies in Figure 12 below:

Figure 12: Revenue Changes

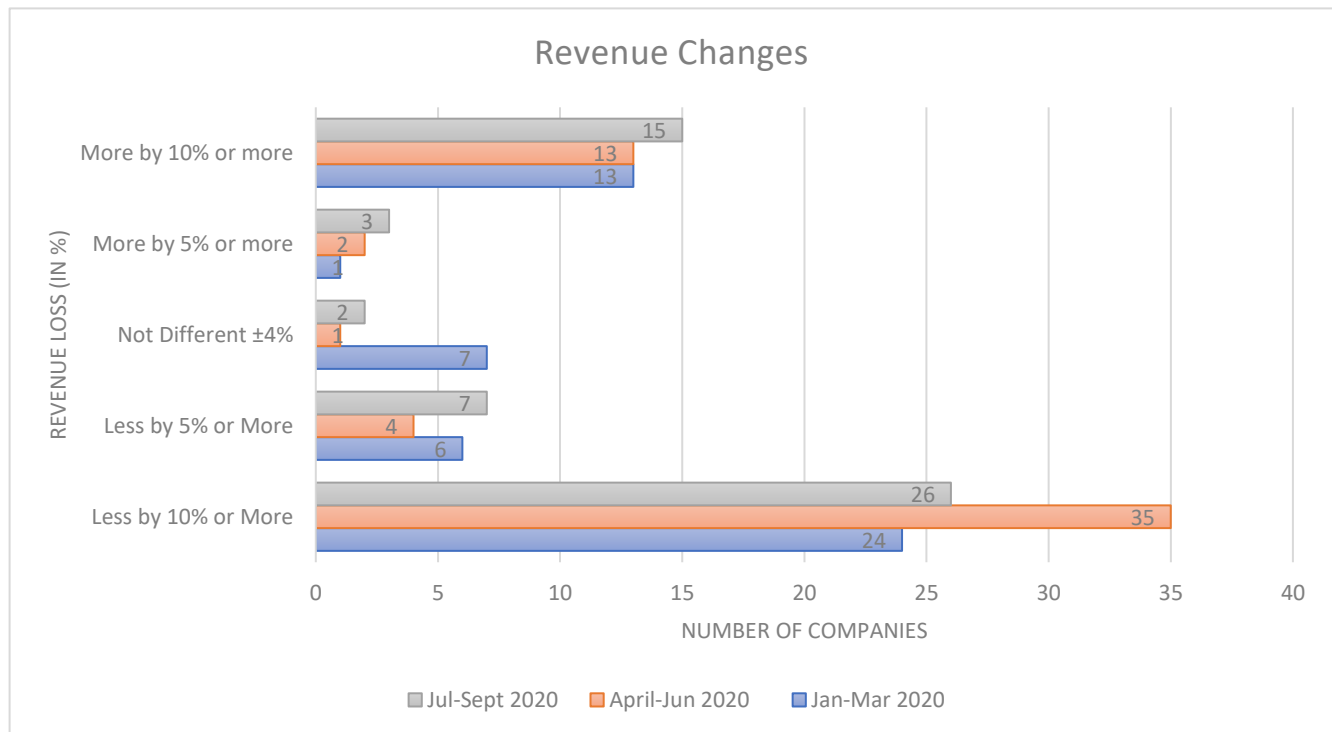
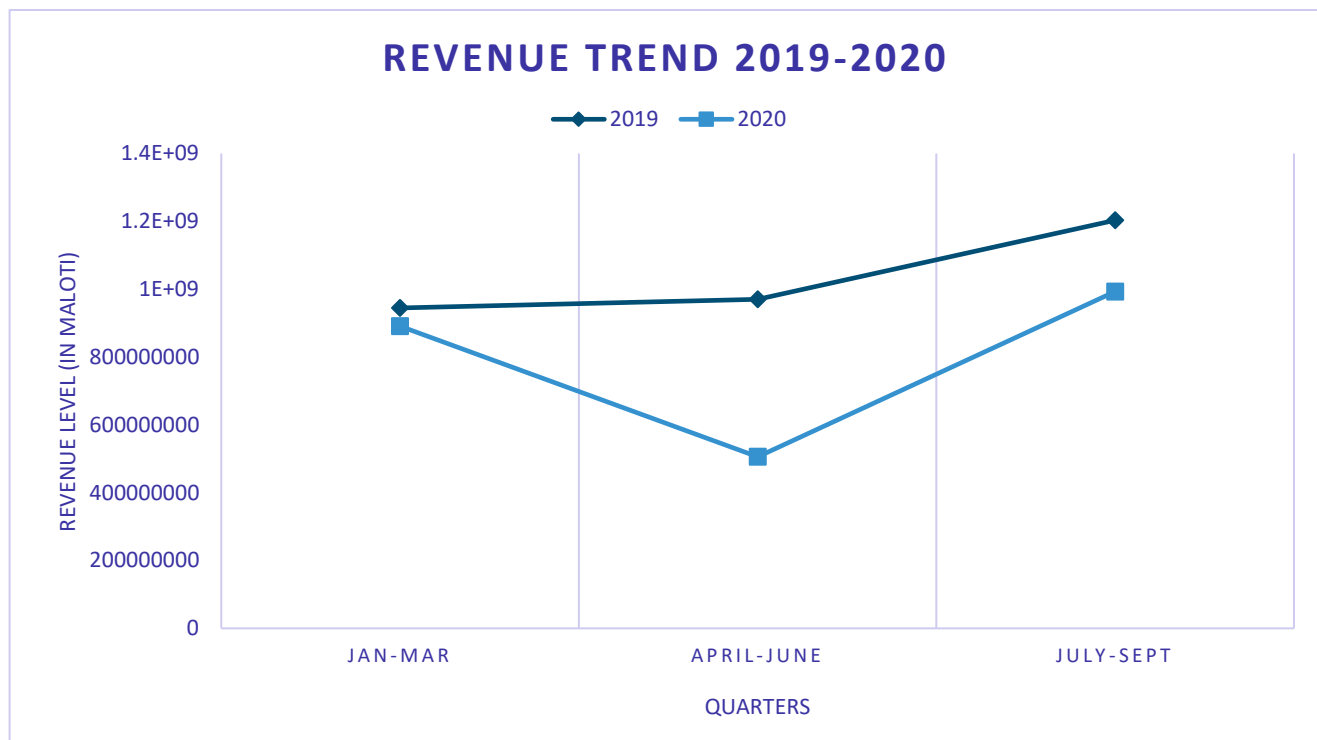


Table 6: Revenue Estimates

| QUARTER          | 2019           | 2020            | % CHANGE |
|------------------|----------------|-----------------|----------|
| January - March  | M944,500,754   | M891,113,281.10 | -5.7%    |
| April - June     | M970,356,380   | M505,654,605    | -47.9%   |
| July – September | M1,202,990,335 | M992,897,443    | -17.5%   |

Revenue loss was at its worst during the April – June 2020 quarter at 47.9% compared to same period in 2019.

Figure 13: Revenue Trend 2019 - 2020



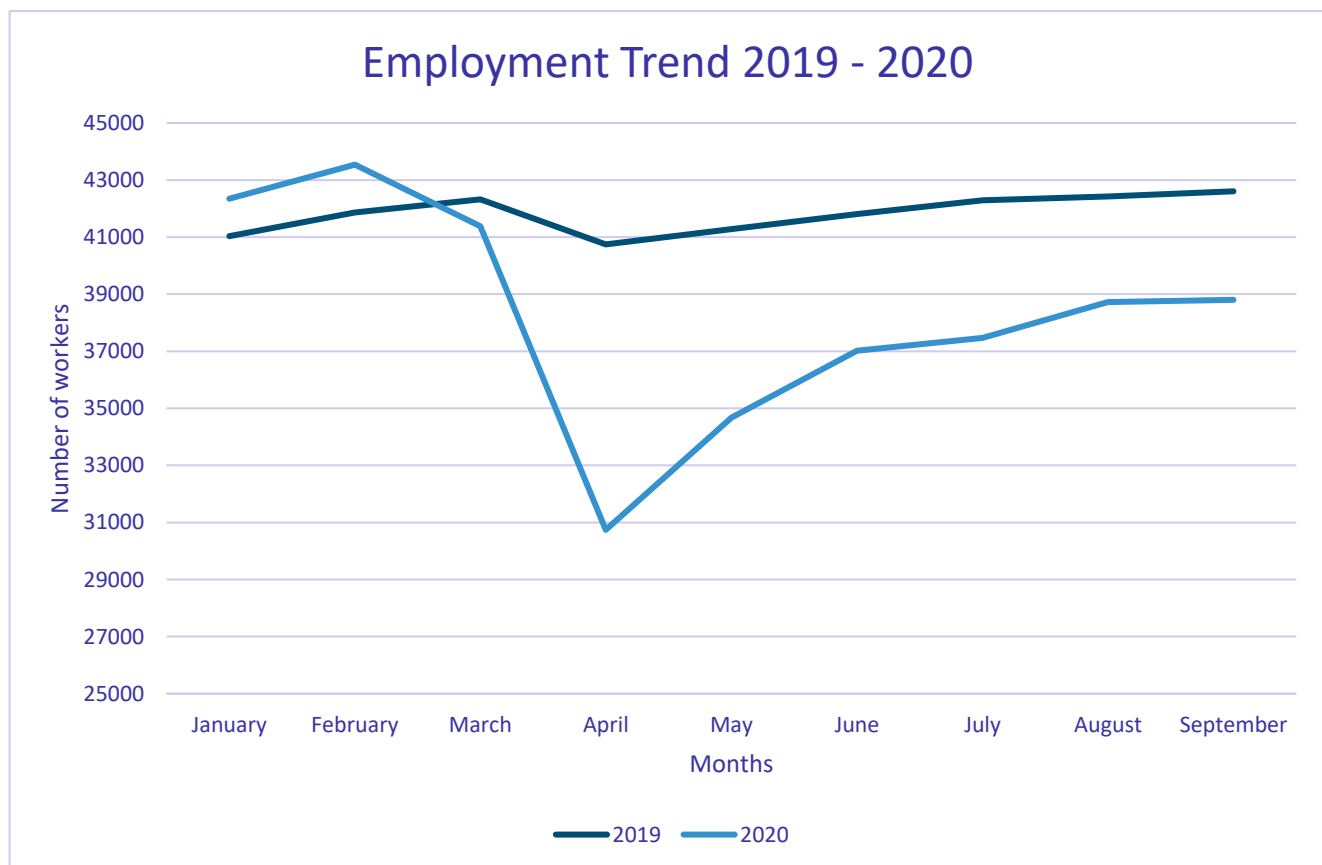
Seasonally, revenue levels are relatively higher in July-September quarter. The lowest revenue loss was registered between January – March 2019 and 2020 while the highest revenue loss was recorded in the April – June 2020 quarter. The April – June 2020 quarter was the period during which the lockdown was most restrictive, hence majority of companies were closed, and orders were not serviced.

The main reason for decline in revenue levels was due to the national lockdown, which forced company closures and borders closures. Since management of most companies stay in RSA's bordering towns, the closed borders prevented them from entering the country. Therefore, the management could not even pursue minimum factory operations. Loss of orders was also another factor, which led to decline in revenue levels. The uncertainty surrounding company operations led to buyers withdrawing orders pending more promising signals post-COVID-19.

## 9. EMPLOYMENT ANALYSIS

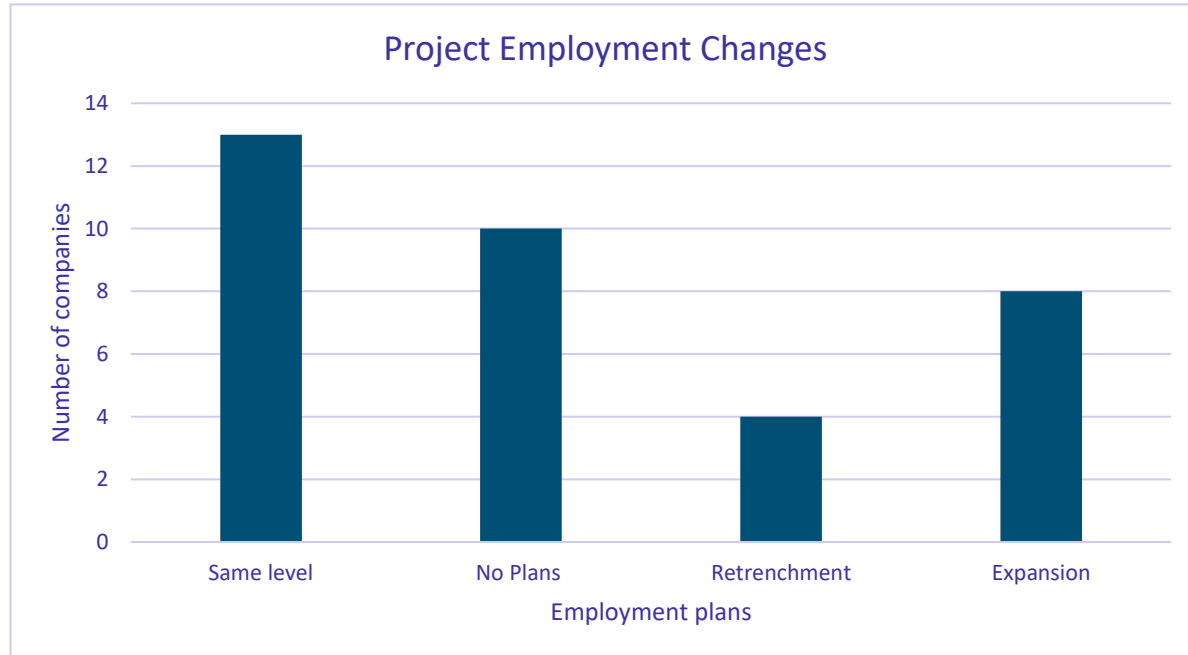
The employment levels for 2020 have been relatively lower than same periods in 2019. The lowest employment was recorded in April 2020 at 30,741, which is 24% lower than same period in 2019, due to lockdown and subsequently company closures. Some companies were also forced to retrench workers and put some workers on short time as lockdown continued. The highest reported employment was 43,542 in February 2020, which was higher than that of same period in 2019. Figure 14 below gives a graphical representation of the employment trend.

Figure 14: Employment Trend 2019-2020



The companies further reported plans to keep same employment levels and potential employment expansions beyond September 2020. However, about six (6%) reported possible retrenchments beyond September 2020 provided the conditions for the companies do not improve.

Figure 15: Employment Plans beyond September 2020



## 10. STRUCTURAL BUSINESS ENVIRONMENT CHALLENGES

However, the companies did report that the challenges faced by the businesses have been exacerbated by the structural problems that have not been addressed in the longest time which affect the investment climate for Lesotho. These challenges include:

- **Slow Investment climate reform pace**

There is still slow progress in addressing investment climate reforms, which undermines efforts to improve Lesotho to be an investment destination of choice and as a sourcing destination. This is despite the establishment of the Investment Climate Reforms committee chaired by the Deputy Prime Minister. Therefore, policy makers should prioritize policy and regulatory reforms agenda in order to keep Lesotho competitive. In particular, it is critical to deploy a comprehensive incentive regime that supports specific strategic industries as potential growth poles that could turn around the economy. The LNDC has initiated institutionalization of the trade and investment agenda through introduction of functions within the Investment and Trade Promotion (ITP) department. However, the proper functionality of the Investment Climate

Reform unit requires political will and support. The Investment climate Reform agenda can unlock multiple potentials that can directly and indirectly address structural business challenges.

- **Limited commitment to pursue identified growth poles**

Lesotho, through the National Strategic Development Plan (NSDP), has identified growth poles <sup>1</sup>that the country can pursue to realize meaningful and sustainable socio-economic development. It has also committed to regional, continental and global goals. However, there is limited evidence of commitment to achieve such, which would have otherwise impacted positively in improving the state of the industry, as well as the environment within which it is hosted. The resource allocation by Government does not align to the priorities set, hence it further challenges progress towards attainment of such. Support to the development agenda for Lesotho can turn around the economy.

- **Absence of Bureau of Standards**

Due to the absence of a fully functional Bureau of Standards in Lesotho, products that need to be assessed for quality standards must be sent to RSA and that becomes expensive for some businesses. This further limit available capacity for expansion and diversification into new products. It particularly constrains new entrants or small players in this space that would otherwise take advantage of the niche market opportunities available.

- **Lack of skilled workers, high absenteeism, and high staff turnover**

There is a general lack of skilled workers especially in Tikoe Industrial Estate. Manufacturers in this area complain that they train workers who after acquiring such training resign and relocate to South African firms. This is aggravated by the Special Permit Concession entered by Lesotho and South Africa and much better wages paid by South African manufacturers.

Management skills are also lacking to comply with rules and regulations governing the textile industry in Lesotho. Management and supervisors training is essential to boost required skills.

- **Unreliable and insufficient supply of water**

The shortage of water supply has been a recurring challenge for the past quarters particularly in Maputsoe and Nyenye Industrial estates. This has implications on companies' order books, as buyers are very particular with issues relating to health and safety. Unavailability of water for drinking and sanitation has caused some potential investors to avoid

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<sup>1</sup> Manufacturing, agriculture, tourism and creative industries, technology and innovation

investing in that area. More tanks are needed at the estate to temporarily solve the problem while a permanent solution is being sought.

Furthermore, the water shortage has been identified in Thetsane industrial estate whereby water pressure is too low leading to potential fire hazard when fire breaks out because of the low pressure to the fire extinguishers. Some companies' laundries are done in nearby South African towns, which would have created additional jobs for the locals. Many companies have resorted to installation of boreholes as a temporary measure. The sustainability of the boreholes is however not guaranteed. The LNDC is in the process of assessing how much water is still required even after installation of boreholes.

- **Tax Administration**

Investors have on several occasions complained about the length of time it takes for the Lesotho Revenue Authority (LRA) to process VAT claims refund. This has a negative impact on companies' cash flows as a result, they sometimes find themselves forced to lay off workers. LNDC assists investors as and when they come to seek for assistance by liaising with LRA on their behalf. However, this has been proven an inefficient approach. Thus, the LNDC is planning a round table meeting between investors and LRA where a holistic approach to addressing this challenge can be adopted.

- **Cross-Border Issues**

Slow processing of paperwork to release delivery trucks at the border results in unnecessary and prolonged lead times. As one of the Non-Tariff Barriers (NTB) to trade, delays caused by cross border procedures, especially for clearing consignments for both imports and exports, have become major impediments to free trade. This has been worsened by the current scanning of personal passports at the South African borders which causes delays for travellers and given the fact that most of the expatriate workers reside in nearby South African towns due to lack of security in Lesotho, majority of them especially those operating from the Tikoe Industrial Estate have resorted to staying in the factories which is not legal.

The LNDC has been resolving these problems individually as they came. LNDC is now planning to adopt a holistic approach where it will host round table meetings between LRA and investors to thrash out these issues and find appropriate solutions.

It is also noted that most of the firms do not currently report on these issues (NTB) on available domestic avenues therefore creating a problem for officials to address these issues at the regional platforms. It is important to engage all the exporters and importers together with the MTI to address this. The National Trade Facilitation Committee (NTFC) has been established and now functional to facilitate issues of a similar nature. The Single Window project that aims to harmonize processes at the border and the Trade Information portal which is envisaged to provide up to date information for export/import activities are underway. However, additional technical support and financing are required to support the trade agenda.

Cross border restrictions caused by the prevailing covid-19 pandemic has caused inconvenience to companies whose management staff reside in RSA and have to commute between Lesotho and RSA on a daily basis. As a result, some companies are operating below capacity while others have still not opened. This requires authorities from both Lesotho government and RSA to negotiate and agree on the long-term solution for this challenge.

- **Limited secured orders**

Some companies do not have sufficient orders and as a result, they find themselves having to downsize their operations and lay off some employees. Orders are becoming minimal due to the impact of Covid-19 pandemic on the economy in general.

- **Investors' Security**

Investors in Tikoe Industrial Estate continue to experience hijacks and theft especially on weekends when the Tikoe Police Post is closed. Regular meetings between LMPS, investors and LNDC are held on a quarterly basis to identify problem areas and collectively come up with solutions. Streets lights in all industrial areas might be helpful.

- **Management of Relations between Trade Unions and employers/investors**

There is a continued conflict between investors and Trade Unions, which sometimes results in strikes and workplace closures. Workplace closures are more likely among unionized plants especially in manufacturing industries than in non-unionized plants. Trade unions continue to raise pay through collective bargaining in workplaces and these circumstances continue to constrain employment growth, instigate workplace instability, or precipitate closures. LNDC conducts induction on industrial relations and Lesotho Labour Laws to new investors in order to make them understand the ground rules beforehand. There are a number of activities which LNDC engages in to minimize this problem which include amongst others:

- Provision of standard policies and procedures
- Mediation of Labour disputes
- Provision of advisory services
- Provision of assistance in collective bargaining
- Cost of training

These initiatives prevent or curtail unnecessary conflicts between investors and trade unions and improve the business environment.

- **Environmental Issues**

Environmental pollution emanating from the factory activities have increased at an alarming rate and become a cause of concern for environmental law enforcing authorities. The pollution is in the form of smoke emissions, which affect air quality as well as the chemical, and sewer spillages from some of the plants into the rivers. This has attracted the attention of US Embassy and USAID Southern Africa Trade and Investment Hub and may have serious repercussions on integrity of Lesotho as an investment and sourcing destination. The LNDC in partnership with the Ministry of Tourism, Environment and Culture has secured UNIDO's grant for a pilot project for recycling of textile discards in order to minimize the impact of environmental pollution from open burning of textile offcuts.

- **Cost of doing business**

The cost of doing business has proven to be too high for industrialists, particularly for CMT producing companies, where the buyers cannot increase the price of the products due to increased labour, taxes and rent. This has triggered the buyers to take their orders to Newcastle where it is cheaper to source orders. The biggest challenge regarding cost of doing business has been the minimum wage increase, which has negatively affected the operations of investors. This led to closures and a significant number of workers being placed under short times for other companies.

Generally, investors would like to be offered subsidy in:

- Rent
- Plant and equipment
- Electricity
- Water supply
- Cost training

- **Lack of factory space for expansion**

While some companies reported declining order levels, other companies are securing more orders and need to increase more lines to service the orders. Therefore, since the allocated factory buildings are already being utilised at full capacity, creating more lines is not possible, hence the need for additional factory buildings for expanding firms. Current developments that include Belo and Tikoe Phase III industrial estates aim to address this challenge although additional efforts are required to meet the demand.

Warehouses for other companies are needed, as the factory building is enough for production only. The finished product cannot be placed in the same place as semi-finished products, which causes quality decline and degradation.

- **Overreliance on trade preferences**

The overreliance on trade preferences offered by other countries leaves the Lesotho's manufacturing industry in a vulnerable status whenever trade policy of such countries change. Therefore, Lesotho must develop its industry to support the local demand and address demand for basic goods and services required by the citizens alongside building a strong and competitive export production to earn foreign currencies. The balance between domestic production and export production should be pursued for sustainable economic growth and development.

## 11. CONCLUSION

The state of the industry has indeed been negatively affected by the lockdown restrictions because of COVID-19 as companies closed temporarily, orders were cancelled, employment and production plummeted particularly in April – June 2020. However, it is noted from the finding of the study that the impact of the lockdown on the production within the manufacturing sector has not been as bad as anticipated. Prospects for recovery by the manufacturing industry are expected beyond September 2020 although it may take two – three (2 -3) months to get back to the normal cycle. Furthermore, the companies have indicated that the challenges with the border crossing during the lockdown prevented management that stays across the border to open business at minimal levels to keep operations going. Therefore, most companies reported decline in revenues projected beyond September 2020 until the businesses resettled.

## 12. RECOMMENDATIONS

In conclusion, the impact of lockdown restrictions because of COVID-19 on the manufacturing industry has been minimal and below the levels anticipated. However, it is recommended that over and above deploying various relief measures to

limit the impact on companies as communicated by the Government of Lesotho, a serious consideration and commitment to address key business challenges to improve the business climate should be made.

In order to minimize the negative impact of Covid-19 on the manufacturing industries and businesses as a whole, the Government introduced the economic stimulus package. Through this program, rental waiver over the two (2) months of April to May 2020 was implemented. Government of Lesotho further allocated M500 million funding to stimulate access to credit by all businesses through partial credit guarantee scheme. Financial assistance on Industrial Workers Wages worth over M40,000,000.00 was implemented as a relieve measure for factory workers.

In addition to the COVID-19 relief measures, the following actions are recommended for consideration:

- Strengthen Aftercare Services to facilitate retention of and expansions by existing investors
- Strengthen efforts to engage existing investors to advise on available programs and interventions aimed at addressing the crisis, and supporting their investments and operations.
- Disseminate information and create awareness on all available stimulus/incentives including government Relief Programmes such as LNDC COVID-19 PCG, LRA Tax concessions, and policies that affect business such as lockdown production policies.
- Seek LNDC's involvement and strengthen its engagement within NACOSEC to appreciate and effectively address business related challenges.
- Adopt a pro-active problem-solving approach to support existing companies to address operational challenges e.g. resuscitation of Inter-Ministerial Task Team (IMTT).
- Handle periodic online survey to assess continuous impact of COVID-19 on existing companies (to be abreast with new developments to inform policy direction and decision making) and address early warning signs.
- Identify COVID-19 related trade and investment opportunities to be explored by existing investors.
- Assist companies to secure orders to get back to normal business operations
- Address cross-border issues as a matter of urgency.
- Fastrack trade promotion agenda and provide support on market intelligence

Furthermore, to address the long-standing business challenges, the following interventions could be prioritized:

- Prioritize issues relating to Bureau of Standards in support of diversification strategy.
- Implement recommendations of the investment climate reform agenda
- Design and deploy a comprehensive sector-specific incentive regime for strategic industries

- Make available additional factory space to support expansions and new investments
- Ensure proper maintenance of existing infrastructure
- Promote e-commerce and optimize use of digital platforms for effective trade

The need to support and implement trade and trade-related initiatives cannot be overemphasized as the pursuit for the private-sector-led growth can meaningfully be achieved when interventions targeted at empowering and strengthening the operations of the private sector particularly in trade and investments is prioritized. The potential to turn around the state of the economy and relief to government challenges that include high deficit and wage bill can be explored through focusing and committing to implementation of relevant business environment reforms to entice the private sector to participate.

