

**PRIVATE SECTOR COMPETITIVENESS AND ECONOMIC DIVERSIFICATION  
PROJECT  
(Cr. 4275-LSO, H281-0 LSO)**

**PROGRESS REPORT**

<b>1.0</b>	<b>INTRODUCTION.....</b>	<b>1</b>
<b>1.1</b>	<b>Background .....</b>	<b>1</b>
<b>1.2</b>	<b>Reporting Format .....</b>	<b>1</b>
<b>2.0</b>	<b>IMPLEMENTATION PROGRESS.....</b>	<b>1</b>
<b>2.1</b>	<b>Component 1: Improving the Business Environment. ....</b>	<b>1</b>
<b>2.2</b>	<b>Component 2: Supporting Economic Diversification.....</b>	<b>3</b>
<b>2.3</b>	<b>Component 3: Project Implementation Support .....</b>	<b>6</b>
<b>3.0</b>	<b>CONCLUSION .....</b>	<b>7</b>

**ANNEXES**

- 1. Financial Report**
- 2. Procurement Status Report**
- 3. Procurement Plan**

**PRIVATE SECTOR COMPETITIVENESS AND ECONOMIC DIVERSIFICATION  
PROJECT  
(Cr. 4275-LSO, H281-0 LSO)**

**PROGRESS REPORT No. 004**

**1.0 INTRODUCTION**

**1.1 Background**

The Government of Lesotho entered into a five year Financing Agreement with the World Bank (IDA) on 17<sup>th</sup> April, 2007, to fund the Private Sector Competitiveness and Economic Diversification Project (PSCP). The project became effective on 5<sup>th</sup> October, 2007.

The PSCP is supported by a specific investment loan (SIL) in the amount of US\$8.1 million equivalent, of which US\$4.2 million equivalent (52.2%) is in grant and US\$3.9 million equivalent (47.8%) is in credit. Additionally, the Government of Lesotho is providing counterpart funding in the amount of US\$2.0 million.

The Project has three main components: **Component One** – Improving the business environment, **Component Two** – Supporting economic diversification, and **Component Three** – Project Implementation Support. Under Component 1, the following activities are being implemented; a) Company registration and licensing reform b) Immigration and passport service reform and the design of the National ID Card System c) improving access to finance for SMMEs. Component 2 covers the following; a) Horticulture Out-grower Scheme b) Tourism Development and c) Establishment of Garment Skills Development Centres. Component 3 provides for appropriate institutional arrangements for project implementation. This includes the establishment of a Project Management Unit (PMU) for day to day management of the project; Project Review Committee (PRC) to provide technical and operational guidance to the project; and the Public Private Steering Committee for overall strategic guidance to the project.

**1.2 Reporting Format**

The current report presents project implementation progress since project effectiveness (5<sup>th</sup> October, 2007) until 31<sup>st</sup> March, 2008, as well as planned activities to be undertaken during the first quarter of the financial year 2008/2009. The report also highlights challenges to be overcome to achieve the Project Development Objectives. The following documents are also included as Annexes: Annual Work Plan (including the budget) for 2008/2009, Procurement Plan and Procurement Status Report, and Financial Report for 2007/2008.

**2.0 IMPLEMENTATION PROGRESS**

**2.1 Component 1: Improving the Business Environment.**

***Brief Description***

Business environment in Lesotho is presently characterized by weak legal and administrative framework, as well as high costs of doing business. These constraints affect the local and foreign businesses alike. Key interventions under this component include the following;

- Undertake company registration reform and streamline the industrial and trading licensing regimes.

- Undertake Immigration and Passport Services Reform by streamlining and simplifying procedures for the issuing of visas, work permits and residence permits.
- Design the National Identification Card System for Lesotho.
- Undertake Needs Assessment for the Commercial Court.
- Improve access to finance for SMEs through the design and development of an Enterprise Development Facility (EDF), and develop a legal and regulatory framework for a leasing industry.

### ***Achievements***

#### **i) Company Registration and Licensing Reform**

To reduce the time and cost of registering companies, a draft Company Law has been prepared and submitted to the Ministry of Law for review prior to submission to parliament. The Project Management Unit (PMU) has received comprehensive comments on the draft law from various stakeholders including the Investment Climate Team for Africa (FIAS). To finalize the law, the Project Review Committee (PRC) has established a Task Team consisting of representative from the Law Office, Parliamentary Counsel, the Ministry of Trade and Industry, Cooperatives and Marketing (MTICM), and the PMU. The Task Team has developed an action plan and the targets are as follows:

- MTICM Legal Office to finalize instructions and circulate to members of the Task Team by 22 April, 2008.
- The Parliamentary Counsel to complete drafting the law by July, 2008.
- The draft law to be presented to Cabinet by November, 2008.
- Submission of the Law to Parliament by December, 2008.

With regard to the draft law on business reporting and manufacturing license, the MTICM is in the process of establishing a Task Team which will consist of representatives from the Departments of Trade and Industry to take the process forward. Once established, the Task Team will prepare a time bound action plan.

The Trade and Investment Facilitation Centre (TIFC) commonly known as “One Stop Shop” (OSS) has been established in the Ministry of Trade and Industry, Cooperatives and Marketing, with the support of DfID. The OSS was launched in September, 2008. The centre is intended to bring together the functions of approval of trading and manufacturing licenses, import and export issuance, residency visas and work permits. The TIFC is already facilitating the issuance of manufacturing and trading licenses, and processing import permits and export visas. In March, 2008, the PSCP was mandated by the OSS Task Team to facilitate the development of a strategic plan for the OSS. However, the PRC in its 3<sup>rd</sup> meeting of the 6<sup>th</sup> March, 2008 transferred the mandated from PSCP to DfID.

#### **ii) Immigration and Passport Service (IPS) Reform and Revitalization**

The Government believes the IPS has a critical role to play in Lesotho’s private sector development, but in order to do so its policies, practices and procedures must be aligned with current international “best practices”. Therefore, the Government is in the process of recruiting consultants who will assist with the streamlining and simplification of procedures for issuance of visas, work permits and residence permits. Requests for Expressions of Interest (EoIs) were advertised in March, 2008 and short lists of recommended candidates have been submitted to the World Bank for No Objection.

The PSC project in collaboration with the Project Partners is in the process of procuring the services of a consulting firm to undertake a feasibility study to determine the viability of instituting a National Identification Card System for Lesotho. Negotiations with the preferred firm (Flexyware) were held on 11<sup>th</sup> March, 2008. The minutes of the negotiations meeting and a draft contract between the Government and Flexyware have been submitted to the World Bank for No Objection. It is envisaged that the assignment will commence during the first week of April, 2008.

### iii) Improving Access to Finance

With the assistance of the PSCP, the LNDC is about to finalize the design of a Partial Credit Guarantee Scheme (PCGS). The scheme will provide guarantees to SMMEs to access loans from commercial banks. The Request for Expressions of Interest (EoIs) inviting individual consultants has been advertised in local and regional newspapers as well as in the UN Development Business website. The closing date for submission of EoIs was 15<sup>th</sup> February, 2008. Only one EoI was received by the PMU.

In January, 2008 the LNDC, MTICM and Ministry of Finance and Development Planning undertook a study tour to a successful Partial Credit Guarantee Scheme (PCGS) in Madagascar. Following the study tour, it was agreed that the project team which designed the Madagascar scheme be invited to develop a road map for a similar scheme in Lesotho. The Madagascar team visited Lesotho in March, 2008 and they have since submitted a draft report which has been circulated to stakeholders for comments. The report is a road map for development of the PCGS for Lesotho. It is envisaged that the scheme will be operational by December, 2008.

### *Next Steps*

- The MTICM Legal Office to prepare instructions for the drafting of the final version of the Companies Law by 22<sup>nd</sup> April, 2008.
- The Parliamentary Counsel to produce the final draft of Companies Law by July, 2008.
- Establish a Task Team to oversee the process of drafting the Business Reporting and Manufacturing License Law by May, 2008.
- MTICM to prepare instructions for the Business Reporting and Manufacturing License Law by June, 2008.
- Appoint Consultants for the IPS reform and revitalization assignments by June, 2008.
- Sign a contract for the feasibility study on the National ID Card System by April, 2008.
- Finalize the road map for the PCGS by May, 2008.
- Appoint a Consultant to operationalise the Partial Credit Guarantee Scheme by June, 2008.

### *Challenges*

The absence of action plans with clear responsibilities and timeframes for completion of the draft Companies Law and draft Business Reporting and Manufacturing License Law has been the main challenge. However, the establishment of the two Task Teams will help expedite enactment of the two laws.

## **2.2 Component 2: Supporting Economic Diversification**

### *Brief Description*

While the garment industry is critical to economic growth in Lesotho, there are weaknesses within this sector, namely high single industry and single market dependence, together with

the vulnerability of the sector to external shocks such as elimination of AGOA benefits and the expiry of Multi-Fibre Agreement (MFA). Economic diversification and integration of the economy with regional markets will be achieved through retaining and expanding the existing FDI base of the garment industry, while attracting more investment in new industrial clusters by improving skills within the garment industry.

The growth of the local private sector will be supported in sectors with high growth potential, such as horticulture and tourism, and strengthening linkages with the South Africa market. In addition, a matching grant scheme (Lesotho Enterprise Assistance Programme – LEAP) will be implemented for improvement of business skills, strengthening of private sector institutions and for addressing the challenge posed by HIV/AIDS to worker productivity and development. The project will also support the Lesotho Private Sector Foundation (LPSF), an umbrella organization representing the entire private sector in Lesotho.

### *Achievements*

#### i) Skills Development for the Garment Industry

To enhance the competitiveness of the Garment Industry, two skills development centres are being established in Maputsoe and Maseru. Two buildings have been acquired and their refurbishment is in progress. An association for the Maputsoe centre has been established and a Manager recruited. The Maseru Centre is in the process of registering an association and is about to procure similar services.

About 640 assorted industrial machines have been acquired for the two centres. The machines were purchased in March, 2008 at an auction that was organized by the High Court in collaboration with the LNDC. These machines will benefit both Centers as their varied functions will assist both the Woven as well as the Knitwear Industries. The total cost of the machines was M120,000.00.

#### ii) Horticulture

Fruit trees have been planted in 7 pilot locations in Northern, Central and Southern parts of the country, and farmers in three pilot sites have received basic training on plant maintenance and care, soil management, pruning and application of pesticides.

The Government of Lesotho has signed a Contract with Denmar Estates for provision of technical support to farmers in three of the seven pilot areas. Denmar has prepared specification for installation of irrigation equipment, hail nets and fences in three pilot areas, and the PMU has issued out requests for quotations for irrigation equipment and fencing. The hail nets on the other hand will be procured through International Competitive Bidding.

Alpha Estate has been requested to provide technical assistance to vegetable farmers and the PMU is awaiting Alpha's response.

#### iii) Tourism Industry Support

The World Hotel Link (WHL) has been recruited to facilitate the establishment of an online booking system for local tourism facilities. The portal operator, owners of local hotels and guesthouses, and tour operators have all been trained.

The Lesotho Council for Tourism (LCT), an umbrella body representing the Lesotho tourism private sector has been revived following a stakeholder workshop that was facilitated by a Consultant from Botswana. An Interim Executive Committee was elected at the stakeholders' workshop to facilitate the establishment of LCT Secretariat. The Interim Executive Committee has drafted the ToR for the LCT Executive Director. The Consultant has submitted a draft workshop report which has been circulated to stakeholders for comments.

The ToRs for the following assignments have been submitted to the World Bank for No Objection: a) Development of the Lesotho Brand and Tourism Marketing Strategy, b) Development of a Strategic Plan for the LTDC, c) Technical Advisor for Issuing of Tourism Concessions, and d) Development of a Grading System for Tourism Accommodation Facilities.

The next steps are to advertise and short list consultants.

#### iv) Lesotho Enterprise Assistance Programme

To strengthen human and institutional capacity of SMMEs and professional associations, the Lesotho Enterprise Assistance Programme (LEAP) is being established within the PSC Project Management Unit (PMU). The LEAP International Advisor has been recruited and the LEAP Manager will join the PMU on 1<sup>st</sup> April, 2008.

To empower the Lesotho private sector, the Lesotho Private Sector Foundation (LPSF), an umbrella private sector association has been established. The PSC project will fund the establishment of a Secretariat for the LPSF for a period of five years on a sliding scale. The CV of the recommended candidate for the position of the LPSF Executive Director and the draft contract were sent to the World Bank for No Objection.

#### *Next Steps*

- Complete refurbishment of the Maputsoe Skills Development Centre by April, 2008.
- Complete partitioning of the Maseru Skills Development Centre by May, 2008.
- Appoint Administrators for the two Centres by May, 2008.
- Prepare a work plan for Maputsoe Skills Development Centre by May, 2008.
- Develop a business plan for Maputsoe Skills Development Centre by May, 2008.
- Prepare ToRs for Trainers for Maputsoe Skills Development Centre by May, 2008.
- Re-advertise the position of Centre Manager for Maseru Skills Development Centre, by May, 2008.
- Procure equipment for the two centres by June, 2008.
- Procure and install irrigation system, hail nets and fences for three pilot horticulture projects, by June, 2008.
- Appoint Horticulture Manager by June, 2008
- Short list tourism Consultants by May, 2008.
- Appoint tourism Consultants by June, 2008. .
- Recruit an Executive Director for the LCT by June, 2008.
- Appoint LEAP Manager April, 2008.
- Establish a secretariat for the Lesotho Private Sector Foundation (LPSF) by May, 2008.

## **2.3 Component 3: Project Implementation Support**

### ***Brief Description***

The objective of this component is to ensure efficient and effective project management. This is facilitated by a project implementation structure consisting of four levels, namely; the Private-Public Steering Committee (PPSC) consisting of relevant members of the Cabinet and representatives of Business Chambers for provision of strategic guidance; the Project Review Committee (PRC) consisting of relevant Principal Secretaries, Registrar General and CEOs of the LNDC and LTDC for tactical and operational guidance; the Project Management Unit (PMU) consisting of the Project Manager, Administrative Secretary, Procurement Manager, Financial Manager and Monitoring and Evaluation Specialist for overall day to day management of the project; and the Focal Points from executing agencies for management and implementation of individual project sub-components.

### ***Achievements***

The PMU office has been established and most positions have been filled with the exception of the post of M&E Specialist which is still vacant. The Focal Points for various project components and sub-components are in place and operational. The PRC has also been established and has met thrice since project effectiveness.

The Financial Management Package, FINPRO has been installed, project staff trained and financial reports produced.

The procurement plan for the entire project duration and the annual work plan have been prepared in consultation with PSC Focal Points.

### ***Next Steps***

- Appoint M&E Specialist for the PSC project by June, 2008.
- Hold weekly PMU meetings.
- Hold monthly PRC meetings.
- Hold the first PPSC meeting by May, 2008.
- Launch the PSC project by May, 2008.

### ***Challenges***

- Communication between the PMU and stakeholders has consistently been interrupted by unreliable internet and email service since December, 2007. To address this problem, the PMU is in the process of installing a Lease Line which is more reliable than other systems.
- The negotiations between the LNDC and highest scoring candidate for the position of M&E specialist were not successful, and the second (best) candidate did not have the required experience. The position is therefore still vacant. Given the long procurement procedures within the LNDC, it is proposed that the PMU be mandated by the LNDC to facilitate the procurement process as the PMU procedures are relatively shorter. However, the LNDC will still be given an opportunity to review the shortlist and the final evaluation report.

### **3.0 CONCLUSION**

The PSCP has now been in operation for approximately six months since effectiveness, and the six months were dominated by the establishment of the PMU Office, recruitment of project staff, establishment of project structures and initiation of procurement processes for key services, goods and works. The next quarter (April-June, 2008) will therefore be dominated by recruitment of key consultants and procurement of major goods and works.

Although the delay in attaining project effectiveness had led to some slippages, these have been largely addressed and the project is currently on schedule. This achievement is attributed to stakeholder commitment and an excellent working relationship between the PMU, World Bank and Implementing Agencies