ECONOMIC PARTNERSHIP AGREEMENT

AND IT'S EFFECT ON LESOTHO'S ECONOMY

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DECLARATION

I hereby declare that this dissertation is my own original work

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ABSTRACT

There is a dire situation of poverty in Lesotho. This is attributable to several factors such as: poor climatic conditions, HIV and AIDS pandemic and poor Government policies. In an effort to reduce poverty and increase economic growth, the Government of Lesotho initialled and signed an Interim Economic Partnership Agreement with the European Union.

This study is meant to access the effect of Economic Partnership Agreement on Lesotho's economy and to establish whether or not the Agreement would contribute towards alleviating poverty in Lesotho.

The methodology adopted in this study was documentary review. Data was analysed from available literature in the form of reports, publications, policy papers and through surfing the net. Interviews were also conducted in order to incorporate the views of focus groups.

The findings of the study reveal that Economic Partnership Agreement can be beneficial to Lesotho in the long run, as Lesotho exporters are likely to have preferential market access to the biggest market in the world. However, there are some gaps that hinder progress towards reducing poverty. These include: poor and inadequate infrastructure, and poor government policies.

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LIST OF ABBREVIATIONS AND ACRONYMS

ACP	-	African Caribbean and Pacific Group of States
AGOA	-	African Growth and Opportunity Act
ART	-	Antiretroviral Treatment
ARV	-	Antiretroviral
BOS	-	Bureau of Statistics
CBL	-	Central Bank of Lesotho
CET	-	Common External Tariff
CPA	-	Cotonou Partnership Agreement
CSP	-	Country Strategy Paper
DAC	-	Development Assistance Committee
DCEO	-	Directorate on Corruption and Development Offences
DFQF	-	Duty Free Quota Free
DTIS	-	Diagnostic Trade Integration Study
EBA	-	Everything but Arms
EC	-	European Commission
ECOWAS	-	Economic Community of West African States
EDF	-	European Development Fund
EEC	-	European Economic Community
EISP	-	European Integration Support Programme
EPA	-	Economic Partnership Agreement
EPAs	-	Economic Partnership Agreements
EU	-	European Union
EUGSP	-	European Union Generalised System of Preferences
FDI	-	Foreign Direct Investment

GATS	-	General Agreement on Trade in Services
GDP	-	Gross Domestic Product
GSP	-	General System of Preferences
HDI	-	Human Development Index
HDR	-	Human Development Report
IFAD	-	International Fund for Agricultural Development
JBCC	-	Joint Bilateral Commission of Cooperation
LDCs	-	Least Developed Countries
LHWP	-	Lesotho Highlands and Water Project
LLDC	-	Landlocked Least Developed Country
LNDC	-	Lesotho National Development Corporation
MCA	-	Millennium Challenge Account
MDGs	-	Millennium Development Goals
MFN	-	Most Favoured Nation
NIP	-	National Indicative Programme
OCTS	-	Overseas Countries and Territories
ODA	-	Official Development Assistance
PAC	-	Public Accounts Committee
PRS	-	Poverty Reduction Strategy
PRSP	-	Poverty Reduction Strategy Paper
RoO	-	Rules of Origin
SADC	-	Southern African Development Community
TDCA	-	Trade and Development Cooperation Agreement
US	-	United States
WTO	-	World Trade Organisation

Chapter One: Introduction

1.1 Country Profile

The Kingdom of Lesotho is situated on the southern eastern part of Africa. It is a small, mountainous landlocked country, completely surrounded by the Republic of South Africa. It covers an area of about 30,300 square kilometres, Lesotho Official Yearbook (1996) and has an altitude of about 3,500 metres above sea level. It is the only country in the world to have its entire territory situated over 1,400 metres above sea level, the highest point of all countries in the world. It is for this reason that it is sometimes referred to as the 'Mountain Kingdom' or the 'Kingdom in the Sky' by the Basotho people. The latest estimates from the Lesotho Bureau of Statistics (BOS) 2006 show that Lesotho's population has decreased due to HIV and AIDS, from around 2.2 million in 1996 to 1.8 million as recorded in the 2006 census report. The country's gross domestic product (GDP) in real terms is estimated at U$$ 681 while GDP per capita is estimated at U$$1,500 according to the Central Bank of Lesotho (CBL) 2008.

1.2 Statement of the Problem

There is a dire situation of poverty in Lesotho. About 43% of Basotho (people of Lesotho) are living on less than one dollar per day, Poverty Reduction Strategy (2006). Lesotho ranks 138 out of 177 countries in terms of the Human Development Index Country Self-Assessment Report (2008). There are several factors that have been attributed to poverty in Lesotho, such as low productivity in the public sector, the rapid spread of HIV and AIDS, and declining natural resources. However, the situation was exacerbated by severe food shortages and humanitarian crisis in Southern Africa, continuous retrenchment of Basotho migrant workers from the South African mining industry, and severe loss of jobs in the manufacturing sector, due to global economic and financial crisis. According to the Lesotho National Development Report (2007), HIV, poverty and food insecurity mutually reinforce each other in Lesotho and threaten to thwart the Government of Lesotho's progress towards achieving the Millennium Development Goals (MDGs) by 2015.

Poverty is one of the most pressing economic problems facing Lesotho as indicated above. As a result, the Government of Lesotho has made alleviation of poverty its top priority. In an effort to address the scourge of poverty, the Government of Lesotho has put in place programmes such as Poverty Reduction Strategy Paper (PRSP) which is a short to medium term strategy and the Vision 2020, a long term strategy and many others. Despite several interventions made by the Government of Lesotho with the assistance of development partners, poverty still persists in the country as indicated by Lesotho National Development Report (2007). According to the Food and Agricultural Organisation in Lesotho, definitions of poverty vary. The World Bank study on Lesotho completed in 2009 (World Bank 2009) reveals that the incidence of poverty is unequally spread across Lesotho. It is greatest in the mountains followed by the more remote areas of the foothills and lowlands, while it is least in the urban areas. The study goes on to indicate that female headed households are more prone to poverty than male headed households.

Lesotho is divided into two main regions, the highlands and lowlands. The highlands region is renowned for its splendid dams such as the Katse dam. Water from the Katse dam is exported to the Republic of South Africa by the Lesotho Highlands Water Project (LHWP) in exchange for royalties. The region is also known for rich mineral resources such as diamonds. The lowlands region, on the other hand, is characterized by large deposits of volcanic soil from the north while the southern part of the lowlands has poor soil and low rainfall Lesotho Meteorology Report (2009).

The Lesotho highlands region, particularly the Katse dam area is rich in natural resources and water. Construction of the dams, roads, schools and hospitals in this area, has brought about economic spinoffs into the country. However, it is important to note that this area has experienced the highest poverty rate in the country, according to Lesotho National Human Development Report (2006). As a result, the highlands are also vulnerable to HIV and AIDS, food insecurity, lack of education and high unemployment rate.

Compelled by the above factors, in 2007, the Government of the Kingdom of Lesotho took a policy decision to sign an Interim Economic Agreement with the European Union in order to reduce poverty, create job opportunities, thereby improving her economic status. Lesotho was one of the seven Southern African Development Community (SADC) member states commonly referred to as the SADC-EPA group, to start the negotiations on Economic Partnership Agreement (EPA) with the European Commission on behalf of the European Union on 8th July, 2004.

1.3 Background of the Economic Partnership Agreement

The Economic Partnership Agreements (EPAs) started on 27 September, 2002. They came about as a result of historical economic relations between the European Union (EU) and the African, Caribbean and Pacific Group of States (ACP). This special relationship began under the Lome Convention, in the early 1970, and continued for the period of over twenty years. It mainly gave trade preferences access to goods originating from the ACP countries to enter the European Union market.

Lome IV was succeeded by the Cotonou Partnership Agreement (CPA), signed in Cotonou, Benin, on 23 June, 2000 by 15 European Union member states and 77 African, Caribbean and Pacific countries (Cotonou Partnership Agreement, 2000). The two Agreements (Lome and Cotonou) provided ACP exporters with preferential access to the EU market without them having to 'reciprocate'. This means that the ACP countries can send their export to the EU market duty free while the EU member states on the other hand, cannot export to the ACP market without having to pay the necessary duty, commonly referred to as the principle of 'non-reciprocity' (CPA 2000).

Over the years, the principle of 'non-reciprocity' was protected by the World Trade Organisation (WTO) which gave a waiver to the EU to continue providing trade preferences access to goods originating from ACP member states until 31 December, 2007. The waiver came to an end following immense pressure from other members of the WTO. As a result, the ACP and EU member states were compelled by these circumstances to conclude a new Trade Agreement, commonly known as Economic Partnership Agreement compatible to WTO trading arrangements. The new Trade Agreement was negotiated between the European Union and the six ACP member states regional groupings (Revised CPA 2005).

It is important to note however, that, there are some controversies about the Economic Partnership Agreements. Some people fear that the EPAs are likely to disrupt regional integration instead of promoting it while others fear that cheaper goods from the EU will flood the markets, in the six ACP regions such as the SADC-EPA region. These issues will be discussed further in the next chapter.

1.4 Objectives of the Study

- To determine whether or not Economic Partnership Agreement can contribute towards reducing poverty in Lesotho;
- To assess what other countries have done to easily access the European Union market;
- To identify and prioritise opportunities and threats that are associated with Economic Partnership Agreement that should inform strategic choices in Lesotho;
- To suggest appropriate measures and strategies that can be employed to access the EU market thereby creating employment and reducing poverty, and to solve the identified problems; and
- To recommend possible policy options for Lesotho.

1.5 Justification of the Study

While several studies have been conducted on Economic Partnership Agreement, there are no studies that have made a scholarly attempt to study whether or not Economic Partnership Agreement would contribute towards alleviating poverty in Lesotho. Hence it is the intention of this research study to contribute in this area. It is against this background that the study will look at the experience of other countries in the region, in particular, Mauritius, to study whether there are strategies that she has employed that might be of assistance to Lesotho.

1.6 Research Questions

The study is meant to answer the following research questions:

- To what extend will Economic Partnership Agreement contribute towards reducing poverty in Lesotho and is it likely to succeed?

- What are the strategies that can be employed to ensure that Lesotho benefits from the Economic Partnership Agreement?
- What will be the effects of Economic Partnership Agreement on Lesotho's economy if the country does not sign the Full EPA?
- What would be the anticipated benefits to Lesotho after signing the Economic Partnership Agreement?

1.7 Limitations of the Study

Limitations of the study may include the following:

- Insufficient data and documents analysed;
- Concentrating on a particular segment of the society, and leaving out others.
- Study being the first of this magnitude conducted by the researcher has the possibility to leave out important information;
- Load shedding and power cuts in Lesotho can be another factor. Without electricity the researcher is unable to do her study as expected.

1.8 Anticipated Benefits

It is anticipated that subsequent to signing the Full EPA with the EU, possible benefits that will accrue to Lesotho will include the following:

- job creation which will address the supply side constraints thereby reducing poverty;
- increased productivity;
- capacity Building;
- duty free quota free (DFQF) market access to the EU;

- single Transformation as opposed to double transformation for textiles and clothing sector;
- access to the EU Development Fund; and
- infrastructure development.

In order to take advantage of this offer, Lesotho needs to have solid infrastructure, markets, other laws and policies to facilitate foreign direct investment (FDI) and a viable Competition Policy.

1.9 Outline of the Study

This study is organized into seven chapters. The initial chapter outlines the importance of the study. It gives its background and a brief profile of the country. It comprises of the statement of the problem. It sets out justification, objectives, purpose, scope, research questions and limitations of the study. It also sets out the manner in which the study is structured.

Chapter Two: Literature Review

This Chapter presents a review of literature and studies in the area of research. It indicates what other authors had to say on Economic Partnership Agreements (EPAs) on the African, Caribbean and Pacific Group of States (ACP), on Africa, the Southern African Development Community region (SADC-EPA) and particularly on Lesotho. Furthermore, the review of literature highlights whether or not the Agreement would contribute towards poverty alleviation in Lesotho.

Chapter Three: Research Methodology

The study was conducted by using qualitative research method and secondary sources. Data was analysed from available literature in the form of reports, publications, policy papers, through surfing the internet and personal experience.

The study also benefited from discussions with focus group, personal interviews and information from other knowledgeable persons on the subject matter.

Chapter Four: Initialling and Signing of the Interim Economic Partnership Agreement by Lesotho

In this chapter, the study focused on why Lesotho initialled and subsequently signed the Interim Economic Partnership Agreement (IEPA). It highlighted some possible benefits that will accrue to Lesotho following the signing of the IEPA.

Chapter Five: Problems Associated with the Economic Partnership Agreement

This chapter highlighted the problems associated with Economic Partnership Agreement. These problems were identified as major challenges in the negotiation process. There were strategies suggested with the aim of seeking solutions to the identified problems.

Chapter Six: Findings of the Study

The findings provide a situation analysis and describe strategies and activities required to address the country's priorities.

Chapter Seven: Conclusions and Recommendations

The last chapter presents the conclusions drawn from the study and its recommendations.

Chapter Two: Literature Review

2.0 Introduction

This chapter presents a brief overview of Economic Partnership Agreements (EPAs) and reviews what other authors have to say with regard to the Agreements of the ACP group in general, African continent, SADC EPA region and particularly on Lesotho which is the main focus of this study. It will also highlight whether EPA would or would not contribute towards poverty alleviation in Lesotho.

2.1 Brief Overview of the Economic Partnership Agreements

In the early 1950s, the six founding members of European Economic Community (EEC) namely Belgium, France, Germany, Italy, Luxembourg and the Netherlands, signed the EEC Treaty establishing the Community. This was later followed by a special relationship between the above countries (with the exception of Germany and Luxembourg) and their former colonies, based on 'development aid policy'. These former colonies were mainly made up of African countries (Moussis 1996). At this time, it may be noted that the issue of development for these African countries was one of the priorities on the EEC's agenda.

The developmental issue was first highlighted by the then Minister for Foreign Affairs of the Republic of France, Robert Schuman, in his famous speech commonly known as the 'Schuman Declaration' where he declared the development of Africa as the important task for the EEC member states. He stated that "Europe would, with increased resources, be able to pursue one of its essential tasks; the development of the African continent." (Schuman 1950). Since then, Europe has continued to follow with keen interest development of Overseas Countries and Territories (OCTs), most of which were its former colonies as indicated above. The objective of the EEC's special relations with these countries was to promote their economic and social development.

2.2 Bilateral Relations and Cooperation between Lesotho and the European Union

Bilateral relations and cooperation between Lesotho (member of the ACP group) and the European Economic Community, dates back to 1975 subsequent to the signing of the First Lome Convention as indicated in chapter 1, and the establishment of the fourth European Development Fund (MoFDP 2005). Before Lesotho joined the ACP group, her relations with Europe were mainly with the United Kingdom (her protector), to whom the Founder of the Basotho nation, King Moshoeshoe I (who saved Basotho from extinction) had turned for protection against the white South African settlers (Boers) and King Chaka of the Zulus in the early 19th century. The United Kingdom continued to protect Lesotho until she gained her independence on 4th October, 1966 (Lesotho Official Yearbook 1996). This helped her survive South Africa's accession to self-government in 1910.

The Lome Convention played a pivotal role in opening the door for Lesotho's garment exports to the EU market. Similarly, the African Growth and Opportunity Act (AGOA) also played an important role in opening the door for Lesotho products to the United States (U.S.) market, which placed Lesotho on the world map, as a global player in the textile and garments industry. AGOA will be discussed later in this chapter. It may be noted however, that Lesotho's garment exports to the EU market are very minimal, unlike garment exports to the U.S. market. This is because of the stringent rules of origin of the EU under the previous Lome Conventions, on the Everything but Arms (EBA) Initiative which was accorded to the Least Developed Countries (LDCs) like

Lesotho. The rules of origin (RoO) criteria applicable under the EU Generalised System of Preferences (GSP) contained under Commission Regulation No. 2454/93, stipulated value addition criteria for non-textile related exports to the EU market and processing criteria for textile-apparels products. In the case of apparels, EU RoO specify that LDCs must undertake two stage domestic value addition before taking the advantage of duty free access as follows:

- In manufacturing, a woven shirt, would imply the use of locally produced fabrics;
- For knitwear products, the yarn used should be of domestic origin.

This 'two-stage' processing requirement (yarns to fabrics, fabrics to apparel) in the EU-GSP discriminates against small developing countries like Lesotho, which lack sufficient textiles capacity to support their garment industry. This is supported by Lesotho's former Minister of Industry, Trade and Marketing, Honourable Mpho Malie's statement in an interview with the World Report, when he said "quotas limit Lesotho's access to the EU market" World Report (2003), and the Oxfam International document which indicates that the EU's Everything But Arms ostensibly offers duty free and quota free access for all exports from LDCs. Yet again, citing African LDCs as the worst victims, the majority of the countries lose more than half of their preferences because of the inability to comply with the stringent rules of origin, (Oxfam International Briefing Note (2006).

The ComMark report also indicates that, between January and June 2005, Lesotho's EU garment exports accounted for about 0.2% of total country garment exports. While in 2004, Lesotho was exporting more than 90% of its total garments exports to the U.S. market under AGOA. In order to increase exports and take advantage of the EU market, Lesotho needs to successfully diversify her economic base and improve the status of her infrastructure, the legal, judicial and regulatory framework, reduce the cost of doing business and enhance Lesotho's regional and global competitiveness as well as to raise productivity through improvements in education and health (Lesotho IMF Report 2009).

The Lome Convention was an Agreement between the then nine EEC member states and forty-six ACP countries. According to Moussis (1996), the ACP group was formed following accession of the United Kingdom to the EEC in 1973. Before most of the British colonies joined the ACP group, only francophone countries benefited from the EDF through the Yaoundé Conventions. The Lome Convention's unique features which distinguished it from other development cooperation arrangements have been its contractual nature and predictability of aid resources (CPA 2000).

As presented in Chapter 1, the first three Lome Conventions (Lome I, II and III) were signed for a period of five years, while Lome IV (1991-2000) was for a period of ten years. It had two five year financial protocols (CPA 2000). Lome IV offered ACP exporters preferential access to the EU market without them having to 'reciprocate' (this means that the ACP countries can send their exports to the EU market duty free while the EU member states, on the other side cannot export to the ACP market without having to pay the necessary duty), commonly referred to as 'non-reciprocity'. This trade arrangement did not comply with GATT Article XXIV of the World Trade Organization (WTO) as it discriminates against non-ACP countries of WTO in their trade with the EU. The EU indicates that reciprocity of preferential market access under EPA would provide cheaper goods to the ACP member states while at the same time ensuring compatibility with WTO rules (UNECA 2006). In the words of (Karingi et al. UNECA 2007) 'reciprocity leads to trade diversion'. The statement which I fully support since Lesotho's small economy will not be able to compete with the goods coming from the developed EU market.

Cooperation between Lesotho and the European Union dates back to the mid 1970s under the Fourth European Development Fund (4^{th} EDF). According to the Ministry of Finance and

Development Planning (2005), ongoing project activities under the 8th EDF National Indicative Programme include the following:

- Road Transport Infrastructure Programme - This includes the upgrading of the paved roads, gravel roads, roads safety works and capacity building, aimed at improving the capacity of the Lesotho Traffic Department, on its mandate to reduce escalating road accidents;
- Axle Load Control Project - whose purpose was to ensure that road users adhere to the specified amounts of load carried by vehicles on the national roads;
- Multi-annual Micro Project Programme, which include community based poverty oriented education facilities, village water supply etc.;
- Support to the Department of Economic Cooperation (Office of the National Authorizing Officer);
- Assistance to Health Sector Reform (Technical Assistance to the decentralization of health services;
- Poverty Reduction Budgetary Support Programme;
- Feasibility study of the Lesotho Lowlands Water Supply;
- HIV and AIDS Review;
- Six Town[1] Water Supply – Phase 2 (Design study). The design phase under this project has been completed.

Under the 9th EDF, the first Protocol for the period 2001 and 2007 provided for a global amount of €13,500 million from the resources of the 9th EDF. According to the European Delegation in

[1] The six towns are Maseru, Teyateyang, Mapoteng, Roma, Morija and Quthing.

Lesotho (EC Delegation 2008), for Lesotho, the 9th EDF Country Strategy Paper (CSP) and National Indicative Programme (NIP) focused on water and sanitation, transport infrastructure, macroeconomic support including budget support.

With regard to 10th EDF Country Support Strategy, the CSP (2007) indicates that programming has already started at country and regional level. Lesotho has been allocated the amount of Euro136 million for the period 2008-2013. The Agreement has since been reached between the Government of Lesotho and the EC that the programme should focus on the following areas: HIV and AIDS; Water and Sanitation; Transport Infrastructure; Budget Support and Non-focal sectors, including possible support for decentralization and food security.

Taking into consideration the focus areas referred to above, under the 10th EDF, it is important to note that the HIV pandemic remains one of the most daunting challenges in Lesotho. Other challenges include: poverty and unemployment, food insecurity, the global economic crisis; and declining SACU revenue as well as the decline in remittances from Basotho mine workers in South Africa. According to the Government of Lesotho HIV and AIDS Report (2008), Lesotho has the third highest HIV prevalence rate in the world among adults. The Bureau of Statistics (BOS 2008) states that the percentage of Basotho infected by HIV in 2007, stood at 23.2 per cent among adults aged 15 to 49. The new infections are estimated at 62 with about 50 deaths each day Government of Lesotho HIV and AIDS Report (2008). As stated above, HIV continues to be a major threat to the survival of the country, with the declining population mainly due to this scourge. According to the Ministry of Health and Social Welfare’s briefing document on the Review of the Millennium Development Goals (MDGs) 2010, the annual number of HIV and AIDS related deaths has declined since 2005. This is mainly due to the number of HIV positive people on anti-retroviral treatment (ART), which has increased drastically in recent years. Since more people are using anti-retroviral drugs, the percentage of people living with HIV and AIDS also increases.

In most regions of the world, the AIDS epidemic appears to have stabilized. However, the most heavily infected region remains to be the Sub-Saharan Africa with an estimated 71% on new HIV infections in 2008, according to UNAIDS Report 2009.

While the number of people living with HIV continues to increase and people with AIDS related illness continue to die in large numbers, it is important to note that some countries have tremendously managed to lower a very high infection rates. One such success story is Uganda. It may be recalled that in the early 1990s, Uganda was among the first countries in Sub-Saharan Africa to be ravaged by the scourge of HIV/AIDS. This country took the bull by the horn to fight this scourge and won. According to the World Health Organization Update 2009, HIV infection rates among pregnant women have been more than halved since 1993, and the infection rates among men seeking treatment for sexually transmitted infections have been dropped to over one third.

The report further indicates that, in Kampala, the capital city, the level of HIV infection among pregnant women attending antenatal care dropped from 31% in 1993 to 14% by 1998. While the HIV infection rates fell from 41% in 1992 to 30% in 1998 among men attending STI clinics. The World Health Organization indicates that, this is attributable to the high-level political commitment in Uganda, which played a pivotal role in the country's success in reducing HIV infections. Uganda is indeed Africa's success story, which most countries in Africa should emulate. In an effort to learn from Uganda's experience, Lesotho has sent some health experts to undertake some studies in that country.

Poverty and unemployment also continue to threaten the lives of many Basotho. Lesotho is one of the poorest countries in the world. The 2007/08 UN Human Development Report found that about 36.4% of Basotho live in abject poverty, on less than US$1 per day, and that the average life expectancy has dropped from 62 years to 42.6 years. This statement is supported by PRS 2006 although it puts the figure of Basotho living in extreme poverty at around 43%. The incidence of poverty is found to be higher in the rural areas, especially in larger household with more children and older people, and households headed by women.

According to Lesotho APRM Country Report (2009), unemployment in the country has risen to about 40% worsening poverty in the rural areas. This is mainly due to massive retrenchments of Basotho migrant labour force from the South African mines. Migrant labour has in the past, eased unemployment problem in the country. This system which was seen as the mainstay of the economy generated income in the country particularly to the rural areas, generating a lot of economic activity ranging from retail to farming (Lesotho Country Paper on Labour Migration 2002). However, the reduction of miners from 120,000 in late 1980s to around 50,000 in 2009 has had serious negative impact on Lesotho, posing economic and social challenges Lesotho Review (2009).

The Central Bank of Lesotho Quarterly Review (2009) states that, there are several factors that have led to the reduction of miners. The first one is the fall in the price of gold and weak global demand due to the current financial crisis which led to suspension of operations and closure of some mining companies. The second one was caused by the increasing labour costs pressurized by the trade unions which in turn led mines to introduce more advanced technology to replace labour.

Food insecurity has and continues to be one of the developmental challenges facing the country. Lesotho produces only 30% of the food required to provide to feed its population in a normal year, as a result, more food supplies are required during drought years (Lesotho PRS 2007/2008). In 2002, Lesotho was among the six Southern African countries that were hit by severe drought in the region which led to serious food insecurity. This problem recurred in 2005 and 2007 due to erratic weather patterns, declining agricultural capacity, occasional crop failure and deepening rural poverty, causing the Government of Lesotho to declare the state of emergency (The 2007 FAO/WFP Report).

The global economic crisis has contributed significantly to the deterioration of Lesotho's economic outlook. This is mainly due to contraction of the Republic of South Africa's economy in 2009. According to the International Monetary Fund Mission Report (2009), SACU transfers to Lesotho are expected to decline by about 65% from M4, 918 million in 2009/10 to M1, 733 million in 2011/12 or from 35.4% of GDP in 2009/10 to 10% of GDP in 2011/12. Given the recent increase in Government spending, the lower SACU revenue will result in a sharp decrease in both fiscal and external positions.

Notwithstanding the above challenges, it may be noted that there has been some positive development in the country, brought about by the launching of the Lesotho Highlands Water Project (LHWP) and the arrival of the textile and garments industry from the Republic of South Africa.

With regard to water, it will be recalled that Lesotho's most significant natural resource is water often referred to as the 'white gold' by Basotho people. This water is being exploited through the 30 year multi-billion dollar Lesotho Highlands Water Project (LHWP) which started in 1986. The LHWP provides revenue by selling water and electricity to the Republic of South Africa. This sale of water and electricity from the project generates approximately 24 million dollars annually. The LHWP is expected to be completed by 2020. By this time, it is expected that the construction of five dams, water transfer works and 200 kilometres of tunnels will be completed between the two countries, according to the Lesotho Highlands Water Project Report (2009). Currently, Phase 1A of the LHWP which comprises of the Katse Dam, in the central Maluti Mountains at 82 kilometres transfer and delivery tunnel system has been completed.

The Government of Lesotho is in the process of developing Phase II of the Lesotho Highlands Water Project through the construction of the Polihali Dam. This has been recently confirmed by the Minister of Finance and Development Planning, Honourable Timothy Thahane during his recent Budget Speech to Parliament for the 2010/2011 Fiscal Year (Budget Speech 2010). The construction of the dam whose objective is to transfer water to South Africa, will immensely contribute towards improving the livelihoods of Basotho, as more jobs will be created. According to the Lesotho Highlands Water Commission's Chief Delegate, Mr. Sixtus Tohlang's briefing to Lesotho Government officials and the private sector, prior to President Jacob Zuma's State Visit to Lesotho from 12 to 13 August, 2010, it is envisaged that 2,500 Basotho will be employed during the construction of the dam. The dam will further contribute towards infrastructure development such as roads, housing, electricity, power lines and a wide range of environmental as well as other social services. It is also estimated that upon completion, the dam will generate approximately US$13 million annually, by selling water to South Africa and generating electricity for Basotho.

The garment industry which began in the early 1980s also contributed immensely in the development of Lesotho and her people. This industry was led by the South African based clothing companies seeking to avoid economic sanctions imposed by the United States of America and the European Union (the then European Economic Community) on South African manufactured goods during the apartheid era. These companies were also assisted by the Lesotho National Development Corporation (LNDC) which offered them some incentives such as a five year tax holiday and favourable rentals on pre-constructed factory shells for investors to set up in Lesotho (Lesotho Review 2009).

According to Lesotho Embassy-China briefing document of 2003, regarding Lesotho Textiles Industries in 2003 (undated since the date on the covering Savingram is no longer available), many investors from South East Asia, mainly from Taiwan, came to Lesotho attracted by Lesotho's derogation from the restrictive cumulation provision of the Lome Convention Rules of Origin. Cumulation under Article 6 of the Cotonou Agreement (CPA 2000) required that before the final making of the garment, the cloth had to be woven and knitted in the country of origin or another qualifying ACP member state. This second wave of investment was in the form of relocation of factories from the then apartheid South Africa to Lesotho, to enjoy favourable access and import tariffs to major western markets such as the United States of America, Canada and the European Union.

Subsequent to the expiry of Lome derogation, and with the introduction of the African Growth and Opportunity Act (AGOA) conditions in 2000, most of the existing factories in the country re-directed their export production to the United States (U.S). In 2000, the U.S. signed AGOA into Law, offering incentives for African Countries to continue their efforts to open their economies and build free markets. On 23 April, 2001, Lesotho qualified for AGOA benefits and was ranked among the top five largest apparel exporters to the U.S. under this trade legislation. As indicated in the (APRM Report 2009), Lesotho gained significant advantage over her competitors in the developing world through AGOA. Today, she is the largest exporter of garments to the USA in Sub-Saharan Africa.

Official Development Assistance (ODA)

One of the big issues that this study will attempt to answer is whether the official development assistance has been beneficial to Lesotho or whether it has done more harm than good. The Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development defines ODA as "grants or loans to developing countries and multilateral agencies active in development that are undertaken by the official sector at concessional financial terms (if a loan, having a grant element of at least 25%), with the promotion of economic development and welfare as the development and welfare as the main objective" OECD Education 2010. It may be noted that most donors tie their ODA to good governance. However, the criteria used as indicators for good governance vary from development partners. In the case of Lesotho for instance, ODA from the United States Government under the Millennium Challenge Account (MCA) used seven indicators in the following categories: ruling justly; economic freedom and investing in people to measure the country's performance. Countries which are selected as eligible must score above the median on half of the indicators in each category, as well as pass the corruption indicator in order to be eligible for the MCA assistance. In 2004, Lesotho scored above the median on all six indicators "ruling justly", four of five "investing in people" indicators and five of six "economic freedom" indicators as indicated in the Lesotho MCA Scorecard 2004.

Like all other ODAs, MCA had its own conditionalities as indicated above. I believe however, that it has played a pivotal role in improving the livelihoods of Basotho. It has improved the health system through building of clinics across the country, the justice system through the establishment of commercial courts, infrastructure development such as roads, access to credits especially for women who were not allowed credit from the banks in the past, without consent of their partners, and many other improvements.

2.2 Key Issues surrounding Economic Partnership Agreements

The Economic Partnership Agreements which are basically free trade agreements (FTAs) between EU member states and the six ACP regions (see Annex C) are currently under negotiations. The central motivation for EPA negotiations therefore, is to bring the ACP-EU trade relations into WTO conformity, through the principle of reciprocity. Launched in 2002 and offering duty-free, quota-free (DFQF) market access to all ACP countries, the EPAs unlike the Lome Conventions oblige the ACP countries to also offer duty-free, quota-free market access (reciprocal type of arrangement) to the EU according to the Revised CPA (2005). However, this has brought about a lot of criticism since the two partners (ACP-EU) are at different levels of development see (Rosa 2006). On the other side, the EU has continuously argued that EPAs will broaden the scope of the ACP markets and ensure that their economies become more effective. Louis Michel, the EC Commissioner for Development highlighted that, "the EPAs constitute a new trading instrument which should prove more effective than the existing simple tariff preferences in achieving the ultimate objective of development" Michel (2008). Some critics have voiced their doubts on the effects of EPAs on development. According to Rosa (2006), one of the big questions of the debate has been the certainty that the EPAs will deliver on their development promises. I strongly believe that the EPAs will deliver on their development promises since it is in the interest of the EU to ensure that many people from developing countries do not illegally migrate to Europe on economic basis. If the development issue is not addressed, the problem of migration may get out of hand and cause havoc to developed countries especially the EU.

The December 2007 Interim EPA, required parties to the Agreement to initial the various texts, a process which brought about an unprecedented process of discussions, research, consultations and heated negotiations (Bilal et al 2005). There are heated debates as to whether the ACP countries should continue with the negotiations which some people believe that the EU is not negotiating in good faith. It has been stated that these Agreements between ACP-EU countries violate the terms of the World Trade Organization agreements as stated by Advocates for International Development (undated).

Put in place by the EU, in order to avoid trade disruption by January 2008, the Interim EPA became a long and unpleasant journey as the ACP countries searched for ways of finding a favourable extension to the deadline (Revised CPA 2000). Citing cases of unpreparedness, lack of capacity, and articles of contention in the agreement, some countries/regions choose not to initial the agreement. However, in an interview with Trade Negotiation Insights (TNI) on ACP-EU trade relations and at the WTO, Peter Mandelson, the then EU Commissioner of Trade indicated that failure to reach an agreement on the Economic Partnership Agreements by the end of 2007 will not spur the European Union to engage in an alternative strategy, “There is certainly no Plan B,” he said TNI (2007).

In preparation for the 31 December, 2007 deadline, the SADC EPA Group arranged to negotiate the Agreement in two phases. The first phase was focused on concluding negotiations on trade in goods and related aspects, while the second phase was aimed at trade in services and new generation trade issues, as well as other outstanding issues. The final round of negotiations was focused on having the Interim EPA concluded in November 2007.

The final rounds of the SADC-EC EPA negotiations were held in Brussels, Belgium on 12-16 and 22-23 November, 2007 respectively. The two rounds were very critical in that the parties had to conclude the negotiations and come up with an Agreement that would be implemented by

1 January2008, in order to avoid disruption of SADC EPA countries trade with the EU. The following four SADC-EPA countries namely: Botswana, Lesotho, Mozambique and Swaziland initialled the Interim EPA (IEPA) text with the European Commission on 23 November 2007 (Report on State of Play on the EPA Process 2009).

Namibia did not initial the IEPA on 23 November 2007 since had critical issues of concern which needed to be resolved before the final round of the negotiations. These issues according to the Press Statement from the Ministry of Trade and Industry of the Republic of Namibia include:

i. The EC's demand for Most Favoured Treatment the EU in all future free trade agreements (FTAs) between SADC EPA countries and any third party(ies). Acceptance of such a provision will pre-empt SADC EPA countries' negotiating space as EPA-plus preferential treatment will be accorded to the EU without any further concession from the EU side. Such a situation carries the potential to negate the balance of benefits of the negotiated EPA, and is not acceptable to Namibia. In addition, such a provision would pre-empt the WTO provision for special and differential treatment with respect to any future preferential treatment SADC-EPA countries may want to accord to developing or least developed countries they decide to enter into preferential trade arrangements with;

ii. The EC's continued insistence on a clause for SADC EPA States to immediately freeze any new measures concerning the use of the export taxes or levies. The EC only introduced this issue during the last round. Such a concession on our part would limit our national trade policy making space, with potentially far reaching implications on Namibia's efforts to promote industrialization and value addition to our national raw materials;

iii. The EC's non-acceptance of the SADC EPA's proposal for infant industry protection based on the current SACU and SADC Trade Protocol provisions. They insisted on a different provision that would become obsolete 12 years after entry into force of the Agreement. Such a provision would effectively negate the provision on infant industry protection in the SACU Agreement, thus rendering Government unable to provide any protection to a new industry that would emerge after the 12 year period;

iv. The EC also insisted on a non-negotiable demand for a provision to ensure movement of goods within the eight SADC EPA States. Such demand ignores the individual customs territories of the SADC EPA parties, current regional trade arrangements under SACU and SADC, as well as our regional economic integration programme in Southern Africa.

South Africa also did not initial the IEPA because of similar and other concerns. Angola on the other hand did not initial the IEPA because she had not yet made a tariff reduction offer to the European Commission.

It may be noted however, that following immense pressure from the EC, Namibia initialled the IEPA on 29 November, 2007. The initialling of the IEPA by Namibia brought the number of SADC-EPA countries that had initialled the Agreement to five. This made it possible for these countries to forestall the risk of trade disruption after the expiry of the WTO waiver on 31 December, 2007 (Namibia Press Release 2007).

Angola and South Africa did not initial the Interim EPA. Angola continues to receive EU preferences under the EU's Everything-But-Arms' (EBA) initiative while South Africa continues to receive preferences under South Africa-EU Trade and Development Cooperation Agreement

(TDCA) respectively. Angola, Namibia and South Africa (ANSA Group) have raised concerns regarding unresolved negotiation issues. They have since February 2008, continued to seek a resolution to these issues of concern.

2.3 SADC-EPA Configuration

When the negotiations first started, the original members of the SADC-EPA Group comprised of the following seven countries: Angola, Mozambique and Tanzania (AMT countries) and Botswana, Lesotho, Namibia and Swaziland (BLNS states). The SADC-EPA Group made a request to the EU for South Africa to formally join the group, in the SADC-EPA framework document of March 2006 (SADC-EPA Report 2006). This move was considered useful and a proactive tool in promoting the SADC regional integration process. The group further gave importance to Lesotho's unique and vulnerable position as a member of Southern African Customs Union (SADC-EPA Report 2006).

It may be noted that the geographical configuration of the ACP has been the most challenging issue, facing the EPA negotiations. This is mainly due to the fact that various regional arrangements had differing integration and trade programmes, resulting in conflicting obligations (UNECA 2007). Tanzania belonged to the East African Customs Union (EACU), Botswana, Lesotho, Namibia and Swaziland to SACU, while Angola and Mozambique also belong to a different group, therefore necessitating four different market access offers from SADC-EPA to the EU.

The problem of overlapping memberships has been a source of concern for almost all negotiating regions of the ACP, and needed to be discussed with the EU. SADC on the other hand, had to assure the EU that she is in the process of resolving the problem of multiple memberships, and its effects on the possibility of a SADC Customs Union.

Lesotho's Position in the SADC-EPA Group

Notwithstanding the logic in the SADC-EPA configuration, given Lesotho's geographical location, and membership to SACU, the country is faced with some difficulties regarding her ability to trade favourably with the EU. As a small and completely landlocked country, Lesotho has several limitations that will enable her to trade favourably with the EU. These include: lack of capacity in negotiation skills; vulnerable economies which largely depends on the SACU revenue since about 60% of the country's revenue is derived from SACU; financial assistance to build her capacity and weak infrastructure; lack of access to the sea as well as remoteness from major international markets. Although the country has already opened up her markets to the EU through the country's de facto membership in the TDCA, the magnitude of the country's current vulnerability under the EPA framework goes beyond that experienced under the trade chapter of the TDCA (IMF Report 2009). However, Lesotho is a de facto member of the TDCA between South Africa and the EU because of the Common External Tariff (CET) under SACU. As a result, she will be worse off under the TDCA with the EU than she was under the Cotonou Agreement.

The extreme disparities in negotiating powers within the SADC-EPA group given Lesotho's overall limited economic capacity, limited resources, landlockedness, the implied EPA related loss of tariff revenue and adjustment cost, are set to grossly undermine the country's ability to establish, and implement a favourable EPA in the country. This will mean that the increased competition from the EU companies is likely to hurt Lesotho's industry which is still in its infancy stages especially the Small and Medium Enterprises. In essence, unless Lesotho receives the necessary financial and technical support within the EPA framework, she may in future find it difficult to sustain her national development plans (SADC-EPA Report 2006).

In the wake of this reality and given that the EU has officially welcomed Lesotho's concerns as legitimate, in seeking targeted 'EPA Adjustment Support' from the EU, it is important for Lesotho to conceptualize and calculate the implied trade and social adjustment costs that the country may incur during the EPA adjustment process (Lesotho Brussels EPA Briefing 2007). It may be noted however, that the EU has not yet responded to Lesotho's request for special and differential treatment as the only LDC country within SACU.

The Interim EPA Agreement

In the final analysis the original SADC-EPA group stood fragmented at the time of initialling the interim agreement on November 23rd 2007. South Africa and Namibia had common concerns, which put them at variance with the EC and hence opted not to initial the text (Lesotho Brussels EPA Briefing 2007). According to the EC Non-Paper, South Africa's decision not to initial the IEPA created a division within the SACU group. "To maintain SACU tariff coherence South Africa will have to align with commitments made BLNS countries without getting any concession in return from the EU" EC Non Paper (2008). This will create a serious tension within the group since South Africa would not be in a position to access the improved EU market. The SACU Heads of State and Government in their last meeting in South Africa gave a directive for SACU to move on as a block in its trade with the EU under SADC-EPA group. At this point, it may be recalled that the request to include South Africa in the negotiations which required an amendment to Protocol 3 of the Cotonou Agreement, by means of a joint Council of Ministers (ACP-EU), was a sign of support for South Africa by the BLNS member states, a real sign to maintain coherence within SACU and ultimately within SACU group. Now that South Africa has not initialled the interim Agreement, it has brought back problems within the SACU group. It may further be noted that Tanzania also decided to leave the group (SADC-EPA) and opted not to initial under the EAC-EPA text.

Signature and implementation of the Interim EPA

Subsequent to initialling the Interim EPA in 2007, the SADC-EPA Group went through a series of critical challenges towards the way forward in signing and implementing the IEA. As members of SACU, Botswana, Lesotho, Namibia and Swaziland (BLNS) countries had to explore the possibilities of how to implement the IEPA without South Africa, the remaining member of SACU. This had to be done in a way that does not compromise the integrity of SACU (Report on State of Play on the EPA Process 2009).

It is likely that South Africa refused to initial the IEPA because she did not receive the kind of concessions she had hoped to get from the IEPA process. Therefore, she would use her economic and political muscle to force other members of the group into a dangerous position. This assumption is supported by the statement made by the South African Minister of Trade and Industry, Honourable Rob Davies following the signing of the IEPA by the BLS countries. He said "South Africa would step up border control with Botswana, Lesotho and Swaziland to prevent goods with easier rules of origin treatment or different import tariffs entering South Africa from the EU" (BusinessDay June 2009). This South Africa will do to protect its market and to stop the EU from flooding the SACU market with cheaper goods. With lack of capacity from the SACU market especially from countries like Lesotho, it is likely that their products will not be able to compete with those coming from the EU market. This will have a devastating effect to those countries which are still developing their markets and require extra funding the partners such as the EU. For Lesotho this will also have a negative impact as it will result in heavy loss of revenue which the country desperately needs.

Conclusion

In this chapter, available literature shows that there are problems associated with the EPA, and that Lesotho as a landlocked and least developed country has some limitations that would enable her to trade favourably with the EU, if both the (EU and South Africa) do not reach an amicable solution on outstanding issues. Taking into consideration the foregoing, it is recommended that Lesotho should not hasten to sign the Agreement with the EU. She should however, persuade the EU and South Africa to reach a compromise. While there are many problems brought about by EPA especially with regard to regional integration, and the fact that not much will be derived from EPA in the short term, I strongly belief that, if given a chance and negotiated in good faith, the EPA will indeed contribute towards alleviating poverty in Lesotho in the long run.

The next chapter focuses on methodology and how data was collected and analysed.

Chapter Three: Research Methodology

This chapter outlines the research methodology adopted by the researcher while conducting this study. It will cover amongst others the research design, research population, sample and sampling techniques, research instruments, data collection process, and data analysis.

3.1 Research Design

According to Saunders, Lewis and Thornhill, 2007, research design focuses on turning a research question and objectives into a research project. It considers research strategies, choices and time horizon. The researcher adopted a qualitative research approach on this study.   Qualitative research is based on meanings expressed through words, and it can be used in descriptions of groups, communities and organizations (Kruger and Welman, 2001).   Since the study invited people to express their views and observations, the researcher found qualitative most appropriate. Qualitative studies are also designed to assist the researcher get more than a single word and allowed the respondents to share their own life experiences (Chilisa and Preece, 2005). As Babbie, 2001 pointed out, qualitative field research enables researchers to observe social life in its natural habit: go to where the action is and watch."

Qualitative researchers often start with general questions rather than specific hypothesis, collect an extensive amount of verbal data from a small number of participants, organise data into some form of coherence, and use verbal descriptions to portray the situation they have studied. This approach also seeks a better understanding of complex situation (Leedy and Ormred, 2005).

The research design adopted in this study is survey design. Saunders, Lewis and Thornhill, 2007, define it as a research strategy that involves the structured collection of data from a sizeable population. Although the term 'survey' is often used to describe the collection of data using questionnaires, it includes other techniques such as structured observation and structured interviews.

3.2 Research Population

The population for this study consists of officials from Government Ministries, in particular Ministries of Trade and Industry, Cooperatives and Marketing, and of Finance and Development Planning, Lesotho Revenue Authority, Small and Medium Enterprises (SMMEs) Associations Representatives and employees, as well as Representatives of Lesotho Textiles Association and their employees based in Lesotho's capital, Maseru. Particular focus was on Small and Medium Association Representatives and employees which was my focus group (made up of mainly Basotho employers and employees). These groups were included in this study because their organisation is responsible for producing handicrafts for export market. The decision to focus the research on the Small and Medium Enterprises (SMMEs) Association was mainly due to the fact that over 90 percent of the garment factories in Lesotho are owned by foreign investors. These investors come from South East Asia, according to the data collected from Lesotho National Development Corporation (LNDC). Thirty factories are subsidiaries of companies from Taiwan, five from Hong Kong, two from the Republic of South Africa, one from Israel, one Singapore while four are based in Lesotho but only one of the is owned by a Lesotho citizen. The population for this study was made up of the officials from Lesotho Government Ministries, parastatals and the private sector as indicated earlier.

3.3 Sample and Sampling Technique

3.3.1 Sample

This is a small group of people selected from the target population as the representative of the study. The sample was selected from the whole population represented by the following categories: Director of Economic Policy, Ministry of Finance and Development Planning; Senior Economic Planners, and Economic Planners from the same Ministry; Chief Legal Officer, Ministry of Trade and Industry Cooperatives and Marketing; Chief Industrial Officers; Principal Trade Officers and Trade Officers from the same Ministry;

Representative of the Maseru Tapestry and Mats (Small and Medium Enterprises Association) from the Maseru Industrial Centre accompanied by her Assistant and three employees; Representative of the Lesotho Cooperation of Handicrafts (another Small and Medium Association) from Mokorotlong (Maseru Kingsway) accompanied by two Exporter Officers and two employees; these are Basotho companies which need to be capacitated in order to take advantage of the EU market since they know much about it, Acting Manager of the Lesotho Textiles Association (Maseru Industrial Area); Exporter Officer and thirteen employees.

3.3.2 Sampling Technique

Purposive, simple random, and systematic sampling techniques was used to select the sample for this research study.

Purposive sampling was used to select subjects from the Ministry of Trade and Industry, Cooperatives and Marketing and Ministry of Finance and Development Planning. According to Saunders et al. (2007) purposive sampling is a non-probability sampling procedure in which the judgement of the researcher is used to select the sample, using elements that contain most characteristics and representative of the population. In this case, the researcher chooses the sample based on what she wants in order to achieve the objectives of this study.

In this particular study, purposive sampling was chosen because the researcher believes that the officials from Government Ministries in particular, Ministries of Trade and Industry, Cooperatives and Marketing and of Finance and Development Planning are knowledgeable about Economic Partnership Agreement since they deal with international trade and participate in these meetings. As a result, they were regarded as the right sample to give the expected answers with regard to Economic Partnership Agreement. The advantage of using this technique is that a sample that is considered satisfactory to the researcher is adopted. In this regard, the researcher identifies the group that she feels will meet her expectations. Apart from meeting the researcher's expectations, this sampling is specific and saves time. Therefore, the researcher does not go to another area, she deliberately takes the study based on the problem that has been identified, Welman and Kruger (2001).

Systematic random sampling was used to select subjects from the community of Industrial Area (Maseru). Under systematic random sampling, the research can sometimes use random sampling instead of using tables to select sample randomly. It selects subject from the population in a systematic manner rather than random fashion. This sampling often involves one unit or member of the sample on a random basis and choosing members at evenly spaced intervals until the desired sample is achieved. This method was chosen because it is not bias. There is a possibility that one may be chosen as part of the sample. The information obtained from using systematic sampling is believed to be representing ideas of the whole population. The importance of using this technique is that every member has equal opportunity to being part of the sample.

Simple random sampling was used to select sample from the Representatives of Small and Medium Enterprises. This is a probability sampling technique whereby a sample is selected from the target population in order that every member has equal opportunity of being selected as part of the sample. The advantage of using simple random is that it eliminates bias in the sample selection, Babbie (2001). According to Chilisa and Preece (2005), it also considers all population on the same level and that sample selected through this method is believed to be representative of the target population.

3.4 Research Instruments

I conducted interviews and questionnaires for this particular study.

a) Interview

Personal interviews were used to the community of Industrial area where the researcher was physically present to ask the respondents questions. By conducting interviews, the researcher gets immediate feedback. This method or instrument is important in that the researcher was able ask for more questions from the respondents, and clarity was made where there were some misunderstanding between the respondents and the researcher.

b) Questionnaire

Open-ended questionnaires were employed to the junior staff of the Ministries of Finance and Development Planning and of Industry Cooperatives and Marketing. For this particular study, the researcher used open ended questionnaires since she was looking forward to hear views, opinions and feelings of Government officials from the two ministries regarding Lesotho joining the Economic Partnership Agreement.

The advantages of using this tool are that the researcher does not need to be with the respondents personally. According to Welman and Kruger (2001), open ended questionnaires also save time and money since many respondents can be attended to at the same time.

c) Focus Group

Another method of data collection that the researcher used in this study was focus group, which was used to Representatives of Small and Medium Association and their employees. Saunders et al (2007) defines focus group as group interview, composed of a small number of participants, in which the topic is clearly and precisely designed. The advantage of using this method is that of interviewing several people at the same time. Through using this tool, participants share their thoughts, idea and views. This enables the researcher to reach consensus on the research topic.

3.5 Data Collection Process

Assurance was also given to the respondents about the confidentiality of the information provided. Furthermore, the respondents were assured that the information will only be used for the purpose of this study and they agreed. They also did not have a problem that their names will be associated with the study except the Acting Manager from the Lesotho Textiles Association who was hesitant to be interviewed since he was new on the job. He also had a language barrier which I did not consider a problem since he could still answer the questions. The Ministries of Trade and Industry, Cooperatives and Marketing and of Finance and Development Planning as well as Lesotho Revenue Authority were part of the study population. In the Ministry of Trade and Industry, Cooperatives and Marketing, Department of Trade, the Principal Trade Officer and Chief Legal Officer were interviewed. Director of Economic Policy from the Ministry of Finance and Development Planning and the Tariff and Origin Manager, Customs Division from the Lesotho Revenue Authority as well as Acting Manager from the Lesotho Textiles Association were treated likewise. Focus group discussions were held with the Representatives of the Small and Medium Associations from the Maseru Tapestry and Mats and from Lesotho Cooperation of Handicrafts and their employees. Questionnaires were administered with the junior staff of the two Ministries.

The researcher arranged meetings with relevant authorities as indicated above for the study to take place. The interviewer took notes during the interview, and with the permission of each interviewee, also recorded the interviews.

3.6 Data Analysis

The data collected from the respondents was analyzed through using qualitative approach. In using analysis through qualitative approach, similar ideas, themes and perceptions were summarized and grouped together to obtain answers to the research questions. The information was dealt with based on the relationships among the categories, themes, patterns, similarities and differences. This was presented in a narrative form, according to Saunders et al. (2007).

3.7 Conclusion

The study was conducted using qualitative research method and secondary sources. It benefitted from the discussions with focus group and personal interviews. Data was also analysed from available literature in the form of reports, publications, policy papers and through surfing the internet.

The next chapter focuses on why Lesotho initialled and subsequently signed the Interim Economic Partnership Agreement (IEPA).

Chapter Four: Initialling and Signing of the IEPA by Lesotho

4.1 Introduction

This Chapter is focused on why Lesotho initialled and signed the Interim Economic Partnership Agreement (IEPA). It will highlight some possible benefits that will accrue to Lesotho following the signing of the IEPA. It will also highlight some contentious issues on the SADC-EPA Negotiations.

The decision to negotiate the Economic Partnership Agreements (EPAs) was made at the African, Caribbean and Pacific Group of States (ACP) level, by Heads of State and Government. This was further endorsed by SADC Ministers responsible for Trade and subsequently by the SADC Summit.

Lesotho initialled the Interim Economic Partnership Agreement (IEPA) after thorough assessment was made. This was done taking into consideration the country's national and regional interest. The IEPA was also initialled by four other Southern African Development Corporation (SADC) Member States that fall under the SADC-EPA configuration. These countries are: Botswana, Mozambique and Swaziland which initialled the IEPA on 23 November, 2007 together with Lesotho as indicated in Chapter 2. They were followed by Namibia on 13 December, 2007.

According to the Ministry of Trade and Industry, Cooperatives and Marketing, the signing of the IEPA was endorsed by all SADC-EPA countries although some Member States such as Angola, Namibia and South Africa expressed some reservations, therefore did not sign the IEPA. However, it might be argued that by signing the IEPA Botswana, Lesotho and Swaziland (BLS countries) breached the 2002 SACU Agreement. This issue will be discussed further in chapters 6.

4.2 Why did Lesotho sign the Interim Economic Partnership Agreement?

Lesotho signed the IEPA because it provided the best market access for her exports, such as textiles and clothing. According to the Report from the Central Bank of Lesotho, the clothing and textile sub-sector (under the African Growth and Opportunity Act) employed a total of nearly 20,600 local workers in March 2001, this figure has risen to 32,233 Basotho workers by 2002 (Central Bank of Lesotho Report, 2008). Given that the number has increased drastically, it is logical to assume that Economic Partnership Agreement (EPA) will create more job opportunities in Lesotho, in the long run. If more jobs are created, poverty will be alleviated. This would be a positive effect of the EPA for a country whose unemployment rate according to the World Bank stands at 25 percent (World Bank, 2009).

4.3 Anticipated Benefits to Lesotho following the signing of IEPA

Following the signing of the IEPA, possible benefits that will accrue to Lesotho are highlighted as follows:

- Economic Partnership Agreement (EPA) provides the best alternative market access for Lesotho's exports to the EU market compared to the Everything But Arms (EBA) initiative which is unilateral and subject to withdrawal by the EU and the recently expired trade chapter of the Cotonou Partnership Agreement where rules of origin made it difficult to take advantage of such an arrangement;

- The duty free and quota free market access coupled with improved rules of origin offered by the EU for exports (with few exceptions) under the Interim EPA is expected to attract both local and foreign investment to Lesotho, from countries that would otherwise not have this kind of access to the EU market;

- Diversification of Lesotho's markets in itself is a positive step;

- The development chapter of the EPA will empower Lesotho in terms of ability to industrialise and trade; a benefit that has, under SACU been conceptualized but not fully operationalised because SACU is still in the process of implementing the 2002 Agreement which came into effect in 2004 after ratification by all member states. Harmonisation of policies is a process which takes some time to conclude and implement; and

- The impact of the opening up of trade on SACU revenues can be estimated over the years while the development chapter takes effect, as such trade liberalization process can contribute to attraction of new investments and infrastructural development.

In addition to the above benefits, Lesotho is expected to benefit as follows:

1. Single stage transformation as opposed to a two stage transformation for textiles and clothing sector (this means that manufacturers can now source raw materials globally and transform them into a garment which can in turn be allowed to enter the EU market duty free);

2. Access to the EU development fund which will address the supply side constraint elements such as infrastructure development and productive capacity;

3. Diversification of the markets for Lesotho's textiles and clothing industry, which has hitherto, been only that of the USA, outside SACU. Lesotho has now started exporting textiles to the EU;

4. Growth in the textile and clothing industry as well as diversification to other EPA qualifying products, resulting in product diversification; and

5. Global trading capacity that will be realized due to the Development Chapter of the EPA where the EU will help build roads, railways, customs and ICT infrastructure productive capacity, standards, trade negotiation skills etc. to accelerate economic growth;

6. The EPA can operate to offset the negative effects of the TDCA, a trade agreement between South Africa and the EU which involves reduction of tariffs whereby Lesotho and other BNS (Botswana, Namibia and Swaziland) SACU Member States were losing tariff revenue without having the opportunity to export to the EU market under improved circumstances like South Africa did. Furthermore, Lesotho had the chance to renegotiate the tariff reductions for products sensitive to Lesotho where South Africa had agreed to reduce the tariffs.

Despite the above benefits that are likely to accrue to Lesotho in the long run, it is important to note that there are some concerns regarding EPA. Some of which are highlighted below.

4.4 Lesotho's Concerns on EPA

It may be noted that Lesotho Country Paper was presented to the European Commission, requesting for Special and Differential Treatment, as the only LDC within SACU as indicated by the Ministry of Trade and Industry, Cooperative and Marketing. Lesotho will need compensation from the EU because she will liberalise most of the tariffs and incur loss of revenue. According to the SADC EPA Unit, (2009) Lesotho together with Botswana and Swaziland will liberalise 86% of the EU imports over the next four years, and that liberalization of some tariff lines, will be postponed until 2015. Furthermore, countries that have initialled, have decided to liberalise mainly industrial and fisheries products while they have excluded from liberalisation, mainly goods in agricultural, textile and processed sectors.

Production and Marketing Challenges

It may be noted however, that in spite of export market opportunities to the European Union, Lesotho still faces some challenges with regard production and marketing knowhow. This is due to the fact that the country is dominated by exports of manufacturing goods to the United States market. As a result, she is unable to produce enough to supply the EU market. The other challenge is lack of skilled personnel at technical and managerial positions. This gives rise to capacity constraints domestically. Concerns were also raised about the long-term viability of the garment sector in terms of its linkages to the rest of the economy and its dependence on unilateral preferential market access, AGOA. The authorities in Lesotho are aware of these problems and have since modernized its legislation on financial services and opened up its telecommunications sector to competition. These moves should assist in creating a favourable atmosphere for foreign investment. The need to provide necessary training to Basotho especially those working in the manufacturing and textile industries was highlighted

Concerns of the SADC EPA Group on EPA

The key concerns of the SADC-EPA Group on the EPA include the following:

A). Export taxes,

b). Quantitative restrictions,

c). Food security,

d) Infant Industry protection,

e) Free circulation of goods,

f). Most favoured nation clause, and

g). Definition of Parties.

During the Joint SADC-EPA and European Commission negotiation session of March 2009, an agreement was reached on five of the above issues, with differences still remaining on issues such as the "**Most Favourable Treatmen**t" (MFN Clause) and the definition of "**Parties**".

According to the SADC-EPA Unit report, the European Commission further agreed to align the Interim EPA tariff schedules regarding imports of EU products into the four BLNS Member States with the tariff line of the Trade and Development Cooperation Agreement (TDCA), in order to preserve the SACU tariff.

Official Development Assistance

With regard to the issue of development aid, the World Bank Report (2008) indicates that the Net Official Development Assistance and official aid received in Lesotho in 2008 was reported at USD143million. Net Official Development Assistance (ODA) consists of disbursements of loan made on concessional terms and grants by official agencies of the members of the Development Assistance Committee (DAC). It included loans with a grant element of at least 25 percent (calculated at a rate of discount of 10 percent). Lesotho has relied heavily on financial support from the international community to fund its development. According to Lesotho Country Self-Assessment Report (2010), a country is thought to be overly dependent on aid if external aid averages about 15 per cent of its gross domestic product (GDP). This has been the case with Lesotho over the years. In order to reduce this vulnerability arising from overdependence on aid, the Government of Lesotho should try to broaden the tax base and improve efficiency in tax collection.

It may be further noted that Lesotho as a Landlocked Least Developed Country (LLDC) and developing country with greater reliance on foreign trade is likely to incur higher transaction costs. According to Chowdhury and Erdenebileg (2006), LLDCs do not merely prefer the active support of the international community in order to participate effectively in the international trading system; they depend on it. Chowdhury and Erdenebileg (2006), further indicate that of the total aid that found its way to the developing world in 2001, Landlocked Least Developed Countries accounted for 17.5 per cent which was roughly at par with that received by coastal LDCs. However, coastal LDCs' per capita aid was more than double that of LLDCs', although the latter are mired in equivalently appalling economic straits. Moreover, the transit developing countries obtained a significantly larger share (37 per cent) of total ODA in absolute terms, despite their superior economic performance and geographic advantages.

Engaging the EU on the elements of concern

In addressing the question on the steps that have to be taken by Lesotho to engage the EU on elements of concern such as cumulation with South Africa, it was indicated that the two sides (EU and SADC-EPA) should find a way to converge on unresolved negotiation issues since it is likely that Namibia and South Africa might be able to sign the Agreement. Regarding suggestions or recommendations on what could be done to ensure that Lesotho benefits from

EPAs, market access was highlighted as very important. Lesotho cannot produce enough to serve the EU market. The EU market is also said to be very fragmented, as it has 27 Member States unlike Botswana, Lesotho, Namibia and Swaziland (BLNS) where they are still selling to one market which is South Africa. It is important for Lesotho and other SADC-EPA countries to have more information on the EU market. For example, SADC-EPA countries should know what EU Member States like Germany and United Kingdom want in different markets, in order to supply them. Furthermore, it may be noted that Lesotho exporters are foreign investors such as those from China in the textiles industry. Therefore, it is strongly recommended that the Government of Lesotho should encourage local investors to tap available market in the EU, not only on textiles but also in other sectors too.

The importance of providing information on market conditions and requirements for entry into the EU market has also been highlighted as cardinal. Lesotho Mission to the European Union is the one tasked with the responsibility to providing information on market conditions. The issue is further highlighted by the Ministry of Trade and Industry, Cooperatives and Marketing working closely with the Ministry of Foreign Affairs and International Relations and Lesotho Missions abroad. Lesotho Embassies are already playing a pivotal role in attracting foreign direct investment to Lesotho. Furthermore, it may be noted one of Lesotho’s main challenges is the establishment of a Bureau of Standards. The absence of such a Bureau of Standards makes it difficult for exporters who want to sell perishable goods to do so. It is important therefore, to encourage the Small, Micro and Medium Enterprises to work together in order to meet the requirements of the huge EU market which consists of 28 countries. Finally, it recommended that Lesotho should invest on SMMEs instead of foreign investors who are likely to leave the country for better deals in other countries. Emphasizes may also be made on the need to further develop the agricultural sector which will assist the country to address the issue of poverty.

From the above data, one can say there a great deal is a lot that needs to be done to ensure that Lesotho benefits from the EPA, this include diversification of her market and products. Currently, the Government of Lesotho depends on the United States (U.S) market for textile exports. It also depends on grants from Development Partners. Furthermore, Government relies heavily on the Southern African Customs Union (SACU) receipts.

With regard to the declining demands for textiles in the U.S. market, the Government of Lesotho felt the need to restructure the textile industry by creating institutional and financial facilities that will support export-import business for existing and new foreign and local firms. Lately, firms in Lesotho are encouraged to invest in modernizing and upgrading their facilities to take advantage of the new global opportunities when the global economy recovers. According to the Lesotho National Development Corporation Press Release, these firms are also encouraged to explore new products and markets, including exports to SACU, the Southern African Development Community (SADC), the European Union and the United States of America as well as South America. The establishment of the Phillips Lesotho plant for producing energy-saving bulbs is an example of diversifying export products and markets.

On the issue regarding the Government of Lesotho's reliance on the Southern African Customs Union (SACU) receipts, it was reported that the Government is taking measures to reduce that dependence by exploring other sources of domestic revenue. Such measures include policies which promote more efficient tax collection and reduce tax evasion.

The Director of Economic Policy from the Ministry of Finance and Development Planning responded to the attached interview attached as appendix II. Although I do not have a written permission from the officials, I requested to use the information they provided and they agreed. Some of the responses from the Director were as follows:

Regarding her views on the EPA, she said Lesotho has to be careful when approaching the EPA. We should not do things for the sake of doing them she added. She indicated that SADC-EPA was problematic from its inception. When asked to comment on the Ministry's area of major concern, she added that SADC-EPA was problematic because it does not take into consideration SADC region as a whole but only eight members who have been separated from the group. She went on to say that it is practically impossible to talk about an economic agreement within an economic grouping that is cut into pieces. Her other concern was with regard to SACU, since the EU was not approaching SACU in one form (including all the five countries). At the country level, she indicated that even if Lesotho does not harmonize her position with SADC, it should do so with SACU and that it is in the interest of Lesotho to ensure that the integrity of SACU is not compromised.

The Director of Economic Policy further highlighted the need to acknowledge that RSA (South Africa) is an economic giant within the group and for Africa as a whole. As a result, she discouraged a situation where RSA would take a certain route while Lesotho takes the other. She said Lesotho should do everything in her power to promote good neighbourliness relations with RSA, as she can never walk it alone. She pointed out that currently Lesotho has SACU while there is no guarantee with EPAs. However, she indicated that Lesotho stand to benefit more by joining the EPA as SACU.

It is indicated that Lesotho stands to benefit more from SACU revenue as opposed to EPA. For example, 3 billion maloti (approximately USD428, 000 000) from SACU revenue as an estimate, does not compare to 600 million maloti (USD85 million) from the EU.

On the question regarding how will Lesotho's revenue from SACU, be negatively affected by the signing of EPA, the Director of Economic Policy said Lesotho's vulnerability under EPA will certainly be worse off. She indicated that SACU is working towards the alignment of TDCA to those of EPA, which she said is likely to lessen the tension amongst the SADC-EPA Member States. She emphasized that on the phase of it, Lesotho will not be worse off. On the question regarding the study conducted on the Cost Benefit analysis of the impact of EPA on Lesotho's economy, she pointed out that no such study has been conducted. However, they are planning to conduct such a study there was a thinking to do so, since the Ministry was looking at a study to be undertaken by SACU on the Impact of EPA on SACU Member States. Responding to the question on sources of revenue, she indicated that there is ongoing work in this regard, and that there is a list of possibilities such as revising fees on taxes which has been set some time ago and improving the industrial base.

When asked to comment on how the signing of the EPA will contribute in reducing poverty, she said the EPA is about increasing the volume of trade. This means more jobs will be created. For Lesotho, which is a society of extended families, increase in the volume of trade will mean expansion of the industrial base. This means more jobs will be created, and as a result, more people will be employed. Regarding the question on what could be done to ensure that Lesotho benefits from EPA, she pointed out that Lesotho negotiators on EPA must be vigilance. Whenever, they negotiate, they should have a mandate of the people they are negotiating for. They need to put across to the EU that their conditions are stringent. Even where there are some potential, conditionalities make it difficult. It is therefore, important that we negotiate together as a region.

Looking at what has been said above, one could say that it is the responsibility of the Ministry of Finance and Development Planning to look beyond SACU and find other alternative sources of revenue. Revenue collected from SACU accounts for more than 50% of the National Budget although this likely to decrease. The Government of Lesotho will need to increase tax revenue through direct and indirect means such as implementing measures that promote domestic investment and growth.

4.4 Data from the Tariff and Origin Manager, Customs Division, Lesotho Revenue Authority

The Tariff and Origin Manager, Customs Division of the Lesotho Revenue Authority responded to the interview as follows:

EPA like other preferential trade agreements attracts less import tariffs. This makes it easier for people to export since prices will be cheaper. The EU market will be duty free quota free (DFQF), this means no restrictions on quantity. Responding to the question on how the signing of EPA will contribute towards reducing poverty, he said poverty is caused by expensive goods. If prices are low, more people will buy more goods. This means more people in Lesotho will have more options to buy goods since more competition put pressure to reduce prices. With regard to how Lesotho's revenue from SACU would be negatively affected by the signing of the EPA he mentioned that the amount of revenue collected from outside SACU determine Lesotho's share. If Lesotho opens her market, that means reducing tariffs on imports from the EU which was initially the main source. This will mean reducing money going to the revenue pool as a result Lesotho will receive lesser amount of revenue.

On the alternative sources of funding, the Tariff and Origin Manager indicated that Lesotho needs something more sustainable than just revenue from exports. He said there is a need to create an environment which allows business to operate such as borrowing, as well as to encourage more business in the production based business. He indicated that more focus should be on improving local business base e.g. construction and agriculture. Responding to the question on whether or not is necessary to align the Trade and Development Cooperation Agreement (TDCA) between

South Africa and the European Union tariffs with those of IEPA to maintain a single tariff against the EU; he said it was definitely important as long as not all SACU Member States have signed the EPA. The intention is for all countries to sign and remain SACU Member States. The current state necessitate that Member States align their tariffs to rules of origin. It is practically impossible in a Customs Union to have different treatment for one country, more so because SACU Agreement requires concurrence from all the five Member States of SACU. He went on to say that, as long as not all SACU Member States sign the EPA, and/or tariffs and rules of origin are aligned, it will not be possible for Lesotho to implement the EPA. Furthermore, he indicated that Lesotho needs to fight for cumulation with South Africa in order to benefit from EPA.

4.5 Data from Focus Group Interviews for Representatives of Small, Micro and Medium Enterprises (SMMEs)

Among all the respondents, Small, Micro and Medium Enterprises seemed to be the ones which needed to be capacitated. The Government of Lesotho is looking at ways to improve and provide financial support to small scale entrepreneurs and youth in the informal and rural sectors. The Millennium Challenge Account (MCA) has also made funds available to support small female entrepreneurs, including women working in markets. In order to provide financial services in the rural and mountain areas, the Government of Lesotho has partnered with the International Fund for Agricultural Development (IFAD) to strengthen the management of the Lesotho Post Bank and expand its branch network to those remote areas. Considering that over 90 percent of firms in Lesotho are foreign owned as highlighted in Chapter 3, it can be inferred that there have not been positive spill over effects in this regard. There is only one domestically owned firm which provides sub-contracting services to larger firms. This sector has the potential for spill over of knowledge and skills transfers that could help local business people to such as SMMEs to set up their own firms but this seems not to have happened in Lesotho. As a result, the economy is heavily dependent for growth, employment and export revenues on a manufacturing sector that is foreign owned and directed at one major export market (the United States). This could be because of the US preferential market access under AGOA. However, this shows how vulnerable Lesotho's garment industry is with 90% of its exports entering one major market. In order to confirm this, few questions were asked to their representatives through interviews and these include the following responses:

Representatives of SMMEs indicated that they are members of Handicraft Association. They indicated that they joined the Handicraft Association because as an Association they are able to export their products in bigger quantities. With regard to the question on whether or not they export their products abroad, they indicated that they export mainly to the South African market especially to Hailmond Gallery, Cape Town. However, they export to the EU and U.S. markets very minimal quantities which are normally placed by individuals especially in Germany. On the question regarding whether they know about EPA between Lesotho and the EU, the response was yes. They indicated that they heard about the EPA during the workshops which used to be conducted by the Ministry of Trade and Industry, Cooperatives and Marketing in 2007, but such workshop are no longer held. They also indicated that the Ministry used to assist them on how to export their products during trade fairs such as Expo 2000 and the one which was recently held in China where most of their products were sold out.

With regard to AGOA they said their products were not able to enter the AGOA market since they were not yet established enough to send a representative. The Ministry of Foreign Affairs and International Relations is working together with Lesotho Embassies abroad to assist Basotho. However, it looks like there has been a communication breakdown between the Ministry of Foreign Affairs and International Relations, Lesotho Embassies abroad and the Ministry of Trade and Industry, Cooperatives and Marketing since the products of the SMMEs were not able to enter the AGOA market. This mishap has since been corrected. When asked how they maintain the quality of their product, they indicated that they use the orange tree to maintain quality. This orange tree is used as a sample for weaving and so far their customers are satisfied with the quality of their product. They indicated that they work mostly on quality even though they do not produce much. They said that they attended SADC Business Training workshop on how to improve quality standards. However, they indicated that they are unable to produce for mass production since there is no particular organization which assists them on quality standards. They further indicated that Lesotho's quality of wool is made by hand as a result it would not be compatible to international standards.

Conclusion

From the above data, it is concluded that there is a need to put in place supporting structures for the SMMEs in Lesotho, as well as to establish the Bureau of Standards or an Institution similar to it. It may be noted that the majority of SMMEs and the garment industries workers in Lesotho are women. They are women with low qualifications, who would have otherwise been unemployed, if they had not been absorbed by this sector. This state of affairs has boosted women's status in the rural areas who could not earn income before.

Chapter five will highlight the challenges facing Lesotho and how to overcome them.

Chapter Five: Challenges Facing Lesotho

5.1 Introduction

The Government of Lesotho in its resolve to fight the scourge of poverty adopted a long-term Framework document called Lesotho Vision 2020. The Vision statement reads as follows:

> By the year 2020 Lesotho shall be a stable democracy, a united and prosperous nation at peace with itself and its neighbours. It shall have a healthy and well developed human resource base. Its economy will be strong, its environment well managed and its technology well established Lesotho Vision 2020 (2004).

The Vision is supported by a short to medium term development document (2004/05 to 2006/07) for Lesotho called the Poverty Reduction Strategy (PRS). According to the International Development Fund (IDA) and International Monetary Fund (IMF) (Kingdom of Lesotho Poverty Strategy Paper – Joint Staff Advisory Note 2003 P.6). Lesotho PRS seeks to set a sustainable expenditure ceiling while directing public resources to a core set of poverty reduction programmes and to activities that contribute to pro-poor growth. Therefore, in order not to stall Lesotho's future economic development in this regard, the EU has to give appropriate support to the country's social adjustment costs stemming from trade related EPAs.

According to Joint IDA and IMF advisory note, the Government of the Kingdom of Lesotho presented its Poverty Reduction Strategy Paper (PRSP) in March of 2005. The PRS had the following three interconnected goals:

- Job creation through the establishment of an environment that facilitates private sector-led economic growth;
- The empowerment of the poor and the vulnerable and improvement of their access to health care and education;
- The deepening of democracy and the improvement of public sector performance, to ensure that policies and legal frameworks facilitate the full implementation of priorities.

The PRS further identifies Lesotho's main challenges as follows:

- The increase of overall economic growth while maintaining macroeconomic stability;
- To maintain fiscal and external debt sustainability;
- To bring about a sizeable reduction in poverty, primarily through employment creation and human capital development;
- To address the structural impediments to growth in such areas as tax administration, public expenditure management, financial intermediation, and private sector development;
- To implement a strong HIV/AIDS management programme. To address these challenges, (IDA and IMF – Lesotho PRSP – Joint Staff Advisory Note P.5).

In order to protect the welfare of the people of Lesotho, the integration of trade within the EPA framework should be aligned alongside the development plans of the country. The Government of Lesotho should not be found in a situation of such fiscal constraint that it places new taxes on staple goods and goods predominantly consumed by the poor.

In this chapter, available literature indicates that there are some gaps in various areas that hinder progress towards reducing poverty in Lesotho. The chapter therefore presents the findings regarding whether or not Economic Partnership Agreement can contribute towards reducing poverty in Lesotho.

Taking into consideration the several benefits that are likely to accrue to Lesotho following the signing of the Economic Partnership Agreement (EPA) as stated in Chapter 4, one may wish to conclude that EPA will indeed contribute towards alleviating poverty in Lesotho.

On the question of identifying and prioritizing opportunities and threats that are associated with EPA that would inform strategic choices in Lesotho one may refer to the issue regarding what would be the impact of ratifying the IEPA on Regional Integration? The impact of ratification of the IEPA on regional integration can potentially be significant. It can cause a slowdown in regional integration in the region, as a result, of the misalignment of the Common External tariff, a possible re-imposition of border controls, at the South African and Namibian borders, and in the long run even eventual disintegration of SACU. If IEPAs are ratified by BLS it would immediately create a tariff differential facing imports from the EU, and that would mean a range of products would get into Botswana, Lesotho and Swaziland (BLS) at lower tariff duties, and with more liberal rules of origin than to South Africa and Namibia. This is mainly due to the fact out of the five SACU Member States, only three have signed the EPA. South Africa and Namibia decided to opt out; The misalignment of tariff liberalization schedules within SACU disrupts the Common External Tariff, which is the very foundation of the Customs Union; Unless the tariff regime and rules of origin under the Trade Development Cooperation Agreement (TDCA) and the IEPA are aligned which is a subject of discussions between South Africa and the

European Union, South Africa might be required to strengthen customs controls within SACU to avoid the trans-shipment of EU exports to the South African market via BLS. The establishment of border controls can have a negative impact on Lesotho exports as is analyzed in more detail below.

The signature of the IEPA by the BLS can potentially be considered a breach of the 2002 SACU Agreement and as it disrupt regional integration within the Customs Union. The signing of the EPA, by BLS, can possible be considered a breach of article 31 (3) of the 2002 SACU Agreement which states that: "No Member State shall negotiate and enter into new preferential trade agreements with third parties or amend existing agreements without the consent of other Member States'; SACU has, so far not created rules and procedures with regards to 'what constitute 'consent of other Member States'. According to the Ministry of Finance, the 2002 SACU Agreement does not specify whether a verbal or written consent is necessary and which national body is allowed to provide it. This means therefore, that the issue is open for wide interpretation and could therefore be easily contested. However, it may be noted that BLS believe that RSA and Namibia consented that BLS negotiated and enter into an agreement with the EU, however, it is noted that RSA and Namibia may believe otherwise.

Other issues that are likely to contribute towards poverty reduction in Lesotho may include the following:

Unemployment and Poverty

The issue of rising unemployment and poverty levels continues to remain one of the main challenges facing many countries in Africa. In order to address this problem, the Government of Lesotho has introduced monthly labour intensive forestry and land reclamation work for the unskilled and semi-skilled. Vocational and entrepreneurship training is also being conducted to ensure an increase in youth employment as they are the future of this country. This intervention by Government compliments the implementation of the new Lesotho Growth Strategy. The new strategy has contributed immensely in reducing poverty in the country as many households especially those in the rural areas can now have access to income (Ministry of Finance and Development Planning Report (2010).

Declining Agriculture Sector

In an effort to revive agricultural productivity, the Ministry of Agriculture reported that eight district horticulturists were trained, two irrigation schemes were completed and one hundred youth volunteers were engaged in agricultural projects during the first half of 2010. The Ministry further reported that in order to ensure self sufficiency in food production, improved merino sheep stock was introduced. It has also embarked on surveillance on food and mouth disease while sheep scab control campaigns were also carried out on an on-going basis (Lesotho African Peer Review Mechanism Report 2010).

HIV and AIDS

Lesotho has the third highest adult HIV prevalence in the world, estimated at 23.2 percent. According to the National AIDS Commission (NAC) (2008), there are an estimated 62 new infections and about 50 deaths each day. The HIV and AIDS pandemic is therefore, a major threat to the survival of the country with its small population of 1.8 million and a slow population growth rate of 0.1 per cent. In an effort to fight against this scourge and to contribute towards HIV and AIDS competent nation, the Government of Lesotho has developed a Multi-Sectoral National Action Plan on Women, Girls and HIV and AIDS. This was in response to the gaps which were identified in chapter 2. The National AIDS Commission Report (2008) indicates that the plan was harmonized with National HIV and AIDS Strategic Plan, which in turn has also been revised to prioritize HIV and AIDS interventions and to make them result based.

In addition, there is continuous monitoring of the national HIV response through discussions at the tripartite fora of stakeholders composed of the public and private sectors as well as Civil Society Organizations. At the same time, HIV and AIDS programmes specifically targeting inmates and herd boys are under implementation. The Government is also implementing the Kick4life programme whose target group is the under twelve children. This is done through organizing soccer festivals at various districts. The objective of this excise is to develop a society competent in responding to HIV and AIDS challenges and to create access for the marginalized groups to HIV and AIDS services (APRM Report 2010).

The above issues notwithstanding, the Ministry of Health and Social Welfare also reported positive progress with regard to construction of one referral hospital, one health centre and three filter clinics. According to the Ministry of Health and Social Welfare Report 2010, coverage of prevention of mother to child transmission of diseases is over 70% and Child Survival Integrated Management of Childhood Illnesses (immunization) has steadily progressed. With regard to the fight against HIV and AIDS, there are more than one Anti Retroviral Treatment Centres in each district. Anti Retroviral Treatment with 57% national coverage, is offered at one hundred and ninety (190) health centres across the country. In order to respond to cultural and behavioural needs, the Behavioural Change Communication (BCC) Strategy was developed and rolled out at national level. For a country the size of Lesotho, these apparently modest initiatives do have tremendous impact on the lives on the population.

Finally, the Chapter is focused on identifying problems associated with Economic Partnership Agreement in Lesotho. These problems cause hindrance in Economic Partnership Agreement to contribute towards reducing poverty in Lesotho. The chapter will suggest possible strategies towards solving the identified problems. The strategies will be aimed at ensuring that the country benefits from the Economic Partnership Agreement.

The Problems associated with Economic Partnership Agreement in Lesotho

Lesotho, like many ACP States, in particular SADC-EPA Member States, is faced with many challenges which hinder the Economic Partnership Agreement from positively contributing towards alleviating poverty. Some of these challenges include her geographic position and poor infrastructural development. With regard to geographic position, Lesotho is classified as a Landlocked Developing Country. The Almaty Programme of Action: Addressing the Special Needs of Landlocked Developing Countries within a New Global Framework for Transit Transport Cooperation for Landlocked and Transit Developing Countries, defines Landlocked Developing Countries (LLDCs) as the poorest of developing countries, with limited capacities and dependence on a very limited number of commodities for their export earnings. It goes on to highlight lack of territorial access to the sea, remoteness and isolation from world markets which have contributed to relative poverty, high transportation costs and lack of effective participation in international trade (Almaty Programme of Action 2004) . The Programme of Action aims:

- To secure access to and from the sea by all means of transport;
- To reduce costs and improve services so as to increase competitiveness of their exports;
- To reduce the delivered cost of imports;
- To address problems, delays and uncertainties in trade routes;
- To develop adequate national networks;
- To reduce loss, damage and deterioration en route;
- To open the way for export expansion; and
- To improve the safety of road transport and security of people along corridors.

The Almaty Programme of Action is a blueprint for the international community to address the special developmental needs of landlocked developing countries, which takes into consideration the right to access, to and from the sea by all means of transport and in an integrated manner (Chowdhury and Erdenebileg, (2006).

From the above statement one may conclude that Lesotho's proximity to South Africa has pros and cons. The advantages come in the form of trade, employment opportunities and the use of South Africa's infrastructure (such as roads and ports) for transit as well as tapping the financial opportunities of its financial institutions. Remittances from Basotho mine workers employed in the South Africa and customs revenue from the SACU as well as royalties from selling water to South Africa are some of the developmental benefits to Lesotho and to improving its balance of payments.

The disadvantages relate to overly relying on South Africa on sources of revenue, as the factors affecting South Africa will have a spill-over effect on Lesotho's economy. This means slow down in the economy of South Africa will adversely affect Lesotho's revenue from SACU, the employment of migrant workers in South Africa and possible investment by South African firms in Lesotho as it actually happened during the 2009 financial crisis. The revision of the SACU Agreement in 2002 which established the SACU Secretariat also provided a measure of protection and exercise of more direct oversight authority by members including Lesotho. Another problem is that, Lesotho does not have easy access to sea. This issue has been under intense negotiation between the two countries (Lesotho and South Africa); however, not much progress has been achieved in this regard.

Lesotho is also faced with the challenges of poor infrastructure. Most roads network in Lesotho are concentrated in the lowlands districts of Butha-Buthe, Leribe, Berea, Maseru, Mafeteng and Mohales' Hoek while there are few roads in the mountain districts of Thaba Tseka, Mokhotlong, Qacha's Nek and Quthing. While all the districts in Lesotho are connected by arterial roads, it may be noted that few rural roads connect villages and towns within the highlands districts of the country, which covers about 75% of the total area of the country according to Lesotho Poverty Reduction Strategy (2006). This makes it difficult for people in these districts to access basic services such as schools and clinics. The Department of Transportation shows that infrastructure development can contribute immensely towards reducing poverty in the country. About 7, 000 and 8,000 labourers were employed in construction activities by the Department in 2006 on a rotational basis.

Lesotho, which used to supply surplus grains to the South African mining industries is now faced with serious food deficit. Land degradation, erratic climatic condition, low food production, political and economic factors have all contributed to this unfortunate state of affairs. According to the Ministry of Agriculture and Food Security, Lesotho produces around 30% of the total food required to feed its population in a normal year. This means that about 60% of the annual cereal requirement has to be imported in a normal year. The declining mine remittances from the South African mines has also had a negative impact of food production in the country as fewer households have the necessary income to invest in the required inputs.

The above factors will make it difficult for Lesotho to reach the target on the Millennium Development Goals by 2015. According to information from the Ministry of Finance and Development Planning, experts are not optimistic that the MDGs will be achieved as per Table 1 below. It shows that the country has made real progress made to achieve universal education (primary completion rates), gender equality and environmental sustainability. However, it also shows that Lesotho is seriously lagging behind in achieving the goals in respect of poverty, child mortality, maternal mortality and TB.

Millennium Development Goals

Lesotho has made some efforts to achieve the Millennium Development Goals targets and objectives. There have been notable successes in this regard. According to the National AIDS Commission, significant progress has been made in terms of universal education (primary completion rates, etc.), gender equality and environmental sustainability. However, the country is seriously lagging behind in terms of indicators pertaining to poverty, child mortality and tuberculosis (TB). The HIV and AIDS pandemic constitutes the most important and devastating constraint on the country's development and its future. Lesotho recorded the third highest HIV and AIDS prevalence rate, ranging between 28.9 per cent and 31.7 per cent, coming after Botswana and Swaziland. HIV/AIDS is disproportionately concentrated in urban areas. The Government's response through the National HIV and AIDS Strategic Plan has been effective and is widely acknowledged by stakeholders. The health indicators are also worrisome, particularly in the areas of under 5 mortality and maternal mortality. Findings from the 2009 Lesotho Demographic Survey revealed that challenges particularly related to immunization programme are attributable to Lesotho's terrain problems which make it difficult to reach some areas except by helicopter. This creates pockets of areas where children are not reachable for routine vaccinations. These children can only be accessed during measles campaigns which are undertaken only once a year.

However, it may be noted that there have been laudable successes in the areas of primary education, although there has been far less success at the preschool, secondary and tertiary levels. Total net enrolment rates for the primary education level were about 72 per cent in 2006, according the Ministry of Finance and Development Planning MDGs Progress Report 2010. The Report indicates that enrolment for girls is generally higher than for boys at all levels, except at the primary level, where gender parity has been reached. It is important to note that in the past, more girls were educated at the primary level than boy. This was attributable to the fact that boys were looking after the cattle while girls were going to school. In this regard one may conclude that in Lesotho unlike other African developing countries the boy child is disadvantaged than the girl child.

The next chapter will focus on the findings of the study.

Chapter Six: Findings of the Study

6.1 Introduction

The Government of Lesotho is committed to reduce the dire situation of poverty in the country. In order to address this problem, Lesotho entered into an Economic Partnership Agreement with the European Union. The key finding of the study is that both literature and hard evidences indicate that some gaps in action hinder progress towards reducing poverty in Lesotho. These include: Poor and inadequate infrastructure; providing an enabling environment and effective regulatory framework for economic activities. The aim of the study is to determine whether or not Economic Partnership Agreement can contribute towards reducing poverty in Lesotho. The study therefore presents the findings.

Trade on the basis of the Economic Partnership Agreement has the potential to increase Lesotho's aggregate real income, consumption possibilities and prospects for growth in the long run. However, this will not happen without the short-run dislocations, which may ensue when previously protected domestic production activities possibly become uncompetitive, downsize and finally shut down. Therefore, it is important to balance out the long-run gains against the possible short-run losses during the adjustment process. Openness to trade also entails redistributive impacts as certain demographic groups in the country find themselves worse off, while others may be forced to bear a disproportionate amount of costs to the trade reform. In instances where policy makers have specific objectives with respect to income distribution or targets for poverty alleviation either in the short-run or long-run, the enactment of complementary policies, will support such objectives while pursuing trade openness.[2]

EPA Adjustment Costs

It is against this backdrop, that Lesotho seeks targeted Economic Partnership Adjustment support from the European Commission. Therefore, it is important for Lesotho to conceptualise and calculate the implied trade and social adjustment costs that the country may incur during the EPA adjustment process. The due diligence required for such a proposal, include a Diagnostic Trade Integration Study within the EPA framework, which will include but not limited to the following:

- The conducting of a Diagnostic Trade Integration Study within the EPA framework;
- The re-examination of the Trade Chapter in the European Union-South Africa Trade and Development Cooperation Agreement (TDCA);
- The re-examination of the adjustment process losses experienced at the time;
- The re-evaluation of the EU Economic Integration Support Programme (EISP), given to the Botswana, Lesotho, Namibia and Swaziland (BLNS) countries at the time;
- The evaluation of the magnitude of the implied loss of tariff revenues and its impact on fiscal space;

[2] Trade Liberalisation, Adjustment Costs and Poverty – Gindling T.H. and Takacs Wendy E.

- The evaluation of the compatibility or lack thereof, of trade and Lesotho's Poverty Reduction Strategy within the EPA frame work;
- The identification and development of a proposal for appropriate pro-poor social safety net programmes to address social adjustment costs.

The objective of the aforementioned is to contribute to the country's preparation of a technical and financial proposal for targeted EPA adjustment programmes.

The study identifies the four programmes below that may be of vital benefit to Lesotho during the EPA adjustment process:

- Fiscal Adjustment;
- Production and Employment Adjustment
- Trade Facilitation and Export Diversification; and
- Skills development and productivity enhancement support.

6.2 Lesotho's Negotiating Obstacles

Lesotho's negotiating obstacles include her Least Developed Country status, revenue loss, market access and many others.

6.2.1 Lesotho's Least Developed Country Status

Lesotho is a Least Developed Country (LDC) described as a vulnerable economy, lacking many natural resources and manufacturing, with the majority of the population engaged in subsistence agriculture. The country faces extreme challenges in stimulating productive capacity, which puts the country in a disadvantaged position in negotiating an Economic Partnership Agreement that is pro-development; one that will not undermine its national development plans.

The country's current overall economic capacity has a bearing on its ability to establish and implement EPAs. Notwithstanding the fact that the EPAs are intended to be development tools, the extreme disparities in negotiating powers between the EU and the SADC-EPA group, and the fact that SADC-EPA countries are also at different levels of development, could grossly undermine the country's ability to establish and implement a favourable EPA in the country. In essence, unless Lesotho receives the necessary financial and technical support within the EPA framework, the country, may in future find it difficult to sustain the national development plans as indicated above.

Lesotho's Least Developed Country status, calls for the European Union's commitment to a fair and pro-development consideration for the country, and additional budgetary support, beyond that committed to the SADC-EPA Group. In this regard, the EU needs to put in a special effort to level the regional playing field in the negotiations.

6.2.2 Loss of Tariff Revenues

Lesotho like most African, Caribbean and Pacific (ACP) countries relies heavily on import taxes to raise government revenues. The weak global and sub-regional economic performance has resulted in a decline in revenues, especially customs. As a result, Southern African Customs Union (SACU) shares which have traditionally contributed about 60 percent of Lesotho's revenues, are now projected at USD309 million, between 2009/10 and 2010/11. This would result in a fall in GDP of roughly 25 percent, as opposed to 20 percent in the case of Swaziland, Ministry of Finance and Development Planning (2010). This means that the Government's ability of finance its expenditures has been reduced by an equivalent amount.[3] According to Honourable Thahane, SACU revenue had increased from USD237 million in 2003/4 to USD700 million in 2008/9 and 2010 respectively. In 2010/11 it is projected to decline by 60 percent to USD308 million and to USD 242million in 2011/12 before recovering to USD532 in 2012/13. [4]

The inevitable loss of tariff revenues stemming from trade related EPA negotiations, compounded by the lack of leverage to mitigate this gap, in revenues and, the lack of the appropriate Social Safety nets; will affect the poor in the short-run. According to Oxfam International Briefing Note, UNEQUAL PARTNERS, September 2006, the World Bank estimates that in sub-Saharan Africa tariff revenues average 7 to 10 percent of government revenue. Furthermore, with the EU products representing about 40 percent of total imports in sub-Saharan Africa, eliminating tariffs in EU imports would lower tariff revenues drastically. Such losses are likely to have adverse impact on government spending, especially, if ACP countries are unable to mitigate the loss by alternative revenue generating avenues.[5]

Table 1 Lesotho Revenue Base in Million Dollars

Revenue	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Tax Revenue	USD250	USD272	USD329	USD382	USD414	USD468
Non Tax Revenue	USD 61	74	91	88	102	116

[3] Budget Speech to Parliament for 2010/2011 fiscal year – Honourable Timothy T. Thahane P.13

[4] Budget Speech to Parliament for 2010/2011 fiscal year – Honourable Timothy T. Thahane P.8

[5] Oxfam International Briefing Note – UNEQUAL PARTNERS, September 2006 – P.5

SACU Revenue	USD329	564	585	700	550	532
Grants	USD 24	13	25	33	93	147
TOTAL	USD664	USD923	USD1030	USD1203	USD1159	USD1263

Source: Ministry of Finance and Development Planning (2009)

The loss of revenue tariff is likely to have a serious impact on the Lesotho Government revenue and thus expenditure. Being a country with limited natural resources does not support the case of Lesotho's alternative sources of government revenue; to mitigate lost revenue. The lack of industry competitiveness further compounds the country's vulnerability in the absence of relevant EPA adjustment support, the country risks signing a trade EPA that is not pro-development. It is important therefore, that Lesotho broaden the tax base and strengthen tax administration, particularly the performance of the Lesotho Revenue Authority (LRA), increase the efficiency of government spending by improving public expenditure management and budget planning, execution, and reporting, as well as transparency and financial accountability as suggested by the World Bank.[6] According to Honourable Thahane, Government will have to adopt strategies which give priority to and redirect resources towards capital expenditure or investment. He further proposed a total review and restructuring of the methods by which Government collects revenues. He said Government is considering extending the mandate of the Lesotho Revenue Authority to collect all revenue for the Government. He went on to say Government will also review its operations with a view to letting the private sector manage under contract those

[6] Lesotho – Ex Post Assessment of Longer-Term Engagement, April 23 2004

services which it can do better than Government such as dispensaries in Government hospitals, the printing of licenses, vehicle discs and registration plates.[7]

6.2.3 Market Access

The European Commission market access offer to African, Caribbean and Pacific Group of States was tabled to ACP countries on 4th April, 2007. This offer consists of Duty-Free, Quota-Free (DFQF) treatment for all imports, which would apply for entry into force of the agreements for all products except for sugar and rice. For these two products, DFQF treatment would be phased in over a transition period. There is an exception in the case of South Africa, where a number of globally competitive products will not be exempt from import duties. In summary, the EC market access offer will include the following:

- Elimination of all tariffs and import quotas for all ACP countries;
- Afford all ACP countries the same full access to EU markets that all LDCs have under the EU's "Everything-But-Arms" (EBA) DFQF market access system;
- Flexibility under the World Trade Organization (WTO) rules meaning that ACP countries will have to offer market access; phased in over a period of many years;
- Application in full from day one – planned for 1st January, 2008, with the exception of a transition period for rice and sugar.

a) Effective Market Access

For Lesotho and the Southern African Development Community – Economic Partnership Agreement (SADC-EPA) Group as a whole, effective market access should be viewed as a

[7] Budget Speech to Parliament for 2010/2011 fiscal year – Honourable Timothy T. Thahane P12-14

function of favourable conditions of at least two key elements: tariff barriers and non-tariff barriers. While the EC may argue that their current market access offer is unprecedented, for Lesotho, the offer, specifically in the context of Lesotho's comparative advantage sector, the textile sector, is just as ineffective as all other previous preferences given to Least Developed Countries (LDCs).

According to a ComMark report, Lesotho has one of Sub-Saharan Africa's largest textile clothing industries. The report laments however, that in spite of EU trade preferences (Cotonou/Generalised System of Preferences/GSP) Lesotho's EU garment exports are negligible. This is due the EU stringent rules of origin as indicated below. Between January and June 2005, Lesotho's EU garment exports accounted for about 0.2% of total country garment exports (total exports in period USD 198 million).[8]

For Lesotho, the Duty-free Quota-free (DFQF) market access is the minimum the EU can offer; based on World Trade Organization's (WTO's) Hong Kong Ministerial Declaration. DFQF market access is only worth anything if all other barriers impeding market access have been satisfactorily addressed.

The SADC-EPA Group needs to negotiate for much more favourable conditions for the outstanding and unresolved blocking issues of Rules of Origin and Environmental restrictions. The current EC market access offer technically excludes Lesotho from participating in EU export. It therefore, can be argued that in order for the EU to offer meaningful market access to the SADC-EPA Group, the current rules of origin that apply, would have to be revised to allow Lesotho's exports into the EU market. Lesotho's potential inability to participate in EU markets while at the same time opening up to EU traders, may result in a rise in price of export products

[8] ComMark – Economic Situational Analysis

and a decrease in price for import goods in the domestic market, which will in turn affect productivity of local import competing firms and based on local consumption also affect the people's disposable income.

b) Rules of Origin

Duty-free market access is preconditioned by the fulfilment of the EU rules of origin (RoO), which means effective market access cannot be achieved unless this condition is met. Lesotho's comparative advantage lies in the textile industry. However, the chances that Lesotho will be able to participate actively in the EU export trade in the Economic Partnership Agreement Framework, remains unfairly minimal in the absence of more flexible rules of origin.

As it is, Lesotho has not been able to use any of the trade preferences previously extended to Least Developed Countries due to stringent rules of origin. The rules of origin criteria, applicable under the EU generalized system of preferences stipulated value addition criteria for non-textile related exports to the European Union and processing criteria for textile-apparels products. In the case of apparels, European Union rules of origin specify that LDCs must undertake two stage domestic value addition before taking advantage of duty-free access:

- In the case of manufacturing, a woven shirt, would imply the use of locally produced fabrics;
- For knitwear products, the yarn used should be of domestic origin.

Furthermore, according to an Oxfam International document the EU's Everything-But-Arms (EBA) ostensibly offers duty-free and quota-free access for all exports from LDCs. Yet again, citing African LDCs as the worst victims, the majority of the countries lose more than half of their preferences because of the inability to comply with strict rules of origin. The report states that a ‘two stage’ processing requirement (yarns to fabrics, fabrics to apparel) in the EU’s GSP discriminates against small developing countries, which lack sufficient textiles capacity to support their garment industry. Cumulation provisions, do not provide much of an answer either as they have unrealistically high value-added requirements. They are also unnecessarily restrictive in allowing only regional rather than global cumulation.

Oxfam International further states that Canada is the only developed country to have met its Doha promise on DFQF access for LDC textile and clothing exports. Canada’s 2003 Market Access Initiative requires only that a product be made in LDCs (with no value-added requirement for the final stage of production) or that it adds at least 25 per cent value in the final stage (but with no double transformation requirement, and the possibility of using inputs from anywhere in the world).[9] The EU cannot apply this because according to the South Centre (2010), EPAs comprise of a Most Favoured Nation (MFN) clause that makes it obligatory for African countries to offer EU improved market access if they have offered this to another major economy such as China, India or Brazil. This will discourage these countries from negotiating South-South trade agreements with Africa. This is contrary to the WTO’s permission for preferential South-South trade.[10]

As a way forward on rules of origin, Lesotho could, among other things, perform an analysis of Canada’s 2003 Market Access Initiative for LDCs, in order to understand how the Least Developed Country Tariff (LDCT) system works, and enhance ability to measure effective market access in the context of EPAs. As a group, the SADC-EPA countries could also negotiate for the replication of Canadian rules of origin for the group.

6.2.4 Trade and Development Corporation Agreement’s Negative Effects on BLNS

[9] http://www.amrc.org.hk/5204.htm

[10] South Centre - Trade for Development Programme Policy Brief, 16 November, 2010

Botswana, Lesotho, Namibia and Swaziland (BLNS) countries are in effect already providing the European Union with reciprocal market access, as de facto members of the Trade and Development Corporation Agreement (TDCA) between South Africa and the European Union. The complications of the TDCA on the Southern African Customs Union (SACU) group were exacerbated by the fact that, prior to the commencement of negotiations for the TDCA, South Africa declared itself a developed economy in the context of the World Trade Organisations (WTO); notwithstanding its binding commitments to SACU and the vulnerabilities of its lesser developed partners. This voluntary reclassification has thus been taken as the baseline in the negotiations for the agreement, and South Africa consequently took-on commitments commensurate with this status.

Some of the implications of this Agreement include the fact that SACU member states, as de facto party of the TDCA took on far more liberal in-ward market access and equally less ambitious out-ward market access than is promised to similarly disposed African, Caribbean and Pacific Group of States under the EPA negotiations.

In an article written by Sam van der Staak,[11] he reports that the TDCA has entailed a much bigger shift for the BLNS countries than for South Africa, given that their non-reciprocal Lome trade preferences were eroded with the defacto indirect trade through TDCA. The increased competition that later ensued threatened to lead to production, employment and income losses. SACU holds a common customs and excise revenue pool, and as South Africa is the greatest trade beneficiary in the region, an FTA (Free Trade Agreement) with the EU was expected to reduce the BLNS governments' revenue substantially. The article states that it became necessary

[11] The article stems from a research conducted by the author at the University of the Witwatersrand in Johannesburg, and published as Trade liberalisation and financial compensation. The BLNS states in the wake of the EU-South African trade and development agreement, Research Report No. 84, Leiden: African Studies Centre, 2006.

for BLNS countries to create policy change in an endeavour to mitigate such potentially harmful effects – policies for which they were offered compensation:

- The domestic tax systems were reformed;
- Industrial enterprises were required to become more competitive and develop new products; and
- Strong regulatory and judicial regimes had to be encouraged to attract foreign investment.

6.3 Trade Facilitation and Export Diversification

This type of Aid for Trade is required in order to reap the benefits of re-allocating resources (capital, labour, skills and land) away from important competing sectors towards new export activities. Actual and potential exporters in ACP countries will need support with developing export products and gaining knowledge about export market opportunities.[12]

As Lesotho opens up to EU trade in January 2008 in the EPA framework, there may be some disadvantages observed both in local consumption patterns and production patterns, which may give rise to trade-related adjustment costs. In order for Lesotho to arrive at what the opportunity cost might be at the time; in figures at world prices, it would necessitate the evaluation of what the resources might have produced, were they employed in productive activities instead of being reassigned to the adjustment process.[13]

6.4 Recommended Policy option

Lesotho should temporarily delay ratification of the Interim EPA;

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[12] Conceptualising and calculating the costs of targeted EPA related adjustment support programmes p.3

[13] Trade and Liberalisation, Adjustment Costs and Poverty – Gindling T.H. and Takacs Wendy E. P6

Engage in high level negotiations with the European Union and South Africa on aligning the liberalization schedules between the TDCA and EPA;

Taking into consideration several benefits that are likely to accrue to Lesotho following the signing of the Economic Partnership Agreement (EPA) as stated in Chapter 4, one may wish to conclude that EPA will indeed contribute towards alleviating poverty in Lesotho in the long run.

Macro-economic policy in Lesotho should focus on the following:

Developing better, proactive and people oriented domestic policy by attracting foreign direct investment, privatizing major parastatals and strengthening the banking system. The Government of Lesotho should foster cooperation between small Basotho enterprises and foreign owned textile industry to further integrate the sector with the rest of the economy. It should also identify the current barriers to investment in agriculture, industry, tourism, and service sectors in order to diversify the economy. Government needs to improve the investment climate for both foreign and domestic investors by removing various administrative barriers impeding the conduct of doing business in Lesotho, such as a number of days it takes to open a business in Lesotho and facilitating easy access to credit for Small Medium Enterprises.

Ensuring medium-term fiscal sustainability

ability: The country’s fiscal policies should be focused on (a) making efforts to broaden the tax base and strengthen tax administration, particularly, the performance of the Lesotho Revenue Authority to help compensate at least partially for the projected decline in SACU revenue (as a share of GDP) due to changes in the SACU revenue sharing formula and trade liberalization; (b) Increasing the efficiency of government spending by improving public expenditure management and budget planning, execution, and reporting, as well as a transparency and financial accountability; (c) Reduce corruption, the national public attitude survey on democracy, markets and civil society, conducted in 2003, indicates that corruption was perceived to be highest among border officials, with 30 percent of respondents saying “most” or “all” are involved in it. They are followed by the police with 28 percent and government officials with 27 percent. Public perception on corruption is similar for the private sector (both local and foreign business). While Lesotho has enacted several Acts to combat corruption and money laundering, the biggest challenges lie in their slow implementation as revealed by the Lesotho African Peer Review Mechanism Country Report (2010).

The report further suggests that while the appointment of key officers such as the auditor general, the ombudsman and ambassadors can remain the prerogative of the executive, Parliament should play a role in scrutinising the suitability of the proposed candidates. With regard to prosecution of corrupt practices, it is important to ensure that courts are independent when the state is involved. It is strongly recommended that although Lesotho has established oversight institutions such as the Public Accounts Committee (PAC) and the Directorate on Corruption and Economic Offenses (DCEO) to combat corruption, these institutions should be strengthened to effectively play their role. These institutions should also be provided with the necessary human and financial resources, as well as freedom to recruit staff.

It may be noted that the successes of the Lesotho Highlands Development Authority (LHDA) corruption cases are still fresh in the minds of many Basotho, as a result of heavy penalties imposed by the High Court of Lesotho on a foreign company found guilty of bribing former officials of the Lesotho Highlands Water Project (LHWP), who were found guilty and sentenced to imprisonment in November 2002. According to the Lesotho Highlands Development Authority report, the Authority took the matter very seriously and developed clear and transparent policies, procedures, manuals and codes from the lessons learnt from the cases in order to reduce corruption (see box 1 below). The Authority has shared its lessons with the Directorate on

Corruption and Economic Offenses (DCEO) in Lesotho and many forums and countries in the Southern African Development Community (SADC) region, including South Africa.

The Directorate on Corruption and Economic Offenses indicates that, now that the Lesotho Highlands Development Authority is about to embark on Phase 2 of the Lesotho Highlands Water Project, due diligence has to be part of a daily exercise for all involved. It is reported that although their successes from the LHWP cases, the lessons learnt remain with the organisation, as corruption continues to grow nationally in size and sophistication. An example of a tax amnesty granted to affected businesses (after the Lesotho 1998 violence) which could not produce financial reports and tax computations. The result was that through connections with government officials, many undeserving people some of whom did not run businesses, benefited from the amnesty.

The relatively high unemployment rates result from the net surplus of young educated people who can no longer be absorbed into the civil service, manufacturing industries or by South African mines. This has led to high levels of nepotism at all levels and in all economic sectors. A case cited by many people in Lesotho is the one involving a top official in the Lesotho National Development Corporation (LNDC), whose wife was reported to have been employed in a company that had directly benefited from the support from LNDC.

Lesotho media was praised for revealing the case. It may be noted however, that media in Lesotho is perceived to be weak. This is mainly due to the fact that it does not have necessary financial reporting and investigative skills to expose cases of corruption as stated in the African Peer Review Mechanism Lesotho Country Report (2010). The Report further highlights that the ability of the Directorate on Corruption and Economic Offences to analyse cases of money laundering carefully is hampered by a shortage of appropriately trained stuff in the directorate, supported by the United States of America government, there are concerns that the current anti-money laundering regulations tend to be too closely linked to the anti-terrorism effort in the United States following the 11 September 2001 terror attacks. In the context of Lesotho, this hampers the effective domestication of these regulations.

Box 1 Lesotho Highlands Water Project (LHWP) Corruption Cases

Lessons learnt from the LHWP corruption cases challenged the organisation to come up with regulatory and compliance frameworks for corporate governance as well as for checks and balances suitable for such a trans-border and complex organizational structure.

Preventative measures include:

- Tightening procurement procedures, including the bidding for, and the evaluating and awarding of contracts;

- Awareness programmes for staff;

- Internal audit measures; and

- Additional checks and balances outside the executive that is, on the board and in the LHWP Commission.

Measures for dealing with multinationals include:

- The need for properly drafted bidding documents that need to be clear and concise;

- The need to make detailed geotechnical investigations mandatory for all tender contracts and to ensure that the results are disclosed to tenderers;

- The need to ensure that any information provided to tenderers is benchmarked against international practice, especially geotechnical reports, and that any changes from standard practice are fully documented and accepted by all authorities;

- The need for independent and internationally renowned panels of experts to provide good audits of the design and delivery of the programmes;

- The need to undertake due diligence; ......and

- The need to establish a fraud policy and response plan.

Source: Lesotho Highland Development Authority.

On the question of identifying and prioritizing opportunities and threats that are associated with EPA that would inform strategic choices in Lesotho one may refer to the issue regarding what would be the impact of ratifying the IEPA on Regional Integration? The impact of ratification of the IEPA on regional integration can potentially be significant. It can cause a slowdown in regional integration in the region, as a result, of the misalignment of the Common External tariff, a possible re-imposition of border controls, at the South African and Namibian borders, and in the long run even eventual disintegration of SACU.

If IEPAs are ratified by BLS it would immediately create a tariff differential facing imports from the EU, and that would mean a range of products would get into Botswana, Lesotho and Swaziland (BLS) at lower tariff duties, and with more liberal rules of origin than to South Africa and Namibia. This is mainly due to the fact that out of the five SACU Member States, only three have signed the EPA. South Africa and Namibia decided to opt out; The misalignment of tariff liberalization schedules within SACU disrupts the Common External Tariff, which is the very foundation of the Customs Union; Unless the tariff regime and rules of origin under the Trade Development Cooperation Agreement (TDCA) and the IEPA are aligned which is a subject of discussions between South Africa and the European Union, South Africa might be required to strengthen customs controls within SACU to avoid the trans-shipment of EU exports to the South

African market via BLS. The establishment of border controls can have a negative impact on Lesotho exports as is analyzed in more detail below.

The signature of the IEPA by the BLS can potentially be considered a breach of the 2002 SACU Agreement and as it disrupt regional integration within the Customs Union. The signing of the EPA, by BLS, can possible be considered a breach of article 31 (3) of the 2002 SACU Agreement which states that: "No Member State shall negotiate and enter into new preferential trade agreements with third parties or amend existing agreements without the consent of other Member States'; SACU has, so far not created rules and procedures with regards to 'what constitute 'consent of other Member States'.

The BLS are also accused that by signing the Interim EPA, they are the ones that left SACU. According to the Ministry of Finance, the 2002 SACU Agreement does not specify whether a verbal or written consent is necessary and which national body is allowed to provide it. This means therefore, that the issue is open for wide interpretation and could therefore be easily contested. However, it may be noted that BLS believe that RSA and Namibia consented that BLS negotiated and enter into an agreement with the EU, however, it is noted that RSA and Namibia may believe otherwise.

Another issue that might be raised regarding the signing of an Interim EPA is whether or not there was any pressure on BLS to sign. It may be argued that the three member states could have waited a little longer in order to exhaust negotiations within SACU at the highest level. After all, the European Commission had agreed to wait until the SACU member states had sorted themselves out. Some people argue that the Authorities in Lesotho were not fully and objectively informed of the progress and real issues involved to enable them to take informed decisions. It is further argued that the authorities were given partial picture of possible ramifications of signing the IEPA.

Finally, the Chapter is focused on identifying problems associated with Economic Partnership Agreement in Lesotho. These problems cause hindrance in Economic Partnership Agreement to contribute towards reducing poverty in Lesotho. The chapter will suggest possible strategies towards solving the identified problems. The strategies will be aimed at ensuring that the country benefits from the Economic Partnership Agreement.

6.10 The Problems associated with Economic Partnership Agreement in Lesotho

Lesotho is classified as a Landlocked Developing Country. The Almaty Programme of Action: Addressing the Special Needs of Landlocked Developing Countries within a New Global Framework for Transit Transport Cooperation for Landlocked and Transit Developing Countries, defines Landlocked Developing Countries (LLDCs) as the poorest of developing countries, with limited capacities and dependence on a very limited number of commodities for their export earnings. It goes on to highlight lack of territorial access to the sea, remoteness and isolation from world markets which have contributed to relative poverty, high transportation costs and lack of effective participation in international trade (Almaty Programme of Action 2004) . The Programme of Action aims:

- To secure access to and from the sea by all means of transport;
- To reduce costs and improve services so as to increase competitiveness of their exports;
- To reduce the delivered cost of imports;
- To address problems, delays and uncertainties in trade routes;
- To develop adequate national networks;
- To reduce loss, damage and deterioration en route;
- To open the way for export expansion; and
- To improve the safety of road transport and security of people along corridors.

The Almaty Programme of Action is a blueprint for the international community to address the special developmental needs of landlocked developing countries, which takes into consideration the right to access, to and from the sea by all means of transport and in an integrated manner (Chowdhury and Erdenebileg, (2006).

From the above statement one may conclude that Lesotho's proximity to South Africa has pros and cons. The advantages come in the form of trade, employment opportunities and the use of South Africa's infrastructure (such as roads and ports) for transit as well as tapping the financial opportunities of its financial institutions. Remittances from Basotho mine workers employed in the South Africa and customs revenue from the SACU as well as royalties from selling water to South Africa are some of the developmental benefits to Lesotho and to improving its balance of payments.

The disadvantages relate to overly relying on South Africa on sources of revenue, as the factors affecting South Africa will have a spill-over effect on Lesotho's economy. This means slow down in the economy of South Africa will adversely affect Lesotho's revenue from SACU, the employment of migrant workers in South Africa and possible investment by South African firms in Lesotho as it actually happened during the 2009 financial crisis. The revision of the SACU Agreement in 2002 which established the SACU Secretariat also provided a measure of protection and exercise of more direct oversight authority by members including Lesotho. Another problem is that, Lesotho does not have easy access to sea. This issue has been under intense negotiation between the two countries (Lesotho and South Africa); however, not much progress has been achieved in this regard.

The Way Relations between Lesotho and South Africa are managed

The relationship between Lesotho and South Africa dates back to the apartheid era. At the time, the people of the two countries had to endure hardships, wars and upheavals, as they fought together for the liberation of South Africa. During the apartheid era, the relationship between the two countries was tense and turbulent but cushioned with diplomatic courtesy. However, the situation changed in 1994, following the demise of apartheid in South Africa. Thereafter, the relationship between the two countries became cordial and full diplomatic relations were established.

The establishment of diplomatic relations paved the way for exchange of high level visits. Amongst the high level visits, one may wish to highlight the State Visit of former President Nelson Rolihlahla Mandela in 1995, in recognition of the pivotal role Lesotho played in the liberation struggle of the Republic of South Africa. Thereafter, former President Thabo Mbeki also paid a State Visit to Lesotho in 2001. It was during this time, that a Joint Bilateral Commission of Cooperation (JBCC) Framework was signed by The Right Honourable the Prime Minister, Mr. Pakalitha Bethuel Mosisili and the then President of the Republic of South Africa, His Excellency Mr. Thabo Mbeki, on 19 April, 2001 in Maseru, Lesotho.

The JBCC Agreement is the foundation of Lesotho and South Africa special relationship, which will guide their strategic partnership and the way relations are managed. It is automatically renewable after every five years, and operates at three levels. The highest level is that of Heads of Government of the two countries (not Heads of State since in Lesotho the Head of State is a Constitutional Monarch), the Commission (Ministers of Foreign Affairs) and Senior Government Officials. While there has been some notable success in implementing the Agreement, progress has been stalling in some areas such as:

- Access to health facilities;
- Cross Border Movement between Lesotho and South Africa;

Access to health facilities in South Africa

Lesotho has enjoyed a long-standing arrangement with South Africa for referral of patients from Lesotho's main hospital to South African hospitals. All the fees are paid for by Government at a private rate for such patients. However, at some point in 2009, some adverse decision appears to have been made unilaterally by South Africa to decline referrals from Lesotho, Ministry of Health and Social Welfare Briefing Note (June 2010). The situation has since changed, following the State Visit to Lesotho of the President of the Republic of South Africa, His Excellency Jacob Zuma from 12 to 13 August, 2010.

Cross-border Movement between Lesotho and South Africa

It may be noted that for some time, South Africa has generously operated a six-month permit for Basotho frequenting that country. This arrangement facilitated entry into South Africa by Basotho. The reasons for such entry include business, trade, work, schooling, tourism, sport, private visits to relatives, as well as accessing medical treatment. It may further be noted however, that prior to the 2010 FIFA Soccer World Cup that was held in South Africa, in June 2010, there was a sudden suspension of the six months permit into South Africa. This was done unilaterally and without warning by the Republic of South Africa. The situation resulted in a crisis of unbearably long queues of about one and more kilometres on either side of the borders, which made it difficult for Basotho to travel to and through South Africa. As a result, Lesotho's economic and social survival was seriously compromised. Taking into consideration the foregoing, the Minister of Foreign Affairs and International Relations, Honourable Mohlabi Kenneth Tsekoa summoned the South African High Commissioner to the Foreign Office. He also wrote a letter to his counterpart, the South African Minister of International Relations and Cooperation, Ms. Maite Nkoana-Mashabane, requesting her to intervene on the matter.

While the Government of South Africa indicated security concern with regard to cross border movement, I strongly believe that this had much to do with Lesotho signing the Interim Economic Partnership Agreement (IEPA) with the European Union which brought about so much tension between the two countries. As a result, South Africa was 'tightening the screws' to ensure that Lesotho feels the pinch. Although there are still some long queues at the border especially during the festive season, it may be noted that tension between the two states has subsided subsequent to President Zuma's State Visit to Lesotho as stated above. As The Right Honourable Pakalitha Bethuel Mosisili would usually say "Lesotho is not only landlocked but South Africa locked". The two countries share history and geography. They also have similar culture and traditions. Therefore, Lesotho cannot and should not be seen as just another African country because no other African country is like her in terms of geography, and peoples having so much in common. It is important therefore, that the two countries maintain their special relations and avoid unnecessary tensions. They should also speak in one voice at regional and multilateral fora.

Conclusion

The findings of this study reveal that Economic Partnership Agreement is necessary from the point of view of the World Trade Organization (WTO) rules, and that, it can contribute towards reducing poverty in Lesotho in the long run. However, there are a number of constraints that need to be addressed, that hinder progress in the short run. These include: Poor and inadequate infrastructure; poor Government policies for example, Lesotho needs to take action aimed at improving her investment climate for foreign and domestic investors. The country should therefore remove various administrative barriers impeding the conduct of doing business in Lesotho, such as a number of days it takes to open a business.

The next chapter will present recommended possible policy options for Lesotho and draw a conclusion of the study.

Chapter Seven: Recommendations and Conclusion

7.0 Introduction

The main purpose of this study is to evaluate and analyse the effects of Economic Partnership Agreement on Lesotho's economy with a view to recommend possible policy options for the Government.

The Economic Partnership Agreement is necessary for market access and market diversification for Lesotho product. In the long run, it can be beneficial for Lesotho exporters due to preferential market access to the biggest market in the world. However, it remains clear that Lesotho's capacity in the establishment and implementation of trade-related EPAs, and in the mitigation of short-run costs, stemming from adjustment process is very limited. In order to enhance the country's effectiveness in this regard, Lesotho needs to ensure that the relevant policies of government, actions of the private sector and chamber of commerce, improve the competitiveness of the key export and other industries, support is given to improve the competitiveness of domestic industries, to maintain a sound macroeconomic policy and stable economic and social safety net programmes.

Lesotho should also look at the experience of other countries in the region such as Mauritius to establish whether there are strategies that can be employed to ensure that the country benefits from EPA. It is important to note that Mauritius unlike Lesotho has been aggressively using economic diplomacy to diversify her market and products. The country has developed from a low income, agriculturally based economy to a middle income diversified economy with growth in industrial, financial and tourist sectors. According to 2007/08 United Nations Human Development Report, Mauritius ranked No.65 out of 177 countries in the Human Development Index (HDI). The same report found that Mauritius Gross Domestic Product (GDP) per capita was USD12, 715 with an annual average growth rate of more than 5 percent, balance of payment surpluses leading to comfortable external reserves, and single digit inflation, while life expectancy stood at 72 years of age, with adult literacy rate of 84 percent.

In his 2010/2011 Budget Speech to Parliament, the Vice Prime Minister, Minister of Finance and Economic Development of the Republic of Mauritius, Honourable Pravind Kumar Jugnauth stated that Mauritius is about to reduce her dependence on euro-zone countries. He further stated that the country will make greater use of diplomatic diplomacy to open new markets (Jugnauth Budget Speech 2010).

Diagnostic Trade Integration Study

Lesotho's fiscal space or the lack thereof is closely tied to the country's ability to effectively implement all the goals of economic and social development. EPAs present a challenge in integrating trade into the national development plans. Lesotho will need to conduct a DTIS, which will enable the country to identify the key constraints in integrating trade in the EPA framework. This study should include the following:

- A review and an analysis of the country`s economic and export performance;
- An assessment of the macro-economic environment and the country's investment climate;

- An assessment of the international policy environment and the specific constraints that the country's exports face in the international markets;
- A review of the institutional framework for trade policy and trade development;
- An analysis of key labour intensive sectors for expansion of output, exports and employment;
- Concluding recommendations for policy reforms, institutional capacity implications, and action plans to remove bottlenecks and seize opportunities identified in the diagnostic study.

Trade and Development Corporation Agreement Re-visited

The EPAs mark the beginning of a new era in the history of the African, Caribbean and Pacific Group of States (ACP) and European Union (EU) trade relations and their impact on ACP countries may resonate far into the future. They are likely to change EU-ACP trade ties for a long time to come. The future ACP generations will need to successfully operate in the EPA framework and foster economic development for their countries. Therefore, in order for the future to be successful, it is important to examine the past.

The Trade related EPAs for Botswana, Lesotho, Namibia and Swaziland (BLNS) countries are basically TDCA re-visited, except with a much stronger bearing on the countries' fiscal space. It is important therefore, to re-examine the 2000 EU Economic Support Programme (EISP), which was given to the BLNS states. This was six million Euros, three-year programme. Its objective was to assist the BLNS countries to adapt trade and trade related policies and restructure their means of revenue collection.

> The EISP aid programme has, post-TDCA been criticized as it lacked the term "compensation" giving room to the EU to "escape" fully addressing the negative impacts of the TDCA on the BLNS Member States. EISP is said to tie disbursal to TDCA concurrence. Learning from the past, the aid due to Lesotho must be clearly identified as compensation for the EPA adjustment process. This should also include a binding commitment from the EU. This aid (Additional Funds), separate from those of traditional European Development Fund (EDF), should be set in a framework that has clear targets and objectives with an implementation time that is tied to the duration of the programme. It is also important to evaluate past EDF adjustment support and the budgetary support given to Lesotho under EISP.[14]

Given technical and legal complications arising within Southern African Customs Union (SACU) that threatens Lesotho's exports in the region and government revenue, I recommend that Lesotho postpones the ratification process of the Agreement, until an Agreement is reached between European Union (EU) and South Africa on the alignment of the Trade and Development Corporation Agreement and the Economic Partnership Agreement. Delaying the ratification process may also include Lesotho engaging in an intense negotiation process with the EU and South Africa on aligning the liberalization schedule between the Trade and Development, Cooperation Agreement (TDCA) and the IEPA.

While delaying the ratification process may not be the best policy option for Lesotho, it is likely to avert the short term negative impact of ratifying the Interim Economic Partnership Agreement

[14] Details based on Sam van der Staak – Trade Liberalisation and financial Compensation – BLNS Countries in The Wake of the EU-South Africa Trade and Development Cooperation Agreement.

(IEPA) on regional integration with the SACU Member States. It will also provide flexibility and time to realize the long term positive outcomes of the EPA.

7.3 Temporarily delay ratification of the IEPA

- Implementing this policy option would require engaging in high level talks with the European Commission (EC) on behalf of the EU (arrange a meeting between the Prime Minister of the Kingdom of Lesotho, The Right Honourable Pakalitha Bethuel Mosisili and the President of the European Commission, His Excellency Jose Manuel Barroso. This high level meeting should amongst others, entail expressing Lesotho's commitment to the ratification of the EPA. It should also highlight concern on the impact of the EPA on regional integration within SACU. Therefore, emphasizing that the best moment for provisional application and ratification of the IEPA for Lesotho would be as soon as South Africa and EU agree on the alignment of liberalization schedules between the TDCA and EPA;

- Concerns with regard to the disruptions of the Common External Tariff (CET) and associated impacts on regional integration within SACU, as indicated above, should be given as the reason behind the delay in provisional application of the EPA;

- During the high level meeting with the European Commission, Lesotho may highlight that the primary aim of the EPAs, as stated by the EU itself, is to reinforce not disrupt regional integration, and that Lesotho's anticipated delay in ratifying the agreement aims at achieving exactly that.

Engage in high level negotiations with the EU and South Africa on the aligning of the liberalization schedule between the TDCA and IEPA

On this issue, Lesotho should use all her diplomatic skills to facilitate and encourage South Africa and the EU to broker a deal on the full alignment of the IEPA and TDCA. Aligning the IEPA and TDCA will maintain the integrity of SACU's Common External Tariff, and avert any negative impact on regional integration within SACU. The high level engagement may also cover special circumstances of Lesotho with regard to the following: Consequences of South Africa's tight border controls; cumulation with South Africa; loss of revenue which will have to be supported by the country's thorough analysis (the Ministry of Trade and Industry, Cooperative and Marketing and the Ministry of Finance and Development Planning as well as the private sector should seriously consider working on this issue and giving it the attention it deserves).

Once the EU and South Africa agree on the above provisions, Lesotho may apply then ratify the EPA.

- Subsequent to the EU and South Africa agreeing on the provisions, Lesotho will provisionally apply the Agreement and send the bill regarding ratification process of the IEPA to Cabinet since ratification of agreements in Lesotho do not require Parliament approval but Cabinet decision.

Once such an agreement is reached, there will be no significant drawbacks that could constrain Lesotho from ratifying the EPA, and as such it should be ratified.

It may be noted that negotiations within SACU had not been exhausted and had not yet gone to the highest level. Although the BLS (Botswana, Lesotho and Swaziland) Member States signed the IEPA, thorough consultations did not take place within SACU at the level of Heads of State and Government. Consultations were only between Ministers of Trade and Industries of the respective countries. In the case of Lesotho even internal debate had not been exhausted. Not all relevant stakeholders were sufficiently involved. Analysis of options did not seem to have been sufficiently thorough. A thorough cost benefit analysis of EPA versus SACU or EPA synchronized with SACU or of dissolved SACU and gaining of EPA, as it stands as well as more long term strategic framework taking the whole region into account, from Lesotho's point of view has not been done and it is called for. In short, work was still grossly incomplete. The Ministry of Trade and Industry, Cooperative and Marketing and the Ministry of Finance and Development Planning were supposed to undertake a study on the Cost Benefit Analysis of EPA on Lesotho's economy. However, this has not yet been done due to the fact that the two Ministries and that of Foreign Affairs and International Relations are fighting for turf.

Lesotho in the BLS Configuration

It may be noted that Lesotho as compared to Botswana and Swaziland stands to lose market access the most. This statement is also supported by Development Network Africa briefing document of 18 June, 2007.[15] SACU is the largest Lesotho goods market with 38 percent. It is followed by North America, due to Africa Growth and Opportunity Act (AGOA) and the Duty Free Quota Free (DFQF) Market Access offered by Canada (35.4 percent), while the EU market is the distant third so far with (24.4 percent). All figures refer to 2008. Botswana and Swaziland have a large market in EU already in contrast. In addition, Swaziland has a large market in COMESA. Thus Lesotho stands to lose most in goods in trade had SACU been dismantled. It may also be noted that in the service sector, Lesotho exports services to South Africa more than Botswana and Swaziland, especially in migrant labour (mode 4 according to the World Trade Organization). While the two countries can consider alternative outlets such as Manzini and

[15] The worst case for Lesotho would arise is EPAs contribute to rapid and extensive liberalization. Since SACU has agreed to base the EPA on the TDCA the principle of differential treatment may apply negatively towards Lesotho.

Maputo in the case of Swaziland, Lesotho has no alternative passage for goods except South Africa. It is important therefore, that as Lesotho ventures into the new markets she should avoid losing the ones already secured.

According to Lesotho Geneva Briefing Note (2009), improved market access does not necessarily imply increased exports. The Note goes on to indicate that first, there has to be productive capacity in the exporting Least Developed Country (LDC) or Small and Vulnerable Economy (SVE). Second, it has to be produced competitively. Then there has to be a market for the product in the country importing the product. Hence the United Nations Industrial Development Organization (UNIDO) slogan of **compete, conform and connect**. That means produce competitively, conform to the international standards and reach out to the market. It is therefore, not wise to open up the currently small market such as that of the European Union, at the expense of the already existing lucrative SACU market. Thus the saying "A bird in hand is worth two in the Bush" still holds true.

Conclusion

In conclusion and taking into consideration the many challenges that face Lesotho, I recommend that the country should seriously explore other sources of revenue. So far, Lesotho has done well in the textiles industry but the impact on revenue accrued is minimal, although many jobs have been created. It is therefore, important that Lesotho diversify her trade.

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APPENDIX I

INTERVIEW GUIDE FOR THE MINISTRY OF TRADE AND INDUSTRY COOPERATIVES AND MARKETING

THE ECONOMIC PARTNERSHIP AGREEMENT AND ITS EFFECT ON LESOTHO'S ECONOMY (CASE STUDY OF LESOTHO)

1) I would like to know how you feel about Lesotho joining the Economic Partnership Agreement (EPA).
2) How will the signing of Economic Partnership Agreement contribute towards reducing poverty in Lesotho?
3) Why did Lesotho sign the Interim Economic Partnership Agreement (IEPA)?
4) What are possible benefits that will accrue to Lesotho from signing the IEPA?
5) What are your Ministry's concerns on the Economic Partnership Agreement?
6) What strategies do you have in place to address the supply side constraints and to ensure that Lesotho benefits from the EPA?
7) What are some of contentious issues in the EPA negotiations?
8) How can the EU and SADC-EPA Group expedite addressing these outstanding issues?
9) What are problems associated with the EPA in Lesotho?
10) What strategies would you suggest for solving problems associated with EPA?
11) Do you have any suggestion or recommendation on what could be done to ensure that Lesotho benefits from the EPA?

APPENDIX II

INTERVIEW GUIDE FOR THE MINISTRY OF FINANCE AND DEVELOPMENT PLANNING

THE ECONOMIC PARTNERSHIP AGREEMENT AND ITS EFFECT ON LESOTHO'S ECONOMY (CASE STUDY OF LESOTHO)

1) I would like to know how you feel about Lesotho joining the Economic Partnership Agreement (EPA).
2) How will the signing of Economic Partnership Agreement contribute towards reducing poverty in Lesotho?
3) What are your Ministry's concerns on the Economic Partnership Agreement?
4) How will Lesotho revenue from SACU be negatively affected by the signing of the EPA?
5) What is the impact of Economic Partnership Agreement on Lesotho?
6) Do you think Lesotho will be more vulnerable under the EPA framework than under the Trade and Development Cooperation Agreement (TDCA) between the EU and South Africa? Please explain.
7) What should be done to avoid imminent break-up of the SADC-EPA Group?
8) How do you educate stakeholders such revenue collectors and people in general on EPA?
9) What are problems associated with the EPA in Lesotho?
10) What strategies would you suggest for solving problems associated with EPA?
11) Do you have any suggestions or recommendations on what would be possible policy option for Lesotho on EPA?

APPENDIX III

INTERVIEW GUIDE FOR THE LESOTHO REVENUE AUTHORITY

THE ECONOMIC PARTNERSHIP AGREEMENT AND ITS EFFECT ON LESOTHO'S ECONOMY (CASE STUDY OF LESOTHO)

1) What are your views regarding the Economic Partnership Agreement (EPA) between Lesotho and the European Union (EU)?
2) How will the signing of Economic Partnership Agreement contribute towards reducing poverty in Lesotho?
3) What are your organization's concerns on Economic Partnership Agreement?
4) How will Lesotho revenue from SACU be negatively affected by the signing of the EPA?
5) Do you think Lesotho will be more vulnerable under the EPA framework than under the Trade and Development Cooperation Agreement (TDCA) between the EU and South Africa? Please explain.
6) What do you think should be other alternative sources of revenue for Lesotho?
7) How will the signing of Economic Partnership Agreement assist Lesotho reduce poverty?
8) Do you think it is necessary to align TDCA tariffs with those of the Interim EPA to maintain a single tariff against the EU, in order to preserve SACU coherence? Please explain.
9) What are problems associated with the EPA in Lesotho?
10) How should Lesotho engage the EU on issues of concern such as cumulation with South Africa?
11) Do you have any suggestions or recommendations on what could be done to ensure that Lesotho benefits from the EPA?

APPENDIX IV

FOCUS GROUP INTERVIEWS FOR EXPORTERS ASSOCIATION

THE ECONOMIC PARTNERSHIP AGREEMENT AND ITS EFFECT ON LESOTHO'S ECONOMY (CASE STUDY OF LESOTHO)

1) What is your occupation? ……………………………………………………….
2) Are you a member of the Exporters Association? Yes ( ) No ( )
3) If yes, which one?
4) What are your reasons for joining or not?
5) Do you export your products abroad? Yes ( ) No ( )
6) If yes, to which market? Europe ( ) or the United States of America ( )
7) What do you know about Economic Partnership Agreement (EPA) between Lesotho and the European Union?
8) How does the EPA address your needs as an Association?
9) What strategies do you have in place for exporting to the European Union (EU) market?
10) In which EU Member State is your company currently conducting business?
11) Do you think there is enough information on accessing the EU market? Please explain.
12) Which other Exporters' Association do you work with to address higher demands of your product?
13) Do you think it is necessary to have a Bureau of Standards or an Institution similar to it in Lesotho? Please explain.

APPENDIX V

FOCUS GROUP INTERVIEWS FOR SMALL, MICRO AND MEDIUM ENTERPRISES (SMMEs)

THE ECONOMIC PARTNERSHIP AGREEMENT AND ITS EFFECT ON LESOTHO'S ECONOMY (CASE STUDY OF LESOTHO)

1) What is your occupation? ……………………………………………………….
2) Are you a member of the Handicraft Association? Yes ( ) No ( )
3) If yes, which one?
4) What are reasons for joining or not the Association?
5) Do you export your products abroad? Yes ( ) No ( )
6) If yes, to which market? Europe ( ) or the United States of America ( )
7) What do you know about Economic Partnership Agreement between Lesotho and the European Union?
8) If yes, how does it address your needs as an Association?
9) What strategies do you have in place for exporting to the European Union (EU) market?
10) How did you know about the EU market?
11) Do you think there is enough information on accessing the EU market? Please explain.
12) Which other SMMEs do you work with to address higher demands of your product?
13) How do you maintain quality product for mass production?
14) Which Organization assists you to maintain good standards?
15) Do you think it is necessary to have a Bureau of Standards or an Institution similar to it? Please explain.

LIST OF ACP COUNTRIES

1. Angola
2. Antigua & Barbuda
3. Bahamas
4. Barbados
5. Belize
6. Benin
7. Botswana
8. Burkina Faso
9. Burundi
10. Cameroon
11. Cape Verde
12. Central African Republic
13. Chad
14. Comoros
15. Democratic Republic of Congo
16. Congo
17. Cook Islands
18. Cote d’Ivoire
19. Djibouti
20. Dominica
21. Dominican Republic

22. East Timor
23. Equatorial Guinea
24. Eritrea
25. Ethiopia
26. Fiji
27. Gabon
28. Gambia
29. Ghana
30. Grenada
31. Guinea
32. Guinea Bissau
33. Guyana
34. Haiti
35. Jamaica
36. Kenya
37. Kiribati
38. Lesotho
39. Liberia
40. Madagascar
41. Malawi
42. Mali
43. Marshall Islands

44. Mauritania
45. Mauritius
46. Federal States of Micronesia
47. Mozambique
48. Namibia
49. Nauru
50. Niger
51. Nigeria
52. Niue
53. Palau
54. Papua New Guinea
55. Rwanda
56. St. Kitts and Nevis
57. St. Lucia
58. St. Vincent and the Grenadines
59. Samoa
60. Sao Tome and Principe
61. Senegal
62. Seychelles
63. Sierra Leone
64. Solomon Islands
65. Somalia

66. South Africa
67. Sudan
68. Suriname
69. Swaziland
70. Tanzania
71. Timor Leste
72. Togo
73. Tonga
74. Trinidad and Tobago
75. Tuvalu
76. Uganda
77. Vanuatu
78. Zambia
79. Zimbabwe