THE SADC EPA: HOW CAN THE AGREEMENT CONTRIBUTE TO LESOTHO’S AGRICULTURE AND AGRO-PROCESSING SECTOR DEVELOPMENT?

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EXECUTIVE SUMMARY

The EU–SADC economic partnership agreement (EPA) came into force in October 2016 and offers Lesotho a number of tariff preferences above competitor countries in the EU market. These preferences become more significant the more processed a product is. The tariffs are supported by liberal rules of origin, while the implementation of the agreement will be supported by EU development cooperation, with an EUR2 6 million (about $7,010,600) envelope announced recently. However, Lesotho continues to face challenges in producing the necessary volumes of products that meet the standards required to export to the EU. This policy briefing explores some of the reasons for this and makes recommendations on how the EU and South Africa could play a critical role within the ambit of the EU–SADC EPA to promote agriculture and agro-processing in Lesotho. This will have a direct positive

RECOMMENDATIONS

1. In consultation with the EU, the Lesotho government should consider designing the support programme under the development component to include strong coordination and cooperation between the government and the various donor programmes aimed at increased fresh fruit and vegetable production and processing. Only as a collective can the volumes be reached that are necessary to make the market centre operational and to access export markets.

2. The objective should be to first feed into the South African value chain, whereby Lesotho producers contribute to South African exports as allowed under the EU–SADC EPA rules of origin.

3. As a starting point the development programme should identify two or three products, such as apples, peaches and tomatoes, and focus all its efforts on linking Lesotho producers along the value chain to South African off-takers. Every stumbling block encountered in achieving this outcome should be closely examined and addressed. In order to achieve this the development component will have to have a certain flexibility built into its programming.
impact on women and youth employment and ultimately poverty alleviation.

INTRODUCTION

Six SADC member states have negotiated an EPA with the EU. This sub-group of SADC – the SADC EPA group – consists of Botswana, Lesotho, Mozambique, Namibia, South Africa and Swaziland. The agreement came into force in October 2016. The EU is the SADC EPA group’s largest trading partner as a region, and South Africa is the largest importer and exporter to and from the EU within this group. The largest single commodity export is diamonds from South Africa, Botswana, Lesotho and Namibia. However, agricultural products still hold a prominent place in the export baskets of the SADC EPA group, including beef from Botswana and fish and table grapes from Namibia. South Africa has the most diversified import and export portfolio, ranging from commodities to manufacturing and agricultural products. Lesotho lags far behind, with almost no agriculture or agro-processed products leaving the country for European markets. This policy briefing examines how the SADC EPA can contribute to reversing the status quo and assist Lesotho to enter the agro-processing export sector.

LESOTHO’S AGRICULTURE AND AGRO-PROCESSING SECTOR

Lesotho is a small, landlocked country, surrounded by its neighbour South Africa. Not only does South Africa dwarf Lesotho in terms of land and population size but their levels of economic sophistication and development are also almost incomparable. Lesotho has around 2 million inhabitants and has been plagued by political instability for a number of years.

While agriculture contributes only 8% to the country’s gross domestic product it remains the main income-generating activity in rural Lesotho. Some of the reasons for the low productivity levels are issues around land ownership (women cannot own land outright), a lack of modern agricultural equipment, severe difficulties in accessing finance and a lack of knowledge of and experience in commercial farming practices.

Both agriculture and agro-processing feature prominently in the country’s National Strategic Development Plan, but agriculture and agro-processing products do not really feature in Lesotho’s export profile, which is dominated by clothing exports to the US, followed by water exports to South Africa and some additional diamond exports to Belgium. At face value it seems as though the opportunities for Lesotho from the SADC EPA lie in the clothing sector. The industry was initially established and promoted via the African Growth and Opportunity Act (AGOA), a US unilateral trade act of 2000, and has attracted considerable investment by predominantly Asian companies. Although a large number of women have found employment in the clothing industry, which offers opportunities beyond subsistence farming, the agriculture and agro-processing industry has greater potential for developing women and youth into business owners and exporters, rather than their remaining employees dependent on the vagaries of the AGOA benefits.

Lesotho produces a handful of fresh produce, ranging from apples, pears, apricots and peaches in the fruit sector to tomatoes, spinach, green peppers, onions and cabbages in the vegetable sector. None of these is currently exported as fresh or processed produce to the EU.

One small exception is aquaculture, which has seen exports of freshwater trout from the Lesotho highlands taking off. Based on Lesotho’s competitive advantage of large quantities of cold and unpolluted waters in the Katse Dam, sustainable and ethical fisheries are growing in number. The trout produced here is of high quality and is packaged before being exported to South Africa and Japan. The South African retailer Woolworths is deeply involved in ensuring the fish is produced and processed according to its own industry standards. The International Trade Centre’s Trade Map confirms the exports and the fact that no fish is currently exported to the EU. While the SADC EPA offers an 11% tariff advantage for the product, it will take dedicated efforts by a marketing agency or industry association to ensure entry into the European market.

There is also a strong perception across all sectors that EU standards and requirements are too stringent for Lesotho to enter the market competitively regardless of the tariff preferences given. This is an enormous stumbling block for Lesotho, especially considering the challenges it has encountered in entering the South African market, where there are prohibitive standards and packaging requirements. It seems that products that are successfully produced and exported are done so in partnership with large retailers from South Africa, such as Woolworths and Pick n Pay, that introduce their own industry standards by working in close association with farms that produce exclusively for them.
The private sector in Lesotho is small and weak, but the donor community has tried to focus its efforts on kick-starting production in the agriculture and agro-processing sectors. The country is still unable to produce the large volumes necessary for export, nor can it meet EU standards for exporting. The government, in consultation with donors, may need to focus on targeting South Africa and integrating its contribution into South African value chains for niche products or for produce that, combined with the South African harvest, could result in large-enough volumes to make the EU market an attractive destination.

Several studies have shown that a major impediment to agriculture and agro-processing sector development lies in the fact that the government, the private sector and development partners are working in silos. This leads to fragmented outcomes and the inability to scale production. In addition, there is inadequate sharing of information on government incentives and donor programme opportunities, leaving the ill informed behind.

Two initiatives could contribute significantly to scaled production and agro-processing.

**EIF Horticulture Productivity and Trade Development Programme**

With abundant space and good access to clean water, greenhouse production has become popular in Lesotho. Through the Aid for Trade programme in Lesotho, the Horticulture Productivity and Trade Development Programme (HPTD) was implemented. It had two distinctive components; one focused on enhancing the production of fresh vegetables in Lesotho, and the second on developing the trading capacity of farmers – and Lesotho as a whole – to ensure that this produce enters the South African market.

To achieve the first component, 115 farmers were given greenhouses sourced from Kenya. Women and youth were specifically targeted. Technicians spent three months with recipients and trained them on the effective use of greenhouse production, how and when to plant, how to fertilise, when and how to treat pests and when to harvest. Lesotho's climate proved to be ideally suited to greenhouse production and most of the recipient farmers were able to produce high-quality tomatoes, green peppers, cabbages, cucumbers and spinach.

Low production volumes resulted in difficulties in realising the second component, namely the development of trade and export capacity. The vision for this component was to capacitate the Department of Standards and Quality Assurance to enable it to self-certify Lesotho produce for local and international consumption, adhering to international food safety standards as well as levels and sophistication of testing. Although the programme trained and exposed staff to international standards and procured equipment for testing, the intervention has not gone much beyond that.

Another aim of the project was to build a market centre that could process all fresh fruit and vegetables produced in Lesotho and prepare produce for export. The HPTD identified a site and developed the shell into a state-of-the-art market centre. However, the market centre was developed without a clear business plan delineating where the volumes of produce were going to come from, how they would reach Maseru and who the off-taker of this produce would be. As things stand, the market centre remains empty and inactive.

These two large problems overshadowed a number of smaller but equally important stumbling blocks in getting Lesotho's agro-produce exported. Most farmers sell their produce in local villages and make enough of a profit to continue into subsequent harvests. A few sell to local supermarkets but on an ad hoc basis. They arrive at the local store with their produce without prior warning or proper packaging. Some supermarkets are keen to support them and buy the produce and self-package. However, they cannot commit to a lasting arrangement with the farmers as they have no plan as to the sequencing of planting and harvesting and are unable to predict future volumes. Another major problem is that farmers have no access to refrigerated transport that can manage the difficult terrain where most greenhouses are located. Produce is severely damaged by transportation in open vehicles.

**Resuscitation of the Basotho Fruit and Vegetable Canners Project**

The Basotho Fruit and Vegetable Cannery at Masianokeng has been dormant for many years, but recently there has been a commitment from the government to reopen the facility under the ‘Resuscitation of the Basotho Fruit
and Vegetable Canners' project. The Lesotho National Development Corporation (LNDC) is planning to revitalise the cannery to produce a variety of products, such as asparagus, peaches, baked beans, potatoes, fruit salad and green peas. This new direction emanates from the 2008 turn-around strategy by PricewaterhouseCoopers, which recommended introducing new products over and above the asparagus and peaches traditionally produced by the cannery. The study identified a number of challenges that led to the closure of the facility. These included poor production by farmers, which led to under-supply of raw materials; poor marketing strategies; poor financial management; and a poor management structure.

The goal of the project is to revitalise production and processing in Lesotho through:

- establishing a high-tech greenhouse and irrigated area that will produce a variety of products for the existing cannery and the minimum raw material requirement for the cannery; and
- building the capacity of smallholder farmers, to be undertaken through the Horticulture Small and Medium Enterprise Competitiveness project, which has been submitted by the Ministry of Trade and Industry for financing under the SADC Trade-Related Facility.

The project will also make use of the market centre built under the HPTD project. It will be used to manage all post-harvest handling requirements, including pre-cooling, washing and grading, sorting, packaging and distribution. The project is a public–private partnership, and the LNDC is still looking for a strategic joint-venture partner that will assume 40% shareholding.

CONCLUSION

Lesotho is coming off a very low base when targeting informal farmers, specifically women and youth living in rural settings. The tariff preference granted under the SADC EPA is unlikely to result in tangible benefits for these groups unless close attention is paid to the basic problems they encounter. These include, but are not limited to, access to distribution points, internal coordination to sequence planting and harvesting, the creation of production groups, access to high-quality seed and fertiliser, extension services, production volumes that could allow for exports, the ability to produce to international standards that are documented and verifiable, access to appropriate and cost-effective transport, and access to finance to scale production.

It is also important that the government effectively communicates and disseminates information to all stakeholders. The Ministry of Trade and Industry leads the Lesotho Coordinating Committee on Trade, an interdepartmental body coordinating activities to improve quality standards, product development and diversification, trade agreement implementation and monitoring and evaluation. This committee is co-chaired by the LNDC and the Basotho Enterprises Development Corporation (tasked to develop small and medium enterprises). It would be a good platform in which to house the SADC EPA support programme and to discuss on a continuous basis progress towards scaled production, processing and export capacity.

ENDNOTES

1 Talitha Bertelsmann-Scott heads the Regional Observatory at SAIIA. She has a long-standing research interest in Southern Africa’s trade relationship with the EU and how this affects regional integration.
2 Currency code for the euro.
3 ITC (International Trade Centre), Trade Map, ‘Product: 03 Fish and crustaceans, molluscs and other aquatic invertebrates’, https://www.trademap.org/Bilateral_TS.aspx?nypm=1||14719|426||03|||4|1|1|1|2|1|1|1|1, accessed 29 January 2018.