SOUTHERN AFRICA GLOBAL COMPETITIVENESS HUB

INSIDE SOUTHERN AFRICAN TRADE

ISSUE 12 MARCH 2008

In this issue of INSAT we look at two small mountainous Southern African kingdoms – Lesotho and Swaziland – where apparel firms have thrived in recent years; becoming significant employers and foreign exchange earners.

However, recent events have put the industries, and the jobs that have been created, at risk. We look at two initiatives aimed at responding to the current challenges and ensuring the sustainability of the industries in the short and medium term.

On pages 8-11 we provide overviews of Lesotho and Swaziland in the form of a selection of narrative and statistical data.

'We Speak To' Belinda Edmonds, CEO and co-founder of Cool Ideas, an apparel sourcing company that facilitates several million dollars worth of apparel exports from Southern Africa every year.

In the 'Guest Perspective', Leslie Johnston, country director of the Swaziland Enterprise and Entrepreneurship Program (SWEEP), discusses the evolution of small enterprises to viable export-oriented businesses; asking why some go all the way and others remain one-man (or mostly one-woman) operations.

We hope you will enjoy this issue of INSAT and we invite you to share your opinions and suggestions with us by writing to *insat@satradehub.org*.

INSIDE THIS ISSUE

Around Southern Africa:

Tough Questions as COMESA Prepares for Customs Union 2

Two Studies Cast New Light on Cost of Adminsitrative Barriers to Regional Trade 4

News Brief 4

INSIDE the Private Sector:

Fair Trade Producers to Form First Regional Network 5

INSIDE the Donor Community:

EPA Adjustment Funds........ 6

Around the World:

News Briefs 7

INSIDE the WTO 7

Lesotho Fact Sheet........ 8

Swaziland Fact Sheet 10

INSAT Focus:

The Comeback of the Textile and Apparel Industries in Lesotho and Swaziland........ 12

We Speak To...

Belinda Edmonds, CEO and Co-Founder of Cool Ideas........ 14

Guest Perspective:

Small Business, Big Business?........ 16

Trade Resources........ 19

INSIDE the Trade Hub 20

USAID | SOUTHERN AFRICA
FROM THE AMERICAN PEOPLE

Published by the Southern Africa Global Competitiveness Hub as part of its Trade Facilitation and Capacity Building Activities, and sponsored by USAID. However, the views expressed in this publication do not necessarily reflect the views of USAID or the US Government.

AROUND SOUTHERN AFRICA

TOUGH QUESTIONS FACE COMESA AS IT PREPARES FOR THE CUSTOMS UNION

In May 2007, members of the Common Market for Eastern and Southern Africa (COMESA) agreed to a common external tariff (CET) structure in preparation for launching a customs union by the end of this year. The critical question facing COMESA now is no longer whether the customs union will be launched – this seems very likely to happen – but whether the grouping can ever be the meaningful union it aspires to be.

From the beginning, COMESA has grappled with several problems which slowed regional integration and already delayed the launch of the customs union for four year. With less than nine months left for launching the customs union, signs are that many of the problems that have plagued the regional integration process have not been resolved or, worse yet, can not be resolved.

The main factor hampering regional integration among COMESA countries is common to all regional groupings; divergent economic circumstances and differing priorities among member countries make it very hard to agree to a unified economic policy or a CET.

Since 2002, negotiators have been unsuccessfully trying to agree to a common list of sensitive products that address the concerns of all of its members. Throughout the negotiations, sources say, members insisted on the need to maintain the "policy space necessary to address national interests," a code phrase for protecting certain products or sectors.

Sources familiar with the negotiations say several countries have already drawn long lists of "sensitive products" that, in certain cases, exceed the list of products that the country trades with rest of the region. These sources say that most member countries seem to be trying to negotiate their way out of the common external tariff rather than towards it.

"There are important impediments to the goal of establishing a low and uniform CET. Protectionism has not only manifested itself in resistance to lowering the number of tariff bands and the maximum tariff rate but also in discord over the classification of goods into the four categories of raw materials, capital goods, intermediates, and finished goods," said the IMF in a 2004 report on challenges facing COMESA.

Although Member States have recently agreed to tariff levels of zero, zero, 10, and 25 percent for raw materials, capital, intermediate and finished goods respectively, many analysts argue that the eventual success of the COMESA customs union will depend on the effectiveness of the grouping's free trade area. So far, only 14 out of COMESA's 19 member states are in the FTA. "How can we have a customs union before we have a fully functioning COMESA free trade area? Of course we have moved some way in reducing tariffs, but we haven't eliminated them. And non-tariff barriers are galore," says Trevor Simumba, a Zambian trade policy consultant. He adds, "Member States are not prepared for higher levels of integration. No wonder many of them have drawn up long sensitive lists."

The COMESA secretariat has repeatedly warned that a high level of protection would undermine the credibility of the proposed customs union and suggested that the final sensitive list should include no more than 15 percent of the Harmonized System (HS) tariff lines for the whole region, and five percent of HS tariff lines of each Member State.

An added complication for COMESA comes from the fact that eight of its 19 members are Least Developed Countries (LDCs) which tend to be heavily dependent on tariff revenues. Some LDC members have reportedly asked COMESA to adopt special and differential treatment measures to address their development needs.

"For every LDC these are important trigger points," says Peter Mwipikeni, an economic analyst, "[i]n the last few years, economies in the region have been subjected to so much pressure than they can withstand from the Chinese who have aggressively run over the continent; from their own integration programs, and more recently from the EU."

"Because economies in the region are small and fragile and largely unable to trade even among themselves, a customs union that ultimately succeeds is one that adopts a development approach to regional integration, starting by building the trade capacities of Member States, and gradually implementing liberalization programs consistent with the size of the economies," Mwipikeni adds.

Another challenge that emerged recently and threatens to further undermine the viability of the COMESA customs union relates to the Interim Economic Partnership Agreements (IEPAs) that some of group's members concluded with the European Union (EU).

In December last year, four COMESA members – Burundi, Kenya, Rwanda and Uganda – signed an IEPA with the EU as the 'East African Community (EAC)'. Swaziland signed an IEPA as part of the 'SADC EPA configuration'. Five other COMESA countries – Mauritius, Madagascar, Comoros, Seychelles and Zimbabwe – signed as part of the 'East and Southern Africa (ESA) grouping'. Djibouti, Somalia, Eritrea, Ethiopia, Malawi, and Sudan have not signed, and Zambia signed without submitting a market access offer.

Countries that have concluded agreements with the EU agreed to gradually liberalize imports of capital goods, raw material and intermediate products from the EU mostly over 15 years. Some agriculture and certain finished products were excluded from liberalization.

Overall, the EAC is the regional integration organization moving the fastest and with the greatest political commitment behind it. Four members of the EAC are also members of COMESA and both COMESA and the EAC have adopted Common Tariff Nomenclature and CETs, but these are not identical. It is not clear how COMESA will deal with this.

Balancing so many divergent priorities and differing economic interests within COMESA would inevitably lead to a weak customs union that will not be able to live up to the expectations of its members. Analysts say, ultimately, COMESA will have to either overlook the national interests of its individual members and move towards a meaningful customs union or give up its dream for a union altogether and settle for a free trade area instead.

TANAZANIAN TRADERS PIN HIGH HOPES ON UNITY BRIDGE

Later this year, more than three decades after the idea to build the Unity Bridge over the Ruvuma River that divides Mozambique and Tanzania was first proposed, the bridge will finally be completed. Tanzanian companies that trade with Mozambique are pinning high hopes on the bridge for boosting exports to their southern neighbor.

Tanzanian traders say the Unity Bridge, which will stretch for more than 600 meters (2,000 feet) to connect Mangaka in Tanzania, to Diaca in Mozambique, could cut the time to transport goods to Mozambique by at least half and reduce transport costs by as much as 25 percent.

Peter Simon, managing director of Intermarine Company Limited in Dar es Salaam, is among those hoping for a speedier and cheaper flow of goods between the two countries once the bridge is ready. His company has a contract with Mozambican cement manufacturers, Cimentos de Nacala and Cimentos de Maputo, to supply 1,000 tons of natural gypsum each month. Currently, the company routes its exports through the Port of Dar es Salaam which, Simon says, is a big logistics hassle because ships do not leave the port unless they either have a full load of cargo or are paid the cost of shipping a full load. This often means that his cargo sits idle at the port for days before being shipped to Mozambique. For example, Simon says, a typical gypsum shipment to Mozambique takes ten days, of which cargo is *en route* for only three.

"Currently, we rely on ships which are difficult to get and thus slow to deliver consignments. When Unity Bridge is through, we will be able to transport the gypsum by road to Nacala and Maputo," he says, adding that it will take only two to three days to deliver the shipment by truck to his customers.

The plan to build a bridge over the Ruvuma River to connect Tanzania and Mozambique remained on the drawing board for over two decades before it was resurrected in 1996. But, lack of funds delayed construction until 2005 when the two governments finally decided to finance the building from their national budgets, as part of an effort to reduce transport costs and boost bilateral trade.

The Unity Bridge is also expected to reduce transport time and costs for companies in Malawi and Zambia which currently route their trade through the Port of Dar es Salaam via the border towns of Tunduma and Kyela in the south and southwest of Tanzania.

MOZAMBIQUE'S PEMBA PORT SEEKS TO RIVAL REGIONAL PORTS

Mozambique's state-owned Ports and Railway Company is planning to expand the northern Port of Pemba in what many see as an effort to turn Pemba into one of the main shipping gateways in east Africa.

The expansion will allow Pemba to accommodate larger ships and handle the rapidly increasing volumes of cargo passing through the port, officials with the port say.

"The volume of cargo [passing through the port] from October 2006 to 2007 increased from 66,939 metric tons to 75,990 metric tons, we had an increase of 14 percent," said Pemba Port Manager, Orio Benzane, in written responses to INSAT questions.

The Port of Pemba lies in the world's third largest bay on the coast of Mozambique's Cabo Delgado province, bordering Tanzania. But, despite its deep-water harbor and strategic location, Pemba, has been serving primarily as a regional feeder port.

Government officials say the expansion of the port will help ease the congestion in some of the major ports in the region and will allow Pemba to rival ports in Dar es Salaam in Tanzania and Mombassa in Kenya.

The expansion also coincides with plans for drilling oil exploration wells in the Rovuma Basin just north of the port. The US-based independent oil company Anadarko Petroleum is planning to drill six wells by 2012, including two underwater wells that appear particularly promising. And last year, the Canadian company Artumas, signed an oil Exploration and Production Concession Contract with the Mozambican Government for the Rovuma onshore block.

The multi-million dollar refurbishment of the port is part of a broad drive by the Mozambican Government to modernize the country's transportation in-

frastructure which was heavily damaged during the 17-year civil war that ended in 1992.

In 2004, the Port of Maputo was upgraded to accommodate larger ships. The upgrade helped Maputo become one of the region's major ports connecting Southern Africa with Asia

TWO STUDIES CAST NEW LIGHT ON THE COST OF ADMINISTRATIVE BARRIERS TO REGIONAL TRADE

Regulatory requirements and other non-tariff barriers (NTBs) continue to hinder intra-regional trade and greatly add to trade costs in SADC, according to two recent studies by the South African Institute for International Affairs (SAIIA). The findings of the two studies echo concerns increasingly being raised by economists and development experts about the adverse impacts of regulatory and administrative barriers on trade flows within SADC.

One study that looked at trade along the Gaborone-Durban transport corridor, which links Botswana to the South African Port of Durban, estimates the additional costs associated with toll roads, customs clearance procedures and delays at the two border posts in Botswana and South Africa at 25 percent of total transport costs. Costa Pierides, who conducted the study, is quick to note however that the figures are conservative and that the actual costs of NTBs could account for as much as 37 percent of total transport costs along the corridor. Pierides says that NTBs could be costing the South African economy alone some ZAR32 billion (US$4 billion) or two percent of the country's GDP each year.

"[The impact of administrative barriers] spreads further in terms of multiplier effect inefficiencies creeping into the system, such as, fuel usage and downtime at toll road booths costing about as much as the fees themselves," Pierides said in written responses to INSAT questions. "Current findings suggest that [the issues of administrative barriers are] a lot more complicated than originally thought."

The other SAIIA study analyzed the costs of transporting goods along Beitbridge, the main border crossing between Zimbabwe and South Africa. The study identified a number of regulatory requirements that cause delays and contribute to increasing the cost of transport along the corridor. For example, the study found that it takes commercial vehicles 48 to 53 hours to obtain a single permit to cross Beitbridge from South Africa to Zimbabwe and 63 to 83 hours to obtain a multiple-entry permit.

Gregory Mthembu-Slater, an independent economist and political analyst based in Cape Town and the main author of the study, says delays due to regulatory requirements and congestion at the port greatly add to transport costs. "The cost of truck delays is still considerable. Truck queues to enter Durban Port can extend for up to 5 km, resulting in delays of three to six hours at a cost per truck of ZAR300 (US$46) per hour. This implies a 5 km queue costing transporters a total of ZAR150,000 (US$23,000) per hour," the study says.

Mthembu-Slater also notes that recent efforts to simplify customs documentation procedures and extend working hours of the border post have not succeeded in reducing "administrative delays" at Beitbridge. The reason, he says, is that the excise and custom software used by various countries in the region are often incompatible which makes the streamlining of processes very difficult.

Mthembu-Slater and Pierides acknowledge that costs associated with NTBs vary from one transport corridor to another but they point out that their studies provide some indication of the magnitude of these costs which, they say, have been largely ignored by governments in the region. "If and when SADC's political leaders agree to use one software package, agree which one it should be and then implement this decision, the way should be open for the electronic acquittal of bonds for goods in transit, which should further speed up transit times," says Mthembu-Slater.

NEWS BRIEF

US OPEN TO EXPANDING AGOA COVERAGE

The US is open to expanding the range of products covered under the Africa Growth and Opportunity Act (AGOA) to further boost exports from sub-Saharan Africa, according to the Assistant US Trade Representative for Africa, Florizelle Liser.

Liser noted, however, that beneficiary countries should first develop national strategies to improve their productive capacity if they are to fully benefit from current or future preferential access to the U.S. market.

"Currently, AGOA covers about 98 percent of goods entering the U.S. market. Calls to include the remaining two percent have come through. We don't have a problem with that. But essentially what we need to focus on first is capacity, capacity to increase the volume of the products already qualifying," Liser said in an interview with INSAT.

The eight-year-old AGOA allows duty-free exports for more than 6,400 African products to U.S. markets, including textiles and apparel.

Liser said that African countries should also seek to develop their production capacity of value-added goods to capture more benefits from AGOA.

"It is important for African countries to develop national AGOA strategies to assist their exporters to add value to their products and realize more benefits from AGOA."

African exports to the US under AGOA totaled US$51 billion in 2007, 15.5 percent higher than in 2006. But the rise in the value of exports was mostly accounted for by the increase in oil prices. African exports of non-oil products to the US have fallen over the past couple of years.

INSIDE THE PRIVATE SECTOR

FAIR TRADE PRODUCERS TO FORM FIRST REGIONAL NETWORK

Traders and producers of fair trade agricultural products and handicrafts from five Southern African countries are forming the first regional fair trade network to link producers in the region and enhance their influence in the global fair trade movement. Exporters from South Africa, Malawi, Swaziland, Zambia and Zimbabwe met for the first time in October 2007 in South Africa and agreed to establish the Southern African Fair Trade Network (SAFTN) to initiate and coordinate fair trade programs in the region.

They are scheduled to formally launch the network next month.

"Fair trade is a movement that is gaining ground globally. Here in Africa two networks have already been established in north and east Africa. But Southern Africa didn't have one until late last year," says Laputa Hwamiridza, a member of the interim committee of the network, "[t]he principal goal of fair trade is to ensure equality and fairness in trade between producers and sellers."

Noel Oettle, another member of the SAFTN's interim committee, says despite the significant growth in exports of fairly traded products from Southern Africa, regional producers remain "isolated from one another, which limits their ability to learn from one another, and to trade amongst one another."

Membership in the SAFTN will be open to regional producers, traders and organizations that are fair trade certified by the Fairtrade Labeling Organization (FLO) or the Cooperation for Fair Trade in Africa (COFTA).

Both the FLO and COFTA run voluntary certification schemes. Companies seeking certification under either system must comply with a range of standards that, among other things, guarantee a price that is considered "fair" to producers and provide them with advance payments. The FLO standards also require that producers invest a "fair trade premium" in projects that "enhance social, economic and environmental development."

Sales of fair trade products are growing at a rapid rate, drawing increasing interest from retailers and producers worldwide. In 2006, global sales of fair trade goods were estimated at US$2 billion, a 40 percent increase over the previous year.

In Southern Africa, many see fair trade as a lucrative alternative market for regional producers and traders who are constantly searching for ways to differentiate their products and secure higher prices in an intensely competitive global market.

"The advantage of fair trade is that the prices offered are premium. They take into account the costs of production. More and more companies in Europe and North America eager to do ethical business with producers in Africa now prefer products with the fair trade label," Hwamiridza says.

Oettle notes that SAFTN will also help fair trade producers and organizations participate more effectively in the global fair trade movement in which, he says, they have been marginalized.

"The Africa Fair Trade Network is represented at a governance level within the international Fairtrade Labeling Organization (based in Bonn), but the Africa Fair Trade Network currently lacks elected representation from Southern Africa. A Southern African Fair Trade Network will enable producers and other stakeholders in the subcontinent to participate in these bodies and contribute to decision making. It will also stimulate fair trade within the region," he says.

Sources say SAFTN will establish a secretariat with funding from membership dues and by a grant from Comic Relief, a British charity organization.

The International Fairtrade Certification Mark (CM) guarantees a rigorous process of certifying products as in compliance with international Fairtrade standards set by the FLO (*www.fairtrade.net*).

These standards are developed by the FLO Standards Committee, in which stakeholders from FLO's member organizations, producer organizations, traders and external experts participate.

Fairtrade standards guarantee a minimum price considered as fair to producers. They also provide a Fairtrade premium that the producer must invest in projects enhancing its social, economic and environmental development and strive for mutually beneficial long-term trading relationships and clear minimum and developmental criteria and objectives for social, economic and environmental sustainability.

INSIDE THE DONOR COMMUNITY

EU ADJUSTMENT FUNDS INSUFFICIENT, INCLUDE NO ADDITIONAL AID, AFRICANS SAY

A few months after initialing the interim Economic Partnership Agreements (EPAs) with the European Union (EU), many countries in the region are beginning to focus more closely on the costs of implementing the agreements and the aid the EU has pledged to help them pay for these costs. And they do not like what they see: insufficient funds that, they say, are being recycled from existing aid commitments.

The EU pledged about €2 billion (US$3 billion) a year in aid over the next five years to compensate countries that sign EPA agreements for revenue loss and help them finance other adjustments that they have to undertake to comply with the agreements. The aid would also be used to expand supply capacities in these countries through, for example, private sector support, infrastructure development and trade promotion.

But many countries argue the figure is a fraction of what they would need to tackle the heavy costs they will have to incur to comply with the agreements.

The African Group, the African Union's negotiating arm, estimates that Africa alone will need some €6.6-16 billion (US$10 to 20 billion) in additional 'Aid for Trade' to cover various costs of liberalization, including technical assistance related to private sector development, supply-side capacities, trade-related infrastructure development and trade policy strengthening.

Although this figure may be exaggerated, other estimates of EPA-related adjustment costs put the costs at about four times what the EU has pledged so far. For example, a recent study by the South Centre, an intergovernmental organization of developing countries headquartered in Geneva, estimates that the overall EPA costs of adjustment will require approximately €9.2 billion (US$14 billion) in aid. The estimates include €3.3 billion (US$5 billion) for implementing new systems of customs administration and other institutional measures, €2.1 billion (US$3.4 billion) for trade facilitation and restructuring of domestic industries and €1.5 billion (US$2.3 billion) for production and employment adjustment assistance.

Moreover, they say, the two billion dollar figure does not represent an increase in the overall amount of trade-related support that the EU already provides to developing countries. The EU's current commitments under the European Development Fund and the European Commission's budget spending on trade are included in the adjustment aid fund.

Apart from the amount of aid being pledged, many are criticizing the EU for its over-emphasis on helping countries meet EPA-related commitments.

Bamaga Tukur, president of the Africa Business Roundtable, argues the adjustment assistance will not help Africa's position in the global market because it is focused more on African countries meeting obligations to the EU rather than strengthening their "capacities to capture the benefit of more open markets". Citing the falling share of Africa in global trade Bamaga asks, "[w]hat chance then does Africa have to benefit from further liberalization efforts that do not involve capacity building?"

The EU has been trying to reassure Afican, Caribbean and Pacific (ACP) countries about the availability and amount of adjustment funds, including through giving ACP trade needs high priority in its Aid for Trade strategy. But this may not be enough to allay concerns of African countries and other ACP countries. "The details regarding the source of funds, their volume, the channels through which they would be delivered and the related access conditions were not sufficiently clarified to provide comfort to many ACP negotiators," says a recent study commissioned by the Directorate General for Trade at the EU Commission.

USAID SUPPORTS SMALL BUSINESSES IN SWAZILAND

USAID, in association with two local banks, in February announced a US$25 million loan guarantee facility for small and medium-sized business enterprises (SMEs) in Swaziland.

According to the press release, the program, which would run for the next seven years, "will provide partial loan guarantees to private lenders to promote economic development activities," thereby reducing the risks of lending to SMEs for commercial banks.

Part of the broader USAID-funded Swaziland Enterprise and Entrepreneurship Program (SWEEP), the program will be implemented in partnership with Nedbank and Standard Bank.

In Swaziland, as in other Southern African countries, it has been difficult for entrepreneurs to access finance to start up their businesses, especially in high-risk sectors such as agribusiness. According to the managing director of Swaziland Standard Bank, while borrowers will still have to go through the usual process and submit all the usual supporting documentation to secure a loan, such as a viable business plan and realistic financial forecasts, banks will now be able to seriously consider businesses that they would normally identify as high-risk and not eligible for funding.

Through their ***Believe Begin Become*** initiative, the SWEEP project will support borrowers through training and technical assistance to operate successful businesses with growth potential, explains Leslie Johnston, SWEEP Country Director.

NEWS BRIEFS

INDIA: PIRACY CAUSES HUGE LOSSES

Piracy in India's entertainment industry causes huge job and revenue losses to the Indian economy, according to a recent study by the US-India Business Council. The study, 'The Effects of Counterfeiting and Piracy on India's Entertainment Industry', estimates that the Indian entertainment industry loses some 820,000 jobs and about US$4 billion each year to piracy.

EU AUTHORIZES IMPORTATION OF GM MAIZE

The European Union (EU) has authorized imports of genetically modified (GM) maize for sale across its 27 member countries for the next 10 years. In February, EU ministers were unable to reach an agreement to allow imports of five biotech products, including GA21 maize. But EU law allows the commission to authorize GM imports when ministers cannot reach a consensus agreement after a certain time.

EIGHT EU MEMBERS AHEAD OF US IN BROADBAND ACCESS

The European Commission said eight of its members have surpassed the US in broadband deployment in 2007.

In its 'Progress Report on the Single Telecoms Market', the EU described Denmark, Finland, the Netherlands, and Sweden as "world leaders" in broadband deployment with penetration rates topping 30 percent at the end of 2007. The four members, along with the United Kingdom, Belgium, Luxembourg and France, had broadband penetration rates higher than the US whose rate stood at 22 percent at the end of 2007.

"The European regulatory model is designed to increase competition in the telecoms market and this certainly is starting to pay off," said Viviane Reding, the EU's Telecoms Commissioner, "however, the job is not yet done...we still lack an attractive single market for businesses and services of European dimensions."

INSIDE THE WTO

NAMA TALKS SEE HINTS OF PROGRESS

After months of deadlock, signs of progress emerged in the negotiations on trade in industrial goods as negotiators showed some flexibility towards potential ideas on how developing countries might offer deeper tariff cuts in exchange for broader exceptions for some products. Observers warned, however, that it is still far from clear whether members will ultimately be able to bridge their differences and reach an agreement.

Sources familiar with the negotiations say that a draft negotiating text circulated on February 8 by the chairman of the Non-Agriculture Market Access (NAMA) negotiations, Ambassador Don Stephenson, provided "more space and more options for members to negotiate the final result of the modalities."

The two most contentious issues in the NAMA negotiations have been the 'formula' that will set the future tariff levels for developed and many developing countries and the 'flexibilities' that will determine the extent to which developing countries will be able to shield some products from full tariff cuts. Progress on both issues is essential for an agreement on a framework deal in the next few months.

The text circulated in February, sources say, included a simple Swiss formula with two coefficients, one for developed and another for developing countries, that would be applied to reduce "industrial" tariff lines. Like an earlier version issued last July, the paper called for coefficients of eight or nine for developed countries and 19-23 for developing countries. But unlike the July text, the new paper did not include any potential figures for developing country flexibilities.

The formula and the flexibilities are linked in that countries might accept lower formula 'coefficients' (which become future tariff ceilings) if granted greater flexibility to protect sensitive sectors from those tariff reductions.

DIFFERENCES OVER SENSITIVE GOODS DELAY NEW AG TEXT

Geneva negotiators were unable to resolve their differences on some technical issues relating to agricultural products that members want shielded from full tariff cuts under a future agreement.

As part of a potential deal, it was agreed that members will be allowed to make smaller tariff cuts than required by the "standard formula" in exchange for expanded import quotas.

One critical issue in these negotiations is the domestic consumption data that will be used to determine the expansion of the tariff rate quotas that countries need to establish for a given sensitive product. These figures would vary widely depending on the level of detail at which commodities are being designated as sensitive (e.g., all beef products compared to certain cuts of beef) and the level of processing used (e.g., whether to include sugar used in baked goods in figures on domestic sugar consumption).

Exporters of agricultural products complain that importers use partial designation to minimize the amount of domestic consumption of a given product so that they would only minimally expand their tariff rate quotas.

Sources familiar with the negotiations say the products most affected by this fight are sugar, wheat, barley and other cereal grains, with significant impact on dairy and oil seeds.

The chair of the negotiating committee, Crawford Falconer, indicated earlier last month that progress in the negotiations would not be possible if these differences are not resolved.

COUNTRY FACT SHEET...

LESOTHO

THE MOUNTAIN KINGDOM

Small, landlocked and mountainous, the Kingdom of Lesotho, formerly the British protectorate of Basutoland, became independent in 1966.

Lesotho, with its small population of a little over two million, is entirely surrounded by South Africa and its economy and politics are closely linked to those of its much larger neighbor.

Historically, Lesotho has relied heavily on remittances from its citizens working in South Africa, primarily in the gold mines. The remittances, together with customs duties from the Southern Africa Customs Union (SACU) still account for a large, though declining, share of government revenue.

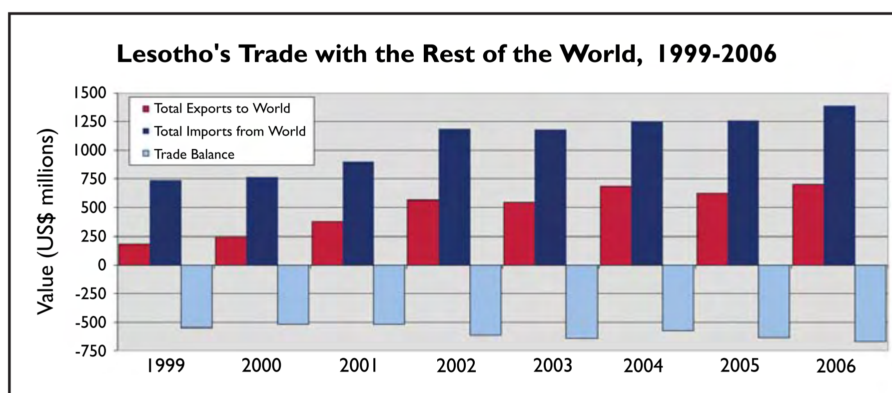
During the 1990s, gold mining companies in South Africa, prompted by declining gold prices, hastened to reduce their costs and their workforces. As a result, more than sixty thousand Basotho lost their jobs and returned home where there were very few employment opportunities.

The return of a large number of migrant workers and the resulting loss of an important source of income for the country exposed the fragility of Lesotho's economy and forced the Government to seek a more sustainable economic model. As a result, the Government started to promote the development of new sectors and search for ways to reduce its dependency on customs duties, including through strengthening its tax system.

In recent years, a small manufacturing base has emerged mainly based on farm products that support the milling, canning, leather and jute industries. An apparel assembly sector also grew significantly during the 1990s on the back of the Multi-Fiber Agreement (MFA) and the African Growth Opportunity Act (AGOA).

Subsistence agriculture is the primary occupation for 70 percent of Basotho. Yet the sector's share in GDP has been declining, mainly due to drought, and it was estimated at only 16 percent in 2005. But with better rainfall across the region, the severe drought that caused a sharp contraction in the agriculture sector in 2007 is expected to ease.

Lesotho faces many challenges, not the least of which is its overdependence on SACU revenues (over 60 percent). Reduction in tariffs as a result of multilateral trade liberalization poses serious risks of revenue losses. Moreover, the country's textile sector suffered a significant decline in output and exports since the end



Source: Lesotho Bureau of Statistics

Population: 1.8 million (growing at -0.3% per annum)

Land Area: 30,350 km^2

GDP: US$1.5 billion (current)

GDP Growth: 2.8% per annum

GNI per Capita: US$1,030

HIV/AIDS Prevalence: 23.2% of population ages 15-49 (2005)

Inflation Rate: 5% (GDP deflator)

Currency: Loti (plural Maloti, LSL) 7.2 = 1US$ (2007; the Loti is pegged to the South African Rand at a rate of 1/1)

Literacy Rate: 84.8% (CIA World Factbook)

Life Expectancy: 35.2 years (2005)

(Data Source: World Bank for 2006 unless otherwise indicated
Lesotho Map: http://www.wordtravels.com)

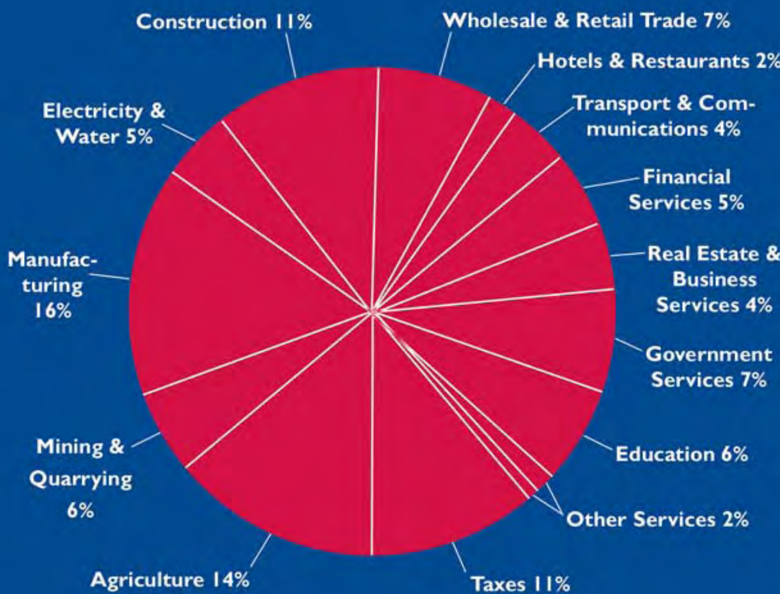
of the MFA prompting efforts to refocus the industry and diversify the economy.

Analysts expect the country's mining sector to drive growth over the next few years. Two operating diamond mines plan to expand and others are in development.

Government efforts to improve the business environment are likely to spur at least modest growth in the manufacturing sector. The construction sector is also expected to benefit from public spending on infrastructure, including roads and water-supply projects.

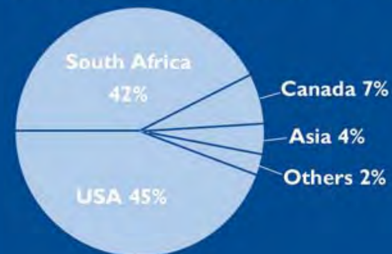
COMPOSITION OF LESOTHO'S ECONOMY - GDP BY SECTOR IN 2006

(Source: Lesotho Bureau of Statistics)

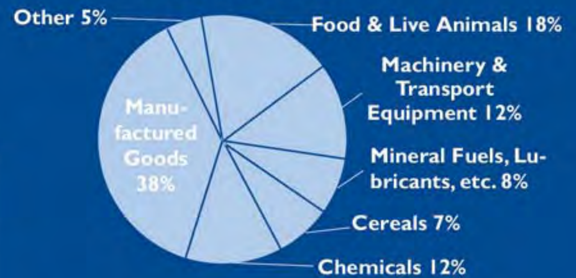


TOP EXPORTS 2002

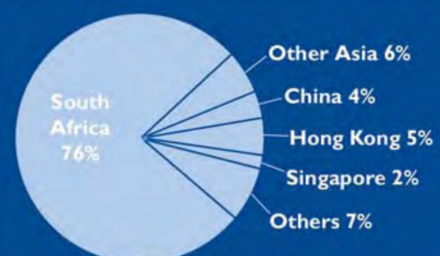
TOP EXPORT MARKETS 2002



TOP IMPORTS 2002



TOP IMPORT MARKETS 2002



The data on top imports and exports and import and export markets is from UN COMTRADE. The most recent data available is from 2002.

The Most Problematic Factors for Doing Business

From a list of 14 factors respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

Source: World Economic Forum 2007/2008 Global Competitiveness Report

COUNTRY FACT SHEET...

SWAZILAND

THE SWITZERLAND OF AFRICA

Swaziland is a small land-locked country embedded between South Africa in the west, north and south and Mozambique in the east. It has been governed as a constitutional monarchy since it gained independence from the British in 1968.

Industry, including mining, manufacturing, construction and power, accounted for a little less than half of GDP in 2006. Agriculture contributed an estimated 17 percent of the country's GDP in the same year, with the main cash crops being sugar cane, cotton, citrus fruits, pineapples and maize.

South Africa is Swaziland's main trading partner, accounting for 90 percent of the country's imports and receiving 60 percent of its exports. At the end of 2007, Swaziland, along with Namibia, Botswana, Lesotho and Mozambique, agreed an Interim Economic Partnership Agreement with the European Union.

Swaziland has been grappling with many challenges – economic and social – for the last several years. The Swazi economy has been largely stagnant as economic growth slowed from an annual average of 3.6 percent in the 1990s to just over two percent in the past six years. Unemployment is at a staggering 40 percent, and nearly two-fifths of the adult population has been infected by HIV/AIDS.

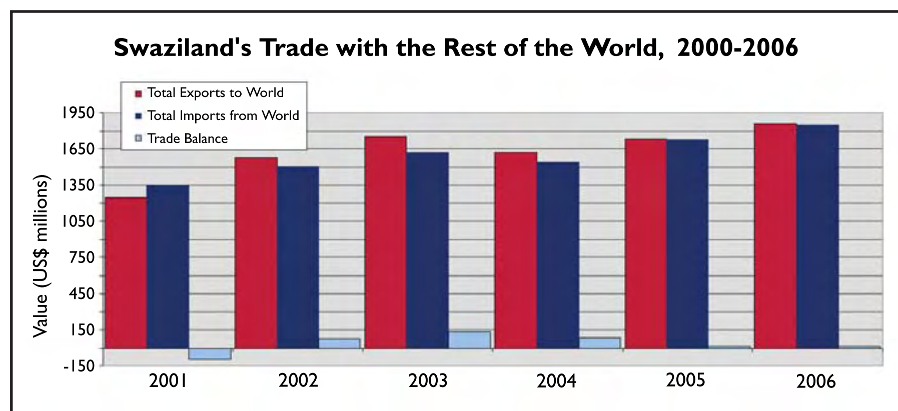
Moreover, soil depletion, drought, overgrazing, and occassional floods have taken their toll on the agricultural sector, which provides a living for more than two-thirds of the population. In 2006-2007, more than one-fourth of the population needed emergency food aid because of drought.

The slow pace of economic reforms and governance issues have had an adverse impact on the investment climate, while the erosion of preferential treatment for Swaziland's main exports, textiles and sugar, have further contributed to the country's weak economic performance.

But despite these woes, some recent developments give reason for optimism.

The Swazi authorities have embarked on a strong reform effort to revive economic growth and tackle the various challenges facing the country.

Among other things, there have been moves towards privatization. The Government is planning to establish a multisector regulator for energy, water and telecommunications, which is expected to start operating in the 2008/09 fiscal year. And the Swaziland Electricity Company, which has replaced the Swaziland Electricity Board, was incorporated



Source: Central Bank of Swaziland

Population: 1.1 million (growing at -0.4% per annum)

Land Area: 17,360 km^2

GDP: US$2.6 billion (current)

GDP Growth: 2.1% per annum

GNI per Capita: US$2,430

HIV/AIDS Prevalence: 33.4% of population ages 15-49 (2005)

Inflation Rate: 5.7% (GDP deflator)

Currency: **Lilangeni** (plural Emalangeni, SZL) 7.2 = 1US$ (2007; the Lilangeni is pegged to the South African Rand at a rate of 1/1)

Literacy Rate: 81.6% (CIA World Factbook)

Life Expectancy: **41.5** years (2005)

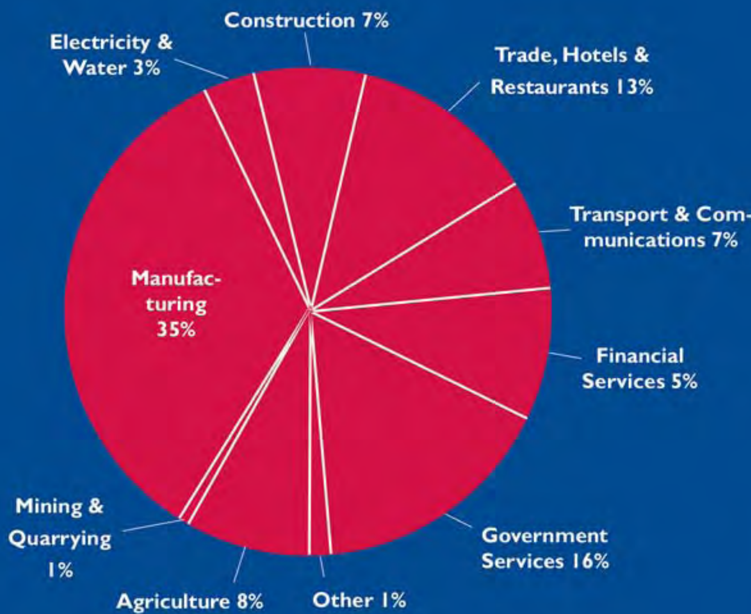
(Data Source: World Bank for 2006 unless otherwise indicated
Swaziland Map: http://www.wordtravels.com)

last year as part of plans to commercialize its operations. Moreover, two bills seeking to commercialize telecommunications and postal operations will soon be put before parliament.

There also seems to be interest from foreign investors in Swaziland. Recently, a Namibian-based company, the Leviev Group, has started investigating opportunities in agriculture, mining and construction. In particular, the Group is reportedly considering an investment of 941 million Emalangeni (US$130 million) to develop biofuels in the country.

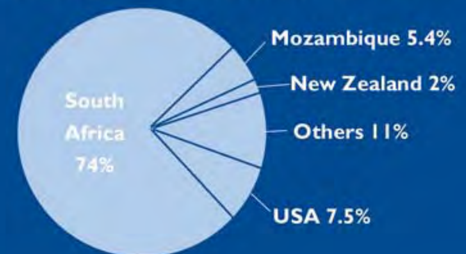
COMPOSITION OF SWAZILAND'S ECONOMY - GDP BY SECTOR IN 2005

(Source: Central Bank of Swaziland)

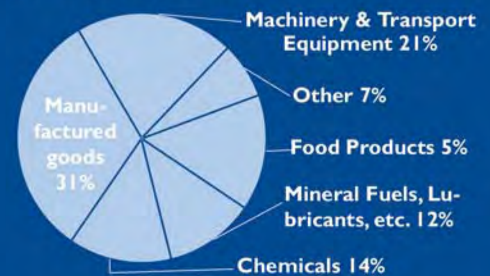


TOP EXPORTS 2005

TOP EXPORT MARKETS 2005

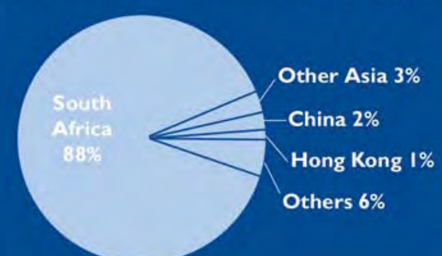


TOP IMPORTS 2005



Unfortunately the World Economic Forum 2007/8 Global Competitiveness Report does not cover Swaziland

TOP IMPORT MARKETS 2005



*The data on top imports and exports and import and export markets is from UN COMTRADE. *A Coca Cola subsidiary, CONCO manufactures soft drink concentrate in Swaziland.*

INSAT FOCUS

COMEBACK OF THE TEXTILE AND APPAREL INDUSTRIES IN LESOTHO & SWAZILAND

In 2005, the textile and apparel industries in Lesotho and Swaziland were struggling to survive. Following a few years of ever-increasing exports and output, several factories in Lesotho and Swaziland closed down or downscaled operations. Employment in the sector was down by 25 percent in Lesotho and 30 percent in Swaziland.

At the time, it appeared that the industry that thrived on the back of trade preferences could not survive competition from low-cost producers in China and other Asian countries.

Three years on, the textile industry is not out of the woods yet. Dwindling orders, volatile exchange rates, eroding preferences and the onslaught of competition from low-cost producers in East Asia are just a few of the factors that continue to force cut-backs of production and jobs.

But recent efforts to restructure and refocus the industry on new markets appear to have succeeded in prompting a turnaround in the sector.

The Crisis the Industries Needed

The crisis that beset the textile and apparel industries in 2005 had some positive outcomes. First it forced producers, governments, and donors to look more closely at the textile and apparel industries in Lesotho and Swaziland and assess its long-term viability. This examination revealed many weaknesses and identified opportunities for growth. It forced the fly-by-night producers, as well as those producers that were not truly competitive, out of the industry. Most importantly, it forced producers in both countries to start thinking, for the first time, about how to enhance their competitiveness to survive in the global market without trade preferences.

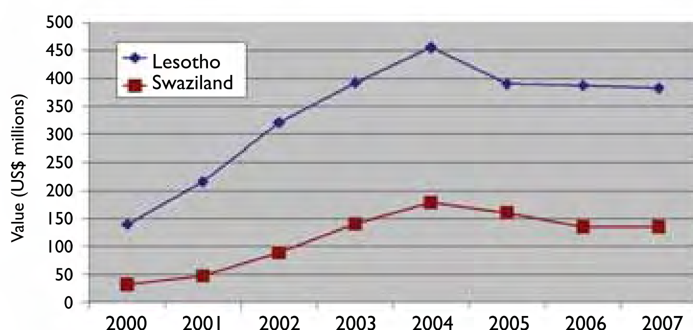
On the Way to Recovery, Restructuring the Industry

Although legislation extending the third country fabric provision until September 30, 2012, was passed in 2006, many in the industry are looking longer-term at market opportunities to become vertically integrated into textile production as a way to lower costs and compete more effectively with lower-cost Asian producers. Companies in Swaziland say they are ready to seize this opportunity to expand their share of the vast U.S. market.

"Our strategy for surviving the strong competition from China is vertical integration. We made our first vertically integrated production base in Mexico where we are based for quick response to the U.S. market under NAFTA. The vertical integration base there is working quite well," says Kevin Tsai, Financial Controller at TexRay, a Taiwanese company that already operates five garment manufacturers in Swaziland.

"The reason we do the vertical integration is because we have to cut our lead time to compete with China – China they have everything there. In the past we only competed under the cover of the AGOA and the quota…but then we only had to rely on the AGOA, but with the WTO, it won't last long, so that is why we set up our dying and knitting mill." Kevin Tsai, Financial Controller at TexRay.

According to Jennifer Chen, President of the Lesotho Textile Exporters Association, and owner-manager of the Shinning Century garment factory in Maseru, it takes about 3 weeks to get fabric shipped to Lesotho – provided that it is available and ready to be shipped – and between 26 and 28 days to ship the order to a client in the US, leaving barely a month to produce the order in the factory in Lesotho. Buyers are demanding shorter turn-around times on their orders. "Be-



The **WTO Agreement on Textiles & Clothing**, also known as the **Multi-Fiber Arrangement (MFA)**, imposed quantitative restrictions on imports of clothing exports from countries such as China and India.

When it came to an end in 2004, Chinese apparel exports flooded the US, South Africa and other world markets. In response, the US, EU and South Africa invoked 'safeguards' against Chinese exports which again limited the quantities of Chinese products that could enter their markets. These will come to an end in 2008.

fore they used to give about 6 months at least – from confirm order, order the fabric, produce to here, and to ship – it was always 6 months. Now they are always talking about 90 days, some even shorter," says Ms. Chen.

Already, the lead times for some products manufactured from fabric produced at the TexRay knitting and dying mills have been reduced from four and a half to two months.

Tapping into Niche Markets

Tsai is quick to note, however, that "only doing vertical integration here is not good enough to survive. After we have done some studies, we found out that perhaps organic cotton is the next step for us – and that perhaps organic cotton is a very good niche for us."

Textile companies in Lesotho and Swaziland hope to tap consumers' growing interest in eco-friendly textiles, part of a broader trend in the US and Europe to embrace natural products, from foods to cosmetics.

TexRay is hoping for a revival in the country's cotton industry and organic cotton in particular. In the late 1980s and early 1990s, Swaziland produced in excess of 30,000 tons of cotton per year, but after years of drought and falling prices, most farmers switched to planting sugar instead. By 2005/2006 Swaziland produced less than two tons of cotton. Organic cotton products sell for a premium in the US and other markets, and it is a fast growing market. According to research done by TexRay, the retail demand for organic cotton is expected to increase by an annual rate of 110 percent between 2006 and 2008, with projected annual sales of US$2.6 billion by 2008 when it will reach a 116 percent annual growth rate. They expect manufacturers' demand for organic cotton fiber to grow at an average rate of 75 percent in 2008.

One of TexRay's major clients, the giant U.S. retailer Wal-Mart, has embarked on a large organic development program and approached TexRay to be its African supplier/partner. "With this business opportunity we are in a unique situation – [we] have a guaranteed buyer and are part of a supply chain partnership with the world giant retailer [Wal-Mart], on a growing and sustainable global market," explains Dr. Daniel J. Mwaisengela, director of the Organic Cotton Project at TexRay.

Now, TexRay is promising to buy every ball of cotton grown organically in Swaziland. It plans to process all this cotton

into lint and finally fabric and apparel in its state of the art facilities in the Matshapa Industrial Area near the Swazi capital, Mbabane. It has enlisted the support of commercial partners and donors from South Africa to find ways to fund the irrigation that will be required and also to provide training on organic cotton farming to the smallholder farmers who they hope to draw into the project. The plan is to cultivate up to 4,000 hectares of organic cotton in the south of the country and, according to TexRay, an additional 10,000 jobs could be created.

Amanda Hilligas, Trade Competitiveness Director at the USAID Southern Africa Global Competitiveness Hub, notes that increased investment of this kind by foreign-owned firms such as TexRay and Nien Hsing in Lesotho (which owns the Formosa textile mill) also minimizes 'mobility…the potential for these firms to easily exit Swaziland [and Lesotho] in search of lower-cost production areas". This creates more job stability for those already employed in the industry and greater opportunities for the transfer of skills to local workers, especially at senior levels where this has been sorely lacking to date.

It is hard to determine whether organic garments will ever take off in any major way. But several designers are already taking part in the organic clothing trend. Giorgio Armani launched an eco-friendly Armani Jeans Collection in the late 1990s which now accounts for almost 15 percent of his worldwide sales and the trendy discount-clothing chain Hennes & Mauritz every season introduces several new pieces made of organic cotton in its stores.

Becoming an Ethical Sourcing Destination

Lesotho has chosen a different survival strategy. The Government, the textile industry and international donors have been working together to raise the profile of the country and market it as an ethical sourcing destination.

"Lesotho is taking its own initiative to go and advertise the country outside – people know it. So when there are issues like asking for funds and help and so on, people are not new to the word Lesotho," explains Dr. Daniel J. Mwaisengela, Director of the Organic Cotton Project at TexRay, "[t]hat kind of connection between the Government and the companies made them understand and practically adjust in Lesotho."

It all started in 2005 when, in the midst of the textile industry crisis, the minister of

...continued on p. 18

WE SPEAK TO…

BELINDA EDMONDS, CEO AND CO-FOUNDER OF COOL IDEAS

Tell us about Cool Ideas and the role it plays in facilitating textile and apparel exports from Southern Africa?

Cool Ideas is a traditional sourcing agent established in 2003. We have a long established customer base of buyers to whom we provide updates on the status of the market and match them with pre-selected vendors. We are very focused on 'matching the right customer to the right vendor'. We are able to introduce vendors to buyers at a level where they already understand the customer's requirement, the sort of sampling needed and the price point. Our customers rely on us to give them a "visual" on their production – we constantly update them on all aspects of their pre-, in- and post-production status and conduct ongoing in-line and final audits to ensure quality standards are met.

It has been more than seven years since the U.S. Government created the African Growth and Opportunity Act (AGOA) which eliminated tariffs on, among others, textile exports from African countries to the US. Have the regional textile and apparell industries been able to maximize their benefits under AGOA?

I can not tell you if they have been able to maximize their benefits, probably we never do. What I do believe is that without AGOA, African countries would have lost a lot of jobs and infrastructure. During that same seven year period we had the demise of the MFA [Multi Fiber Agreement] quotas and a very volatile exchange rate, which combined with the realities of long lead times (we are geographically not really well positioned) and a lack of significant volume or variety of raw materials in the region – to me, African countries have to an extent maximized their benefits by at least keeping an industry, in some cases quite a significant industry.

Do you believe that AGOA has had an impact on the industry's ability to compete in the global market?

A significant number of workers throughout Southern Africa have become proficient in high volume, quality garment production and there has definitely been some increase in the complexity of garment construction, finishings, embellishments, etc. There are also a lot of associated industries such as packaging, accessories, logistics, forwarders and transporters who have been exposed to international requirements and those that have been able to meet the requirements have enjoyed significant benefits.

Is preferential access to the US and the EU essential for the survival of the textile industry in the region?

In my opinion, yes. The international playing field is not level. Most of our competitors enjoy significantly lower wage rates, a variety of incentives and/or subsidies, and often a geographic advantage. We need to maintain significant volumes – 'conventional business' – because that keeps a critical mass of people employed, it generates economies of scale - shipping and other costs reduce and efficiencies increase. This is equally important for niche market business which also has price and lead time ceilings. To do this we definitely need preferential access and I do not think without it that we would have a significant industry.

Do you believe that the textile and apparel industries in SADC can withstand competition from low-cost producers such as China, India and Vietnam in the long run?

I think that we can. There are a lot of issues with those economies that are particularly heated at the moment, particularly in China, Cambodia, and Vietnam. They are

developing very fast and nobody really has the answers to what impact their exchange rates, inflation, and own domestic markets will have in the future. So it is a very brave buyer who says, 'I will put all my eggs in the basket of Asia'. I think most sensible people want to put orders elsewhere as well.

Where do the textile and apparel industries in Lesotho and Swaziland stand in terms of their respective capabilities to compete in the short and long run?

Lesotho and Swaziland lead the way in Africa, particularly Lesotho. Producers in both countries have shown tremendous initiative in finding methods to increase their productivity and reduce costs, particularly in terms of raw materials, shipping costs, etc. Most of the companies in both countries have large marketing and coordination structures in Asia which have very good access to the customer buying teams based there. Each country also has one large textile investment pipeline and we hope those will give a real competitive edge, particularly in terms of lead time.

Interestingly, the Lesotho Government, while it supports this big volume business, has identified some future challenges. They are committed to developing an ILO-friendly labor law and to brand the country as an ethical sourcing destination. I think that, together with their political stability and close access to South African ports and infrastructure, will give them some advantage.

Swaziland continues to face some occasional bad press regarding its political dispensation but its opportunities and advantages are very similar to those of Lesotho. Their biggest opportunity is in synthetic product where there is a much higher duty so there is more advantage. They have an organic project coming on stream which I think will be very significant because they have the resources to make it a big project that can service their really big customers.

What are the main challenges facing the industries in Lesotho and Swaziland?

Lead time remains a big issue. We have had some success in being able to fine-tune the system and as some of the channels have worked more efficiently we have managed to bring lead times down. But it is not only lead time in terms of time from the purchase order to the warehouse, it is also our ability to identify and respond to market developments, new raw materials, new design techniques, and other market trends.

Do you think the rules of origin for textile and apparel exports in the interim EPA that Lesotho and Swaziland signed with the EU, allowing the use of imported textiles to make garments for export to the EU, will significantly impact those countries ability to export to the EU?

I think the EPA will assist those countries, but the EU is a very difficult market – it generally has low duty rates on imported garments and a large number of countries that enjoy preferential access, including Bangladesh and Sri Lanka, making competition difficult. Also, countries like Mauritius and Madagascar which have factories with marketing and coordinating offices in Europe enjoy better success. Non-Indian Ocean, non-francophone countries battle with one, access, and second, language.

What broad trends do you observe in the textile and apparel industry in Southern Africa?

The biggest trend is a strong interest and growth in regional trade. As much as the rest of the world seems to have forgotten about Africa to some extent, Africans are realizing that there are big opportunities closer to home – particularly in the South African market. But at this stage nobody really knows where they want to go. My own opinion is that regional factories should look at this as a niche market, not as a huge market because they are going to face similar competition from the Asian giants. But as a niche market there is always going to remain a requirement for a short run or a quick turn-around product and that is the market that companies should look to grow.

You specialize in niche markets such as organic and fair trade. How did you get involved in this market segment?

We started in ethical trade because we have always worked with customers who have required social compliance audits and certain fairly stringent labor and social requirements in factories. Customers such as EDUN came into the market with the expressed intent of proving that ethically produced products can be sourced from the region – "happy people can do it better; better trained, healthier people are more efficient." There definitely is a growing interest at the consumer level in knowing that a product came from a place where people are fairly treated and the environment is respected. I think that organic, ethical trade, conservation, global warming all go together and consumers are becoming more and more aware and concerned. However, as these markets grow, they are becoming more competitively priced. Products that address one or more of these concerns are now marketed in the mass-market stores and therefore target a consumer who wants the feel-good factor and who will pay a little more for it, but simply cannot afford to exceed a specific price-point. We have to balance the growth of these sectors; after all, we all want more better quality jobs and to protect the environment, but the costs associated with these need to be carefully managed and understood to ensure sustainability.

Niche markets have seen substantial growth in recent years. Do you think that the textile and apparel industries in Lesotho and Swaziland are in a position to become important players in this market?

The important thing to remember is that niche markets are really markets that start off quite small, but they can grow very fast and become the market "standard". For example, the organic market, which probably ten years ago was a true "niche", is today a very significant size and in a couple of years I think that it will really just be the market standard. The garment industry is historically an employer of the masses and we need to stay focused on producing big volumes and keeping lots of people employed. But there are a lot of new, or 'non-traditional', competitors in these niche markets. Notably, there is South America with organic and fair trade – they are really leading the way. India is also coming on stream in a big way leading on organic and Cambodia is looking at a whole ethical trade product and being seen to be a very good place to produce.

What needs to be done by governments, the industry or even donors to support the development of niche products?

One of the most important things is to get the story told. That is one of the biggest trends in the U.S. market right now – telling a story. We are seeing phenomenal sell-through on products that tell a very simple story. We do a couple of them where the promo's (hang-tag, advertising, etc) tells the consumer 'if you buy this item, X gets Y.' Right now, U.S. retailers make those stories. Africa is littered with stories worth telling but WE need to tell them.

GUEST PERSPECTIVE

SMALL BUSINESS, BIG BUSINESS?

Leslie Johnston, TechnoServe's country director of the USAID-funded Swaziland Enterprise and Entrepreneurship Program (SWEEP), shares her thoughts on what it takes for a small business to grow into a bigger, sustainable exporting enterprise.

In most developed economies, small and medium-scale enterprises (SMEs) are the primary engines of economic growth, driving innovation and productivity and generating new jobs. However, in Africa, thousands of micro-enterprises start up but then fail to develop into larger and more impactful businesses able to sell into regional and international markets. Swaziland alone has 70,000 such micro-enterprises. Why is this the case?

Money? That's usually what an SME owner will say. Indeed, SMEs need capital in order to start up and expand. In developed economies, most start-ups are self-financed with help from the four "F's": founders, family, friends and foolhardy strangers. In Africa, that strategy is only possible for a lucky few, and, to unproven entrepreneurs, or those lacking adequate collateral (who are many), capital can be very hard to come by. Here, most banks are lending at prime (currently 14.5 percent), plus 2-4 percent for the riskier SMEs. This is a heavy debt burden for a start-up enterprise.

But capital, although essential, is rarely adequate, particularly for those companies wishing to target external markets. In the northwest corner of Swaziland, a Swazi SME demonstrates this point. Sdemane Farming is currently exporting baby vegetables to Europe through South African distributors. Its quality is excellent and its buyers eager for more and more product.

Its success is due not only to having secured capital at the right time but also to the entrepreneur behind the business. In 1996, Mr. Dlamini joined a foreign-owned company exporting baby vegetables. He steadfastly worked his way up, becoming farm manager in five years. In 2005, he bought the farm and packhouse with the help of a loan from a local financial institution. But it is his vast technical knowledge, selfless commitment, and strong relationships with key international distributors which ensure the success of his business. Is such an entrepreneur born or bred? Given Mr. Dlamini's passion for success, we think it's a bit of both.

So, what will it take for more African SMEs to link into the international markets?

While many factors determine whether an SME can thrive and grow, three, I believe, must absolutely be in place:

Viable business model. Let's be clear. African micro-enterprises are largely poverty-coping strategies rather than employment generators, and produce too little profit to allow their owners to reinvest for growth. A 2006 study by FinScope on small businesses in South Africa confirmed this. A staggering 70 percent of the million or so small businesses in Gauteng Province created no jobs beyond self-employment and most of these would gladly close down if regular employment were available. Thus the challenge is not how to convert these many micro-enterprises into thriving SMEs, but rather how to effectively provide a ladder to scale for those few with the talent and drive to emerge from the crowd.

A viable business model is one which provides a consistent good or service at a competitive price to a reliable market. It differentiates itself from the competition. It also builds in the flexibility (and innovation) to contend with unexpected problems and take advantage of new opportunities.

Viable industry. All industries are not alike. They offer very different promises of true competitiveness and opportunity. Some, such as retail, rarely allow micro-enterprises the opportunity for growth. And that is indeed the challenge in attempting to "graduate" micro-enterprises to larger SMEs. Four out of every five micro-enterprises in Swaziland are involved in trade. Of the million small businesses in Gauteng, most are in retail and only seven percent of these retailers add any value to the goods they sell.

When we assess the potential of a particular industry, we assess various factors, including its size, maturity and competitive nature. We review barriers to entry and growth, as well as track the industry's trends. We assess how any changes in the economy, government regulation and technology might impact the industry's growth. Without favorable trends for market demand and prices, an industry may not offer an African entrepreneur opportunity for growth…or for linking into international markets.

Viable entrepreneur. A recent study found a correlation between the success of African SMEs and the level of education of the entrepreneur. Specifically, a university degree is an effective predictor of whether or not an African entrepreneur will build a growth business which can link into international markets (rather than a micro-enterprise with little potential for impact). But education alone is not sufficient. In Kenya, we found that beyond having some minimum educational/skills background, it is certain key personal qualities of the entrepreneur that were the most important predictors of success – even in cases where both the business model and industry were viable. Without an entrepreneur's passion, confidence, commitment, relationship-building skills – let alone business acumen – the business will not flourish.

Many donor dollars and good intentions

have been invested in trying to build SMEs in which the business, industry and entrepreneur are viable. While we do not proclaim to have the solution, we have tested a few interventions which contributed to building successful African SMEs able to access international markets.

Start with the right idea. Not all business ideas lead to impactful SMEs which can sell beyond their borders. Through our national competition and training program, ***Believe Begin Become,*** we scour each country for the best business ideas in promising industries and invest in building the capacity of the entrepreneurs proposing them. In Swaziland this year, we are focusing the competition on a single sector – tourism – in order to strengthen the linkages between Swazi operators and the international tourism market. Those with the best business ideas benefit from at least two months of training on business fundamentals (a mini MBA) as well as one year of hands-on "aftercare" support for the finalists. We also facilitate linking the participants with the regional markets by taking them, with the assistance of the Swazi Tourism Authority, to the Tourism Indaba in May. While it's still early to assess the impact of this competition in developing successful SMEs, the Top 60 who completed the training in Swaziland to date have generated US$500,000 in incremental revenue (e.g., revenue beyond what they were generating prior to the competition) in 2007.

Create a role model. In other words, in an industry with significant growth potential, we focus on developing a role model – a single successful entrepreneur - which can be replicated by other aspiring entrepreneurs. We took this approach in Mozambique when we set up the country's first small scale, rural cashew processing facility. This particular entrepreneur did not know the cashew industry (such knowledge can be taught) but he did have the commitment, skills, and gumption to make his processing plant a success. Such an approach works only if the market, such as that for cashews, is large enough to accommodate many players. As the initial entrepreneur proved that smaller scale processing can be profitable, over time, about 12 others stepped forward to start up their own processing plants. Further, if the market allows, such a model can create a cluster of successful entrepreneurs who can benefit from each other. In the case of cashews in Mozambique, these new processors formed a joint marketing and quality control organization. This enables each to bundle their product with the others in order to access the European market.

Successful entrepreneur Temba Dlamini runs a growing business that exports baby vegetables from Swaziland to Europe.

Link successful companies to emerging SMEs. Selling into international markets takes a level of sophistication and, in the case of agriculture, certification (EuropGap) not easily achieved by a fledgling SME. One approach we take is to link these SMEs with a larger, centralized buyer or distributor (such as a produce marketing organization or PMO) who provides the market, know-how and hands-on support to emerging SMEs. This approach works best in rural industries where a lead entrepreneur (such as Swazi Trails, an established tourism operator in Swaziland) has a profit incentive to reach out and build the capacity of less established players (such as Shewula Mountain Camp, a community-owned tourism operation). In this case, Swazi Trails includes Shewula in its own product mix, which it markets to international tourists. Swazi Trails also provides advice to Shewula to help build its capacity. Another good example of this approach is Sdemane Farming, the Swazi baby vegetable producer, who has not only its own base of production but also sources from rural farmers, each of which could grow into a larger SME with the right mentorship. Because of the high management requirements for baby vegetables, the company provides the right inputs (seedlings, fertilizer, etc.) to these rural farmers (while we provide hands-on technical assistance to Sdemane Farming itself), thus building their capacity to access international markets.

Each of these interventions takes a different approach to building the capacity of fledgling entrepreneurs to compete locally and internationally. Some approaches rely on "lead" companies (e.g., the PMO in baby vegetables) to provide this support. Others, such as ***Believe Begin Become***, focus on the business idea itself, and slowly build the capacity of the entrepreneur to implement and, ideally, access international markets. But the challenge with each of these interventions is their very sustainability and cost-effectiveness. In the short-term, donor funding (or government support) is required. This funding is essentially a short-term "smart' subsidy to overcome market failures and other constraints to SME development. However, we have to realize that not all SMEs (or aspiring SMEs) will benefit from such market-driven intervention. Only the strongest – most growth-oriented – entrepreneurs will benefit, rising above the rest and successfully linking into international markets.

In the long-term, solutions could be driven by the private sector – which itself is driven by the profit motive.

(*leslie@technoserve.org.sz*)

continued from p. 13...

trade, some of his staff and some business leaders approached the U.S. Embassy in Maseru and together set off to the US in an attempt to save the sector. "The trip was an overwhelming success. Not only did it raise the profile of Lesotho's textiles and garment industry; but the delegation returned to Lesotho with reassuring messages of support from some of the companies that source from Lesotho," wrote Mark Bennett, long-term technical advisor at the ComMark Apparel Project, in a 2006 report on the Lesotho textile and garment industry.

Despite recent problems, Lesotho remains the largest sub-Saharan African (SSA) exporter of garments to the US (29 percent of total SSA garment exports; www.agoa.gov). Buyers of Lesotho's garments include well-known brands and retailers such as GAP, Levis Strauss, Wal-Mart, Calvin Klein and Reebok.

But in recent years several of these buyers, often driven by fear of negative publicity, started to ask their suppliers to comply with a range of labor and environmental standards at their factories. "The US has become stricter in the requirements of their buyers in the last few years. That has forced many companies to erect water filtering plants which is a big investment with actually very little return on it yet," says Jean-Pierre Pellissier, Assistant Managing Director at Nien Hsing.

Buyers also started to regularly send auditors to monitor compliance in factories that produce for them.

But many producers see the growing emphasis on labor and environmental standards as an opportunity to distinguish themselves from other suppliers and in 2005 a drive started to establish and market Lesotho as an ethical sourcing destination. Manthako Mphei, Commercial Specialist at the U.S. Embassy in Maseru, says producers see these standards as "another way that would help to shield them against competition because it is not every industry in every country that is making the same improvements in labor aspects."

Producers say most buyers realize how far Lesotho's textile producers have gone to comply with environmental and labor standards. For example, wages in the textile industry in Lesotho are currently around US$110-120 per month, with working hours limited to 45 hours per week and only 11 hours of overtime allowed per week. By contrast, workers in China work an average of 12 hour shifts and are compensated per piece, rather than per hour. Also, many factories in Lesotho now have in-house clinics where staff can receive free medical advice and attention.

"Levis have shown that they understand the situation down here – they have actually increased their order placement with us due to the exodus of the other customers…" says Krish Moodley, group production director at the CGM group, the biggest employer in the industry in Lesotho.

Remaining Challenges

The challenges facing the textile and apparel industries in Lesotho and Swaziland are, however, far from over.

Supply bottlenecks continue to constrain the industry. For example, garment manufacturers in the region need 80-120 different kinds of material to remain competitive and each mill can only produce at most ten different fabrics, so ten mills will be required to create a fully integrated industry. These could theoretically be spread across the Southern African region, but high transportation costs within the region make such integration unfeasible. Current electricity shortages and labor disputes further scare off potential investors.

Moreover, worker productivity remains very low. One company puts the productivity/efficiency of its workers in Asia at 90-95 percent, compared to only 50-60 percent in Africa.

In Swaziland, TexRay, for example, still lacks firm government support for its plans to grow organic cotton. And other crops, especially those suitable for the production of biofuels, are competing for the same land that TexRay would like to see planted with organic cotton. Furthermore, relations between government, textile and garment manufacturers and labor unions are still uneasy.

In Lesotho, political instability threatens to derail the industry. According to one firm "there is a general perception in the US that the political situation in Lesotho is not stable. And this is creating uncertainty among some of our big customers and they have given indication that they will pull out by end of 2008."

Manufacturers also complain about the rapidly growing number of standards which often vary depending on the buyer. Many manufacturers in Lesotho and in the region have been calling for a single standard-setting body in order to reduce the cost of compliance and reduce the burden of regularly receiving auditors in their factories.

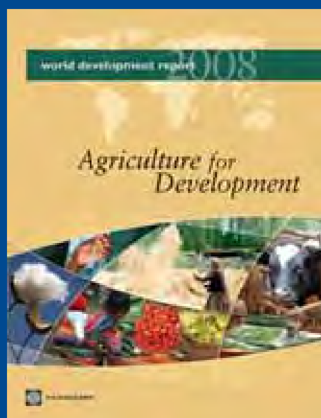
Another serious problem facing the industry relates to the prevalence of HIV among workers in the industry. According to several surveys, HIV prevalence among apparel workers in Lesotho is as high as 43 percent. Estimates in Swaziland indicate similar rates of infection.

Still, the industries in both countries seem to be heading in the right direction and appear determined to succeed – this time without preferences.

"We will survive, we will go back to 8,500 people again by the end of the year or early next year," says Moodley of CGM.

TRADE RESOURCES

World Development Report 2008: Agriculture for Development. In its 30th annual development report, the World Bank addresses several broad questions including: How has agriculture changed in developing countries in the past 20 years? What are the important new challenges and opportunities for agriculture? How can agricultural growth be made more effective for poverty reduction? How can the natural resource endowment for agriculture be protected? How can agriculture's negative environmental effects be contained? Visit *www.worldbank.org/wdr2008* to access the full report and various related resources.



In **Agricultural Trade Reform under the Doha Agenda: Some Key Issues**, published in the March issue of the **Australian Journal of Agricultural and Resource Economics**, Will Martin and Kym Anderson consider three of the most controversial areas of the agricultural negotiations: the relative importance of domestic support, market access and export subsidies; three market access issues of sensitive-product exceptions sought for all countries and the additional special product exceptions sought for developing countries, the proposed special safeguard mechanism; and the domestic support issue. It shows that decisions made on reform in these areas will have a critical influence on whether the negotiations achieve their objectives of promoting trade reform and reducing poverty. *Visit http://www.blackwell-synergy.com/doi/full/10.1111/j.1467-8489.2008.00404.x* to download the article.

Trade in Environmental Goods and Services and Sustainable Development: Domestic Considerations and Strategies for WTO Negotiations. This 139-page discussion paper, published by the International Centre for Trade and Sustainable Development (ICTSD), attempts to bridge some of the knowledge gaps on the various dimessions of trade in Environmental Goods and Services (EGS) and to facilitate strengthened engagement of developing countries in the EGS negotiations so they can work towards a meaningful outcome for their sustainable development goals and priorities. This paper is part of a series commissioned as part of the ICTSD's Environmental Goods and Services Project, which addresses a range of cross-cutting country specific and regional issues of relevance to the current EGS negotiations. Visit *http://www.ictsd.org/pubs/index.htm* to access this and other relevant publications.

A Handbook on Trade in Services. In this recent publication, Aaditya Mattoo, Robert M. Stern and Gianni Zannini provide a comprehensive introduction to the subject, making it an essential reference for trade officials, policy advisors, analysts, academics and students. The book begins with an overview on the key issues in trade in services and a discussion of the General Agreement on Trade in Services. It then looks at trade negotiations in the services sector, the barriers to trade in services and concludes by looking at a number of specific service sectors, such as financial services, e-commerce, health services and the temporary movement of workers. Visit *http://www.oup.com/us/catalog/general/subject/Economics/International* to order a copy of this book.

NEW PUBLICATIONS FROM THE TRADE LAW CENTER FOR SOUTHERN AFRICA (Tralac):

In **The SACU-EFTA Agreement: Current Trading Relationships and Implications**, Taku Fundira outlines the current state of the trading relationship between the Southern African Customs Union (SACU) and the four-nation European Free Trade Association (EFTA) which recently signed an Agreement to form a Free Trade Area (FTA). He argues that for SACU countries the Agreement provides an opportunity to explore new markets especially in services.

Quota Imports of Chinese Clothing into South Africa: The First Year Analysis. Tralac has just completed a full year analysis of the impact of the quotas imposed in 2007 by South Africa on selected key lines of textile and clothing lines from China.

Download these and other trade briefs from *http://www.tralac.org/scripts/nav.php?id=2*.

In Future Prospects for African Sugar: Sweet or sour? Ron Sandrey examines the complex global sugar trading regime and its impact on Africa's sugar exports. The paper puts Africa's sugar production in perspective and considers the future trading opportunities for the continent in a global setting dominated by EU reforms. Read more at *http://www.tralac.org/pdf/WP11%20Sandrey%20Future%20prospects%20Afr%20sugar%20FINAL%2018122007.pdf*.

INSIDE THE TRADE HUB

AFRICAN EXPORTERS PARTICIPATE IN U.S. PREMIERE APPAREL SHOW

As part of the USAID Southern Africa Global Competitiveness Hub's (Trade Hub) ongoing efforts to increase African exports to the US under AGOA, the Trade Competitiveness Project sponsored a delegation of seven apparel companies from Southern Africa to showcase at the MAGIC Fashion and Apparel Trade Show, held February 12-15 in Las Vegas, Nevada.

Six regional companies set up their displays inside the "Source Africa" Pavilion which was a collaborative effort between the Southern Africa Trade Hub and USAID Trade Hubs in west and east Africa.

The MAGIC Show is one of the apparel industry's largest trade shows featuring apparel and accessories manufacturers; fabric and trim suppliers; and print and service providers. More than 2,900 wholesalers representing 5,000 brands and 20,000 product lines attended the MAGIC Show this year. Top American retailers representing over US$150 billion in U.S. consumer apparel sales participate in the show every year. Many in the industry consider the MAGIC Show the most important show for promoting a brand or making sourcing contacts.

The Trade Hubs' participation in the show was a resounding success. The Pavilion received considerable attention and a large number of visitors. Although it is too soon to determine whether and how much business will be generated from the show, participants say the event was an excellent venue for networking and establishing contacts with potential buyers.

The Source Africa Pavilion was awarded 'Best of Show' at Sourcing at MAGIC.

TRADE HUB SUPPORT FOR REGIONAL ELECTRICITY REGULATORS

In an effort to address power shortage in Southern Africa, the U.S. Government signed a memorandum of understanding (MOU) with the Regional Energy Regulators Association (RERA) on February 27 to provide RERA with technical assistance through the Southern Africa Global Competitiveness Hub (Trade Hub).

Although lack of physical infrastructure is the primary cause of energy shortages in the region, to address the short supply of electricity in Southern Africa it is essential that the region develop the regulatory framework to facilitate regional energy trade and increase private sector participation in energy generation. Harmonized regulatory policies, legislation, standards and practices will increase the trade of electricity within the region as well as open up greater opportunities for increased public and private investments in the generation of energy throughout the region.

The MOU was signed by H.E. Katherine Canavan, the US Ambassador to Botswana, Gary Juste (left), Deputy Mission Director US Agency for International Development (USAID) Office for Southern Africa in Pretoria, South Africa, and Mr. Silvester H. Hibajene, the Chairperson of RERA.

RERA, a SADC subsidiary body, aims to facilitate the harmonization of regulatory policies, standards and practices among energy regulatory bodies within SADC.

For the past year and a half, the Southern Africa Trade Hub has been providing energy-related technical assistance to various countries in the region and to RERA under USAID's Africa Global Competitiveness Initiative (AGCI). The Trade Hub was instrumental in facilitating the signing of a framework agreement between Mozambique and the successful bidder, AES Corporation, for the development of a coal-fired power station at the Moatize mine which will draw an estimated US$2.7 billion of private foreign direct investment into Mozambique.

The current MOU formalizes the relationship between the U.S. Government and RERA with respect to energy-related technical assistance provided to RERA through the USAID Trade Hub.

Southern Africa Global Competitiveness Hub, Units 1 & 4, Plot 40, Commerce Park, PO Box 602090, Gaborone, Botswana, Tel: +267 390 0884, Fax: +267 390 1027, E-mail: info@satradehub.org