

Aid for Trade in Lesotho: ComMark's Lesotho Textile and Apparel Sector Programme¹

Project/programme: ComMark's Lesotho Textile and Apparel Sector Programme

Aid for Trade categories: Building productive capacity; trade policy and regulations; trade development

Donors: DFID

Programme dates: 2003 to December 2009

Summary:

This case study analyses the Lesotho Textile and Apparel Sector Programme, which specifically aims 'to improve the level of investment and competitiveness of Lesotho's garment sector so that it benefits the poor by creating formal job opportunities'. The Lesotho case study provides insight into how Aid for Trade can contribute towards promoting pro-poor trade and growth in three Aid for Trade categories, namely trade policy and regulations, building productive capacity and trade development.

The poverty impacts of this Aid for Trade intervention in the textile and garment sector in Lesotho have significant potential, given the high proportion of female employment in the sector (85%), as well as the large portion of employees with HIV/AIDS (estimated 43%), and its important contribution to GDP (19%). Additionally, for every job created, on average four dependents benefit from an increase in household income.

The case study reveals both how Aid for Trade programming has helped Lesotho to maximise gains from trade preferences (i.e. AGOA) for inclusive growth and poverty reduction, and how Aid for Trade programming can work towards reducing dependence on time-bound trade preferences (i.e. AGOA) by encouraging diversification of export destinations, building the sector's productive capacity and supporting trade negotiations. However, the case study concludes that Lesotho's textile and apparel industry remains in a precarious position, as attempts to diversify the markets for textile and apparel exports have seen limited success. Reliance on the US market renders Lesotho's textile and apparel industry vulnerable to changes in the international trade environment (e.g. removal of AGOA preferences in 2015, falling demand in the US).

Key lessons for Aid for Trade programming:

- **A consultative process in design and implementation**, whereby all stakeholders are engaged and given voice, leads to positive achievements.
- **Research and needs assessment** are essential to underpinning the long-term strategic vision of the programme, as well as to informing design and implementation of various components of the programme.
- **Regularly convening stakeholders** related to the garment industry to discuss challenges and develop practical solutions has improved sector efficiency and created an enabling environment for investment.
- **Committed and informed leadership is critical.**
- **Flexible design and tailored implementation** is a key to enable broad implementation of recommendations across the sector.
- **Investing in infrastructure is important**, as this area remains is a major barrier to the expansion of the garment industry.

¹ Please cite this case study as ODI (2009).

1. Introduction

1.1 Overview

This case study reviews ComMark's Lesotho Textile Apparel Sector Programme from an inclusive growth and poverty reduction perspective. It contributes to a programme of work titled 'Aid for Trade: Promoting Inclusive Growth and Poverty Reduction', co-funded by the UK Department for International Development (DFID) and the Swedish Ministry for Foreign Affairs and commissioned on behalf of European Union (EU) Member States to strengthen the quality and poverty focus of EU Aid for Trade Strategy implementation.

ComMark is a non-profit regional development organisation based in Southern Africa.² It was established 'to demonstrate practically how markets can be strengthened to make them more inclusive and pro-poor' (ComMark Trust, 2006). It aims to reduce poverty in the Southern African region by putting into practice the development approach known as 'making markets work for the poor'. The Lesotho Textile and Apparel Sector Programme specifically aims 'to improve the level of investment and competitiveness of Lesotho's garment sector so that it benefits the poor by creating formal job opportunities' (ibid).

This case study is structured as follows. The introductory section sets the trade, growth and poverty context in Lesotho. It then briefly outlines the Aid for Trade agenda and situates this case study within this agenda. Section 2 provides an overview of the Lesotho Textile Apparel Sector Programme, outlining programme initiation, design and implementation and monitoring and impact assessment. Section 3 assesses the success of the programme, considering the appropriateness of the programme focus, the enabling factors in its design and implementation, its impact on trade and poverty and how the programme has contributed to shaping trade policy. Section 4 concludes, drawing out lessons for Aid for Trade programming.

This case study was conducted as a desk review. It is based solely on key informant interviews, available published literature and programme and project documentation.

1.2 Trade, growth and poverty in Lesotho

1.2.1 Trade context

The formal garment export industry started in Lesotho in the early 1980s, primarily as a way for South African-based clothing companies³ to circumvent US and European sanctions imposed on South African-manufactured goods. These sanctions against South Africa were a way of putting pressure on the apartheid government. During that period, Lesotho enjoyed a number of advantages over South Africa because of trade agreements with the West.

In terms of privileged access to US markets underpinning growth in the garment sector, not a great deal has changed. In 2000, with the African Growth and Opportunity Act (AGOA),⁴ Lesotho gained advantage over its competitor countries in the developing world, as it could export its clothing both duty-free and quota-free into the US. Business boomed between 2001 and 2004, and the garment sector grew from 33,000 jobs in 2002 to its peak of 53,000 in 2004 (LTEA, 2008 as cited in Mthente, 2009).

An appreciating exchange rate and the expiry of the Multi-Fiber Arrangement (MFA) at the end of 2004 eroded these competitive advantages (Bennett, 2006; Mthente, 2009). By the end of 2005,

2 ComMark's core business is to alleviate poverty by increasing the participation and returns of economically poor communities through agribusiness, manufacturing and services sector activities. ComMark addresses regulatory, policy, productivity, institutional and business service constraints to make markets work for poor people – whether as workers, entrepreneurs or consumers. Please see <http://www.commark.org/> for more information.

3 South African-based clothing companies were mostly owned by Southeast Asians.

4 AGOA was signed into law on 18 May 2000 as Title 1 of the US Trade and Development Act. AGOA offers tangible incentives for African countries to continue efforts to open their economies and build free markets. See www.agoa.gov/.

the sector had experienced an employment loss to approximately 45,000 jobs (see Table 1) pointing to its vulnerability to currency fluctuations and changes in international trade policy. Fortunately for the sector, AGOA preferences, due to expire at the end of 2007, were extended to 2015 (LENA, 2008). The competitive advantage in terms of market access to US markets that AGOA provides to Lesotho underpins the expansion of its garment sector.

Table 1: Total Lesotho textile and apparel sector employment, 2002-2008

	2002	2003	2004	2005	2006	2007	2008
Industry employment	33,140	44,345	53,087	40,364	45,889	47,040	45,310

Source: Mthente (2009).

The clothing and textile industry is Lesotho's most important exporter – it has been claimed that the industry contributes at least 19% of the country's gross domestic product (GDP) (Bennett, 2006).

Behind the expansion of the garment and textile sectors were Southeast Asian investors who started moving into the country in the 1980s, and who by 2002 controlled 90% of the industry in Lesotho and employed 97% of the labour (Salm et al., 2002). Since 2002, there has been a growing presence of South African investment in the sector – with more than one-fifth (22.2%) of the factories operating in Lesotho of South African origin (Mthente, 2009) – albeit smaller factories.

The textile and apparel export market is predominantly geared to the US, representing over 95% of export share in 2006 (Mthente, 2009). Table 2 illustrates US dominance in Lesotho's export market for knit or crochet articles. This US dominance is consistent across textile and garment sectors.

Table 2: Top 5 export markets for knit or crochet articles of apparel and accessories (HS 61) 2002-2006

Rank	2002	2003	2004	2005	2006
1	US (98.3%)	US (97.8%)	US (97.8%)	US (97.6%)	US (97.9%)
2	Canada (0.9%)	Canada (1.9%)	Canada (1.9%)	Canada (2.04%)	Canada (1.8%)
3	UK (0.6%)	UK (0.5%)	UK (0.2%)	UK (0.1%)	UK (0.2%)
4	Japan (0.1%)	Japan (0.3%)	Japan (0.09%)	Japan (0.1%)	Mexico (0.07%)
5	Mexico (0.08%)	Mexico (0.04%)	France (0.04%)	Mexico (0.09%)	Japan (0.07%)

Source: Mthente (2009).

Lesotho's textile and apparel exports to the EU remained negligible up to 2008. The programme evaluation contends that this owes largely to the EU's complex trade rules of origin requirements (see Mthente, 2009). The Lomé Convention, in which these rules were stipulated, was replaced with the Cotonou Agreement in 2000.⁵ Then, in 2008, the preferences under the Cotonou Agreement were replaced by interim EPAs. These 'interim agreements provide for asymmetric reciprocal trade liberalisation between the parties (in favour of the ACP countries) over a transitional period up to 15 years and are explicitly drafted to provide the basis for subsequent comprehensive regional EPA agreements' (Nilsson and Matsson, 2009). This increased access to EU markets coincided with the global financial crisis, where international buyers are consolidating rather than expanding orders to alternative suppliers. Additionally, under the Everything but Arms (EBA) initiative, Lesotho has duty-free and quota-free access to the EU market. The programme evaluation argues that a lack of knowledge and experience in EU markets on the part of Lesotho's

⁵ The Cotonou Agreement foresaw the negotiations of economic partnership agreements (EPAs).

garment manufacturers has hindered the expansion of Lesotho's garment exports into the EU (Mthente, 2009).

This ComMark programme is part of an initiative to harness the poverty reduction benefits of Lesotho's competitive advantage, to mitigate the impact of the MFA and AGOA phase-out and to build the country's competitive advantage through different channels.

1.2.2 Poverty context

Lesotho is a small, landlocked country encircled by South Africa. It is among the poorest economies on the continent: with a population of just over 2 million people, it ranks 138th of 177 countries on the Human Development Index (HDI) and is classified as a least developed country by the UN.

Its economy is based largely on subsistence farming, livestock, remittances from migrant workers in South Africa (mining) and a garment assembly sector. As a consequence of migrant labour to South African mines, there is a high prevalence of HIV/AIDS in the country, estimated among adults at 23.2% (USAID, 2008).

Lesotho's poverty reduction strategy paper (PRSP) contends that rapid and sustainable economic growth is necessary and prioritises creating employment and improving agricultural productivity. The garment sector is now Lesotho's single largest formal sector employer and provides employment for poor and uneducated workers, most of them women (ComMark Trust, 2006). Thus, the ComMark programme, aimed at expanding employment in the textile sector, fits squarely with government aims.

1.2.3 Key constraints facing the textile and garment industry

The key binding constraints in the textile and garment industry that the ComMark programme aims to address were identified in a scoping study prior to the design of the programme. These included 'a lack of investment in environmental services and critical infrastructure facilities, low levels of factory and worker productivity that were affecting the cost competitiveness of the sector, generally poor perceptions of the sector among both local and international stakeholders, and threats to the favourability of the international trading environment faced by Lesotho's textile and garment exporters' (Mthente, 2009).

1.3 Aid for Trade: A brief introduction

1.3.1 The origin and evolution of Aid for Trade

The origins of the Aid for Trade agenda lie in World Trade Organization (WTO) negotiations and can be traced back to developing country concerns. These focused on the limited benefits they had already experienced from increased market access, and those they were likely to see as a result of the Doha Development Round – unless their supply-side capacity constraints were addressed and they were compensated for adjustment costs associated with multilateral trade liberalisation, notably preference erosion and reduced trade-related fiscal revenue (IMF and World Bank, 2005).

In response to these concerns, the WTO Ministerial Meeting in Hong Kong in December 2005 called on donors to increase Aid for Trade resources in order to 'help developing countries, (especially LDCs), build the supply side capacity and trade related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade' (WTO, 2005). This led to a number of multilateral and bilateral development agencies committing substantial funds under the Aid for Trade rubric.⁶ The Hong Kong Ministerial Meeting also established an Aid for Trade Task Force to develop recommendations on how to make Aid for Trade operational and contribute to the development dimensions of the Doha Development Agenda (OECD, 2007). This Task Force identified five priority Aid for Trade activities: trade policy

⁶ For instance, the 2005 financial commitment by the EU entails €2 billion per year (€1 billion per year each for the European Commission (EC) and the Member States) of trade-related assistance (TRA) to partner countries by 2010.

and regulations; trade development; trade-related infrastructure; building productive capacity; and trade-related adjustment. In October 2007, EU Member States adopted a joint Aid for Trade strategy to implement the WTO Aid for Trade Task Force Recommendations, supporting 'developing countries, particularly LDCs, to better integrate into the rules-based world trading system and to use trade more effectively in promoting the overarching objective of eradicating poverty in the context of sustainable development' (EU, 2007).

1.3.2 Aid for Trade, inclusive growth and poverty reduction

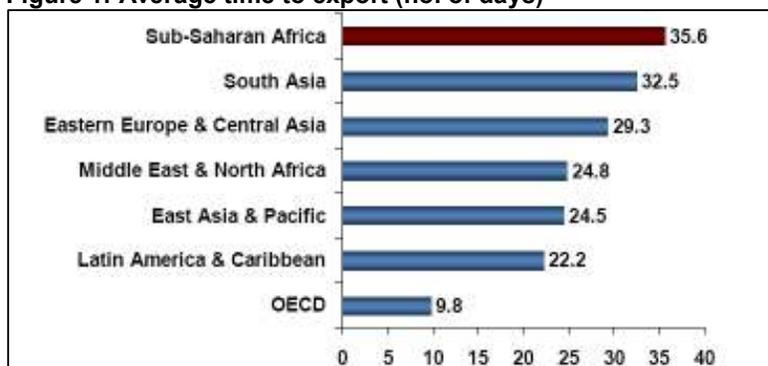
Increased trade and economic growth can help deliver poverty reduction. The structure of economies and societies influences whether an increase in the volume and value of trade delivers economic growth and whether that growth, in turn, generates sustained poverty reduction and enhanced wellbeing. However, under the right conditions, trade and economic growth can be inclusive. Poor people can see their incomes, consumption and wellbeing rise. Trade can also support growth by enhancing a country's access to a wider range of goods and services, knowledge and technologies. It can stimulate entrepreneurship in the private sector. It can attract private capital, create jobs and increase foreign exchange earnings. Such positive trends in an economy can enable governments to increase tax take, enabling them to invest in the types of expenditure that reduce poverty, inequality and exclusion (WTO, 2008). Together, these factors can increase the likelihood that the Millennium Development Goals (MDGs) are met – not just at the aggregate level but for all socioeconomic groups.

Further, although there remain some differences of opinion on the direct causal relationship between trade, growth and poverty, we do know that countries that make trade a part of their development process have tended to grow, and reduce poverty, faster than those that have not (OECD, 2008; Prowse, 2009). Developing countries have almost doubled their share of non-oil world exports over the past 30 years and this has been accompanied by strong economic growth. More recently, developing countries have made important progress in accessing the markets of the industrialised world through the changed rules associated with WTO trade rounds (DFID, 2008).

But the gains from this have been unevenly spread, with the poorest countries being increasingly marginalised. For example, sub-Saharan Africa's share of world exports fell from 3.9% in 1980 to 1.9% in 2006 (OECD, 2008). In addition, there are signs that trade liberalisation in developing countries, while increasing aggregate growth, does not benefit everyone and can increase the poverty and ill being of some as well as contributing to higher levels of inequality. So, even where trade and growth are increasing, poor and marginalised groups may not be reaping the benefits of growth, or may be benefiting far less than other groups (DFID, 2008). This is widely recognised and it is these challenges, in part, that the Aid for Trade agenda seeks to address.

What we see is that developing countries have not been able to fully capture the benefits of trade, and that this is for a number of reasons. Although access to international markets is still an issue in some areas, for instance around agriculture, there are other 'behind the border' constraints. These include high transport costs, absent or unsupportive policies and regulations, cumbersome and slow export processing procedures, inadequate export and trade negotiating skills, poor product standards, low productivity and competitiveness, lack of export diversification and low added value production chains. Broader economic infrastructure issues also pose significant challenges: less developed countries are often poorly resourced in terms of energy, communications and transport infrastructure and markets in these often function poorly. These generate severe constraints for producers, workers, entrepreneurs and traders and stifle global competitiveness (see Figure 1).

Figure 1: Average time to export (no. of days)



Source: World Bank (2008).

What this illustrates is that developing country governments and their international development partners have a huge opportunity to make positive changes. Changes that will reduce 'behind the border' constraints, smooth links between national and international markets and increase the ability of the full range of people to engage beneficially in trade. This is where Aid for Trade comes in – by helping developing countries maximise the growth and poverty reduction potential of trade. For example, Aid for Trade can promote an inclusive investment climate, enhancing the opportunities for a range of trading groups – including big business, small and medium enterprises (SMEs), entrepreneurs, informal traders, poor producers and workers – to participate in trade-related activities and benefit from trade. It can help trading groups overcome infrastructural barriers to benefiting from trade, by reducing the time and cost associated with transportation and border crossings. It can build productive capacity, which enables households and traders across the income distribution to participate in and benefit from tradable sectors, and it can support the diversification of these sectors into higher value-added products. Where necessary, it can support policies and programmes to mitigate the adverse impacts of trade-related adjustment, by supporting regional-level adjustment facilities as well as social protection initiatives (Bird and Vandemoortele, 2009). In essence, Aid for Trade can help build the export potential of developing countries so that they are able to reap the benefits of global trade and it can help poor and excluded people to engage in domestic and international markets in a way that benefits them. It can do this by supporting improved market access, enterprise development and employment creation.

Through this range of entry points, Aid for Trade has the potential to contribute simultaneously to trade expansion and poverty reduction efforts through job creation and income generation.

1.4 ComMark's Lesotho Textile Apparel Sector Programme and the Aid for Trade agenda

This case study provides insights into how Aid for Trade can contribute towards promoting pro-poor trade and growth in three of the Aid for Trade categories: trade policy and regulation, building productive capacity and trade development.

Trade policy and regulations. Lesotho's garment industry is heavily reliant on preferences provided by AGOA. This programme supports trade policy to diversify the export market for garment and textile exports. It also provided and continues to provide negotiation support around the expiration of the MFA, the extension of AGOA and the Southern Africa Customs Union (SACU) Duty Credit Certificate Scheme (DCCS).⁷ The Lesotho case study shows how Aid for Trade programming can support trade negotiations to protect and expand a sector on which a significant part of the population depends for their livelihoods.

Building productive capacity. This Aid for Trade programme improved the productive capacity of textile and apparel firms in Lesotho mainly through its training programme. It also mitigated

⁷ The DCCS is an incentive scheme rewards companies that export.

declines in productive capacity resultant from high rates of HIV/AIDS in the workforce through the Apparel Lesotho Alliance to Fight AIDS (ALAFAs) programme. By focusing and coordinating the Lesotho National Development Corporation's (LNDC's) investment strategy, it helped the garment and textile sectors to utilise and maximise existent productive capacity in-country.

Trade development. Through technical assistance, this Aid for Trade programme has provided support in terms of investment promotion (through targeted trade visits both to the US and to South Africa), market analysis, e-commerce and business support services (e.g. training).

The poverty impacts of Aid for Trade interventions in this sector have significant potential. There is a high proportion of female employment in the sector (85%), as well as a large portion of employees with HIV/AIDS (estimated 43%). Dependency ratios are also important (on average three to four), that is, for every job created an average of five dependents benefit from an increase in income.

2. Lesotho Textile Apparel Sector Programme: An overview

2.1 Programme initiation

A DFID-funded sub-sector analysis of the garment sector in Lesotho, undertaken in 2001-2002, revealed that, unless a number of key constraints limiting the development of the garment industry were addressed, economic growth would be short-lived (Salm et al., 2002). Following this assessment, the Lesotho's Textile and Apparel Sector Programme was established (2003). The current funding cycle comes to an end in December 2009.

The apparel industry was the largest private sector employer in the country. It had a small number of firms and a narrow range of products, and was servicing a limited number of markets. As such, Lesotho was seen as particularly vulnerable. This vulnerability was highlighted in the context of the imminent expiry of the MFA at the end of 2004 and the withdrawal of AGOA preferences – both of which underpinned the growth of the sector.

Key constraints identified included: a lack of investment in environmental services such as water and waste management; lack of physical infrastructure such as factory shells; the HIV/AIDS pandemic; inadequate training of supervisors and labour; and the high cost nature of the industry owing to low productivity. A further limiting factor was the short timeframe in which these issues had to be addressed, as the international trading regime for the textile and apparel sector was in the process of becoming less favourable for African countries such as Lesotho.

2.2 Design and implementation

Based on a review of the available literature, it is evident that the design and implementation of the Lesotho Textile and Apparel Sector Programme are very much intertwined: the process has been iterative and consultative.

2.2.1 Overall design

Underpinning the initial design of the ComMark programme in Lesotho was a DFID-funded study on the Lesotho garment industry (Salm et al., 2002). However, during the design phase of ComMark (2002-2003), it became evident that the Lesotho government and its agencies lacked the sector-specific expertise to support the apparel industry. This meant that the recommendations outlined in the 2002 needs assessment could not be implemented.

The Ministry of Trade and Industry approached ComMark to help fill this gap and a strategic partnership was established between ComMark and the LNDC. From this followed the ComMark Textile and Apparel Sector Programme, which involved both forging a partnership between government and industry and improving the sector's competitiveness (ComMark Trust, 2006).

The programme has four key components: a technical advisor, a training scheme, the Apparel Lesotho Alliance to Fight AIDS (ALAFA) and trade negotiation support.

2.2.2 *Technical advisor*

Based on a formal memorandum of understanding between the ComMark Trust and the LNDC, a long-term technical advisor was placed in the LNDC to assist in developing the sector and promoting Lesotho as a sourcing destination. Activities of the technical advisor entailed the preparation of policy briefs and proposals on a range of issues that impacted on the textile and apparel sector; serving on and supporting the inter-ministerial task team that addresses the concerns of new and existing textile investors; planning and leading investment promotion missions to South Africa and assisting potential investors to the country; and commissioning research around industrial diversification.

In July 2008, as part of the programme's exit strategy, the technical advisor at the LNDC was phased out and project management support was provided to the Lesotho Textile Exporters Association (LTEA). Key tasks entailed: identifying an organisational structure that would work best at the LTEA;⁸ lobbying; representation of the LTEA in meetings; training a local LTEA-financed replacement for the role of project manager; facilitating buyer trips (i.e. hosting and facilitating visits to the garment sector); marketing for the sector (i.e. website⁹ and booklet); and building a resource centre that includes regional supplier contacts.

2.2.3 *Training scheme*

An assessment to establish the training needs of the Lesotho apparel industry in terms of productivity enhancement preceded design and implementation (Haycock, 2003). In 2004, ComMark established the Training Co-financing Fund to encourage factory owners to invest in training to enhance their productivity and improve their internal management systems, and consequently increase their global competitiveness. The three-year budget reimbursed the companies' training fees on a declining annual basis, from 50% in Year 1 to 45% and 40% in Years 2 and 3, respectively.

The main training areas addressed (by 35 contracts) included productivity training, human resource development and health and safety training (Haycock, 2006). The process directly supported the training of more than 2180 workers, with a further 42,000 workers indirectly benefiting¹⁰ (ComMark Trust, 2009).

2.2.4 *Apparel Lesotho Alliance to Fight AIDS*

In the consultative needs assessment, HIV/AIDS was identified as an important potential threat to the industry (Salm et al., 2002). In 2005, ComMark received funding from DFID to design a strategy for an industry-wide HIV/AIDS programme to safeguard the human capital base of the industry and thus enhance productivity, as well as to deliver HIV prevention, support people living with HIV/AIDS and strengthen perceptions of Lesotho as an ethical sourcing destination. ALAFA was born in this process.

There are four components to ALAFA: prevention services;¹¹ voluntary counselling and testing (VCT); registering with ALAFA and going to a doctor or factory clinic for assessment; and regular health monitoring and treatment, which includes antiretroviral (ARV) treatment and prevention of mother-to-child transmission (PMTCT) when necessary.

8 The project manager found that the president was doing the most work. Although attempts were made to devolve responsibility, this was not part of the institutional culture. The objective now is to ensure a solid support base for the president.

9 Although there is the capacity to build a hi-tech website, a simple website format was chosen so that the industry could maintain it after the closing of the programme cycle.

10 By the end of 2008, more than 3.5 million Rand had been invested in the scheme and an additional 3.9 million Rand had been leveraged from the industry for training.

11 The aim is one peer educator for every 100 workers. At present, 32,000 workers (66% of the workforce) have access to prevention services and 330 peer educators have been trained. See www.alafa.info.

2.2.5 Trade negotiation support

Trade negotiation support was provided by ComMark and the technical advisor, and focused on the ending of the MFA and the extending of AGOA and the SACU DCCS (ComMark Trust, 2009). Examples of trade-related activities to support the long-term development of the Lesotho garment industry included a grant to the Africa Coalition for Trade (ACT) to assist the Africa Cotton Textile Industries Federation (ACTIF) to lobby US lawmakers to alter the rules of origin requirements of AGOA; a grant to support the MFA Forum; and preparation of trade briefings for various trade negotiations involving Lesotho (ibid).

2.3 Monitoring and impact assessment

ComMark's current funding cycle comes to an end in December 2009. As a result, an extensive evaluation of the four key components of ComMark's garment and apparel programme has recently been completed by South-African based consulting firm, Mthente.

In terms of previous evaluations, an evaluation of the Lesotho Apparel Training Co-financing Scheme was completed in 2006 (Haycock, 2006) and a memorandum on ComMark's activities in Lesotho was submitted by the ComMark Trust to the Committee on International Development in 2006 (ComMark Trust, 2006).

3. Assessment of success

3.1 Programme focus, timing and intent

The textile industry represents an important sector in the economy and is the largest formal sector employer in Lesotho. It is also a sector that is vulnerable to changes in international trade policy. This suggests that the programme's focus on the garment industry and its aim to improve investments and competitiveness, and so create formal job opportunities which benefit poor people, are relevant in the context of Lesotho.

The timing was also appropriate, given four factors. First, the programme was implemented a few years prior to MFA expiry, as systems were being put in place to couch its detrimental impacts. Second, trade negotiations support relating to AGOA was seeking to extend this agreement. Third, the programme also paralleled rising consumer consciousness in the US and EU – where consumers and non-governmental organisations (NGOs) placed higher ethical sourcing demands on brands, providing incentives to large brands to source from Lesotho, which was developing its reputation as an ethical sourcing country with the support of ComMark. Finally, a respondent also indicated that the sub-sector analysis of the garment sector took place simultaneously with the PRSP, feeding into the PRSP process.

ALAF both addressed the sector's productivity challenges arising from HIV/AIDS (an estimated 43% of workers are HIV positive) and contributed to the reputation of Lesotho as an ethical sourcing destination.

3.2 Review of design and implementation

3.2.1 Programme as a whole

Key factors contributing to the effectiveness of ComMark's programme were both its consultative and its convening nature.

The **sub-sector analysis** that set the foundation for the programme in Lesotho **engaged several stakeholders**, including government officials, labour union representatives, industry specialists, utility and service providers, garment sourcing agents, the LTEA, NGO stakeholders and foreign diplomats (Salm et al., 2002). Based on this consultative analysis, authors identified the constraints to growth and provided recommendations on how to capitalise on AGOA advantages and maintain

the sector beyond its expiry. These recommendations fed directly into the design of the ComMark apparel programme in Lesotho.

Another important strength in the programme was its **committed leadership** in government, which harnessed the programme's **convening power**. Based on a request from the government, the ComMark team drafted a terms of reference for an inter-ministerial task team focused on the garment industry. A committed trade minister called fortnightly meetings of this task team to tackle the concerns of industrialists and to develop strategies to attract and maintain foreign direct investment (FDI) in Lesotho's textile industry. 'He drove the process relentlessly' (Salm et al., 2002). The task team comprised people from any organisation with an influence on the industry, ranging from electricity, telephone and water companies, to industrialists, the Ministry of Labour, other government ministries and government offices. If electricity firms decided to increase tariffs, for example, the inter-ministerial task team provided a forum to discuss the implications of this price hike and to construct a case to oppose and overrule it. Essentially, this forum served to mitigate arbitrary decisions, such as price hikes, that could hurt the industry.

3.2.2 *Technical advisor*

The technical advisor worked within the LNDC, which provided a proximity to government officials and enabled the building of relationships that ensured that technical assistance was not only demand driven but also tailored to the needs of the government. A respondent highlighted that the technical advisor provided support and representation at national-level meetings and constantly provided briefings that were clear and meaningful, and attributed the effectiveness of the technical advisor's role to the employee's dedication to the job and strong interpersonal skills and capacity.

3.2.3 *Training scheme*

A training scheme¹² was designed following an assessment of industry needs. It was modularised into a set of training options that could be tailored to the specific needs of companies. An evaluation of the scheme stated that the **comprehensive range of training programmes** offered, as well as the flexible approach and the support and encouragement of the ComMark team, gave companies more confidence to commit funds and time to the training of their employees (Haycock, 2006).

Immediately following the training schemes, companies¹³ reported an improvement of 15-25% in productivity levels (Haycock, 2006). However, lack of follow-up was identified as a limitation among some programmes, and improvements were not sustained (ibid).¹⁴

3.2.4 *Design and implementation of ALAFA*

Four key components enabled ALAFA's effectiveness in reaching a wide number of employees:¹⁵ its nature as an alliance; stakeholder engagement in design and implementation (with recipients and providers); its flexibility; and the funding scheme that supports its sustainability.

ALAFA represents an **alliance** of stakeholders,¹⁶ whereby **funding** is assured through brands (e.g. EDUN, Wal-Mart, Gap Inc., Levi Strauss and Nordstrom), bilateral donors (e.g. DFID and Irish Aid) and multilateral donors (e.g. the European Commission – EC). The team leader in the design and

12 The report was commissioned in 2003 and establishes the requirements of the Lesotho apparel industry in terms of productivity enhancement and training.

13 Eight companies had contracted a total of 19 productivity training interventions and 13 of these had been completed, with three in progress and three yet to begin.

14 Specifically, health and safety training interventions need more follow-up in terms of demonstrations on how to implement the various policies and procedures. The evaluation fortunately identified this gap and provided the opportunity to amend programme design.

15 As will be discussed above, ALAFA reported that, by the middle of 2008, 38,000 apparel industry employees (66% of the workforce) had access to prevention services and 27,000 also had access to the care and treatment component of the programme (ComMark Trust, 2009). More than 70 babies are reported to have been born on the PMTCT programme and all except three have been HIV negative.

16 It involves government, service providers, industrialists, labour, brands and retailers, funders, donors and multinational organisations in the fight against the HIV/AIDS epidemic.

implementation of ALAFA sought to have the alliance be independent of the ComMark project cycle (to end in December 2009). So although it comes out of the textile and apparel programme, it will be led by the LTEA, and its funding system is designed to go beyond 2009 to ensure sustainability.

ALAFA has also built strategic **partnerships** with the three relevant government ministries (Health, Labour and Trade and Industry) as well as the National AIDS Commission and trade unions. Lesotho's Ministry of Health, for example, is supplying programme doctors with ARV drugs at no cost. The literature indicates that strength lies in this alliance of stakeholders (see du Plessis, 2008).

In the design of ALAFA, the ComMark team interviewed key stakeholders,¹⁷ performed a desk review and held two workshops¹⁸ to determine what role various stakeholders could play in the long-term intervention and to ensure that the final model was both compatible with the local environment and would have the support of key agencies (Colvin et al., 2006). Research concluded that that **no single model could simply be used as a blueprint**.

Therefore, ALAFA uses a mix of different models. The emerging best practice, according to ALAFA reports, is an integrated approach, with primary health clinics in or near the factory and contractual arrangements with private doctors and nurses teaming up with factory-based peer educators, counsellors and expert patients (who are workers themselves). These clinics are co-financed by the factories, and workers pay a small amount for treatment.

The primary health clinic approach is an attempt to circumvent stigma associated with HIV. A worker seen attending the clinic may be there for flu, menstrual pains or a fever, not necessarily for AIDS counselling or ARV treatment. A local newspaper report writes that 'ALAFA is considered to be a leader and innovator in the private sector workplace response to HIV and AIDS' (du Plessis, 2008).

3.2.5 Design and implementation of trade negotiations support

Trade negotiation support targeted to both international (US and South Africa) and national stakeholders made a key contribution to the effectiveness of the programme.

A government-led trade mission to the US¹⁹ (involving the Minister of Trade, staff of the trade ministry, the LNDC, members of the private sector, leaders of the trade union movement and the US Ambassador to Lesotho) aimed at ensuring that exports of Lesotho's garments to the US remained strong. Several meetings were held with both US government officials (Congress and Administration representatives) and major garment brands (Gap; Levi Strauss). Bennett (2006) states that the trip was an 'overwhelming success', contending that it raised the profile of Lesotho's textile and garment industry and established relationships with brand companies, which expressed support for sourcing garments from Lesotho.

Between 2003 and 2008, ComMark supported a series of investment promotion missions to attract South African garment and textile manufacturers to Lesotho.²⁰ The outcomes of the trade missions were positive and attracted at least five new textile and apparel sector value chain firms between 2003 and 2008 (Mthente, 2009). Underpinning this success were ComMark's efforts to focus coordinate and structure the LNDCs' investment promotion efforts (ibid).

17 Including government ministries, employer bodies, trade unions, representatives of brands sourcing in Lesotho, local and international NGOs, multilateral and bilateral donor agencies and service provider organisations operating in the country.

18 One workshop with NGOs and donors and the other with industry and labour representatives.

19 This took place in January and February 2005.

20 This included visits to Kwazulu-Natal Manufacturers, Gauteng, and several visits from South African garment manufacturers to Lesotho.

In terms of **national stakeholders**, ComMark's programme was instrumental in supporting and forging partnerships. It supported the government's proactive engagement with industrialists and buyers. It also facilitated joint visits by the Minister and industrialists in Lesotho to enhance relationships with some major buyers. As mentioned above, it supported the establishment of the inter-ministerial task team and provided the team with relevant briefings.

In sum, the **trade negotiation support** and **technical advisory components** of the programme fostered partnerships with international brands, South African firms, US government officials and national stakeholders. This raised the profile of Lesotho on the international garment trading scene, contributed to the extension of AGOA and enabled a more efficient and transparent national garment sector, whereby stakeholders' concerns were discussed and inefficiencies addressed.

3.3 Review of poverty and trade impacts

Attributing trade and poverty impacts to the ComMark programme is complex and difficult. Several external elements (such as international trade policy, internal politics and global economy trends) shape the trade sector in Lesotho. Output indicators can be provided – such as the number of people trained, or those with access to treatment – but the programme's impact on trade and poverty is less straightforward. Here, we provide a discussion of ComMark's *contribution* to positive trade and poverty reduction outcomes.

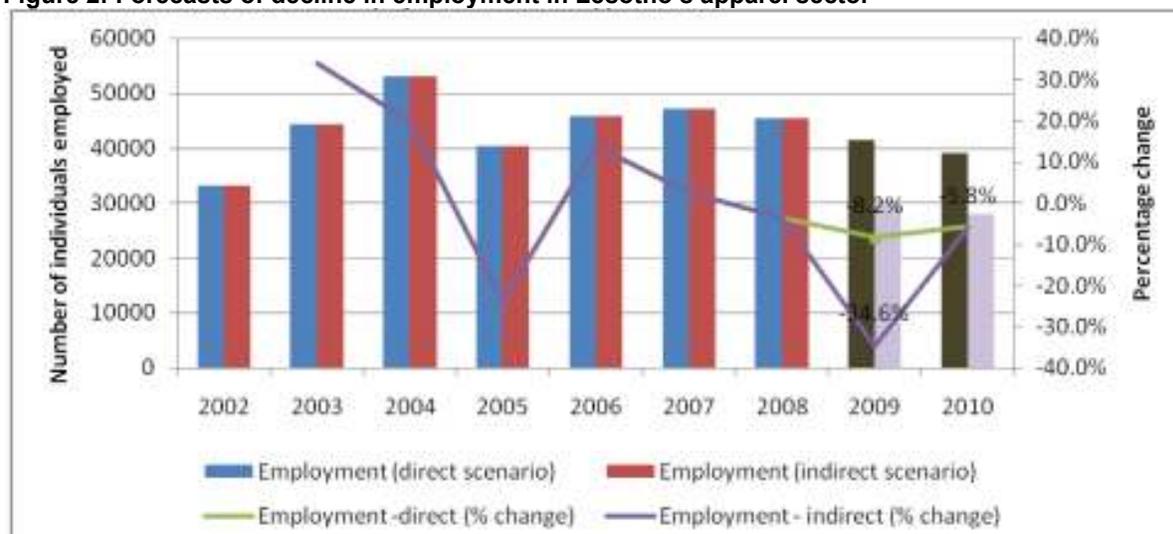
3.3.1 Poverty impacts

This Aid for Trade programme aims to 'benefits the poor by creating formal job opportunities' (ComMark Trust, 2006). Indeed, poverty impacts have most been transmitted directly through the employment channel. Increases in employment have multiplier effects on the real economy. The \$70 million earned a year by industry workers circulates in Lesotho's economy, stimulating micro businesses selling goods and services as diverse as food, transport, housing and communications (ibid).

Lesotho has experienced expansion in total employment in its textile and apparel sector since 2002 (see Table 1), and employment levels in the sector remained both stable and sizeable until 2008. This is significant, given contractions in employment in the same sector in Swaziland and Kenya (Mthente, 2009). All three countries have similar base levels of total employment in the textile and apparel sectors, the sectors share similar characteristics in terms of demand and market conditions and they also all enjoy preferential access to international export markets. Thus, the evaluation report on this Aid for Trade programme concludes that 'ComMark's targeted interventions in the sector have undoubtedly contributed to the retention of jobs and overall growth in employment in the sector over the 2002 to 2008 period' (ibid).

However, can this progress be sustained, given the industry's dependence on US demand? The impact of the decline in growth in the US is expected to result in a decline in employment in Lesotho of up to 15,664 workers in 2009 and up to 2417 workers in 2010 (Mthente, 2009). Figure 2 provides an indication of the forecast decline in both direct and indirect employment in Lesotho's apparel sector. This poverty implication of the drop in employment is staggering – particularly given the dependency ratios of three to four people (see Table 3) in the sector.

Figure 2: Forecasts of decline in employment in Lesotho's apparel sector



Source: Mthente (2009).

Table 3: Household indicators for Lesotho and Lesotho's apparel manufacturing sub-sector

Indicator	Value	Source
Mean household size (apparel workers)	2.56	2002 Garment Sector Factory Workers Survey
Mean household size (Lesotho)	5	2002/03 Household Budget Survey
Mean number of dependents (apparel workers)	4.1	2002 Garment Sector Factory Workers Survey
Apparel workers with entirely dependent individual	46%	2002 Garment Sector Factory Workers Survey
Apparel workers with partially dependent individual	47.2%	2002 Garment Sector Factory Workers Survey

Source: Mthente (2009).

Employment growth specifically in the garment sector has had gender implications. While the number of women employed in the garment sector is rising (85% women), the number of men employed has declined since the 1990s retrenchments on South African mines, when more than 33% of the labour force was shed. These former migrant workers have returned home to Lesotho, and many have remained unemployed (ComMark Trust, 2006). Households with female breadwinners have therefore become more common in Lesotho (ibid). Further research is necessary to identify how the financial crisis will impact on this trend.

Declines in employment, or worsening working conditions, will also have gendered implications. With less income, women may have less control over household decisions, which may impact on children's well being (see DFID, 2009; PREM Gender and Development, 2009). If working conditions worsen and women are asked to work longer hours, women may also have less time, not only to manage the household, but also to rest – undermining their own health and wellbeing. Possible transmission channels of the crisis have been outlined by the Poverty Reduction and Economic Management (PREM) Gender and Development team (2009).

The **training programme** facilitated a better working environment. Prior to the training programme, certain issues were identified as affecting the textile and apparel sector, including low factory productivity levels, poor labour relations owing to language and cultural barriers between expatriate managers, supervisors and national workers and inadequate factory-level health and safety conditions and procedures (Mthente, 2009).

Table 4: Five focus areas of ComMark’s Training Co-financing Scheme

Focus area	Training components
Human resources	<ul style="list-style-type: none"> • Lesotho labour law, grievance and disciplinary procedures, dispute resolution, establishing and managing shop stewards and works committees • Recruitment practices, staff evaluation techniques, personnel record keeping • Communication and briefing procedures, team building, leadership and motivation
Cultural assimilation	<ul style="list-style-type: none"> • Language (South Sotho and English), Basotho culture • Language (Chinese), Chinese culture
Production	<ul style="list-style-type: none"> • Supervisory training, management training, basic business concepts, basic integrated quality management systems, some operator training
Productivity	<ul style="list-style-type: none"> • Productivity audit, industrial engineering, basic work study techniques, line balancing, garment costing, production processes, fabric utilisation, computerised system training
HIV/AIDS	<ul style="list-style-type: none"> • General programmes (e.g. first aid, general principles of prevention)

Source: Mthente (2009).

Companies participating in the training reported significant improvements in productivity, but also in communications between local employees and expatriate staff, and a reduction in the number of petty complaints received by management (Haycock, 2006). One company saw the training as an opportunity to replace expatriate staff with local employees (ibid). Other companies had also begun promoting national staff, thus enabling transfer of management skills into the national workforce.

ALAFA

About 85% of the workforce is female, and a survey within the sector indicates that approximately 43% of employees are HIV positive. Most of these are the primary income earners for their families and dependents, which in the apparel sector amounts to between three or four people, as Table 3 illustrates.

The detrimental effects of both HIV/AIDS and income loss on poor households are well documented. HIV-infected income earners become dependent themselves, resulting in a dual shock to the households – income loss and an increased dependency ratio. To cope with these shocks, households resort to a range of coping mechanisms. Adverse coping has negative short-, medium- and long-term effects. Such strategies may include drawing down on financial assets such as savings, taking children out of school, reducing food intake or engaging in high-risk income-earning activities. These strategies undermine the future potential of household members, especially children, to engage in income-earning activities. Therefore, providing HIV/AIDS prevention and treatment to employees to keep them alive, well and economically active will have positive growth and poverty-reducing implications. Not only will it enhance the productivity of employees and reduce turnover rates in companies, it will also prevent the poverty and human development consequences of employment losses within a household. The concentration of two vulnerable groups, young women and poor people, in a single sector facilitates the positive impact of the ALAFA programme as an HIV/AIDS intervention programme, as it targets two key vulnerable groups in the HIV epidemic.

ALAFA reports that, by the middle of 2008, 38,000 apparel industry employees (66% of the workforce) had access to prevention services and 27,000 also had access to the care and treatment component of the programme (ComMark Trust, 2009). More than 70 babies are reported to have been born on the PMTCT programme and all but three have been HIV negative.

3.3.2 Trade impacts

Increased diversification in investment and export destinations

In terms of its trade outcomes, the ComMark programme contributed to increasing regional investment in the sector (particularly from South Africa), diversifying export destinations and fostering relationships with buyers and brands.

At project initiation, Lesotho's garment industry was 'mono-cultural': Southeast Asian investors controlled approximately 90% of the industry in Lesotho and employed 97% of the labour (Salm et al., 2002) with the majority of exports going to the US. The sector has now seen an increasing number of South African industrialists investing in Lesotho, albeit in small amounts, and a decrease in the volume going to the US, with increasing volumes going to the sub-Saharan African region. An estimated 20% of Lesotho's total production (by value) was sold in the SACU and the Southern African Development Community (SADC) markets in 2007 (Mthente, 2009).

Influence on productive capacity

In supporting a more strategic investment promotion strategy, ComMark enabled Lesotho to maximise the existing productive capacity in country. Rather than concentrating on sending delegations to overseas trade shows, ComMark supported efforts to promote investment from the SACU region. It also targeted delegations to the US to specific audiences able to shape trade policy. This has resulted in increased investment from South Africa, and more investments in the pipeline (Mthente, 2009).

The training programme improved firms' competitiveness. Bennett (2006) reports that 'without a sustained investment in training, Lesotho companies will find themselves increasingly less competitive and this will result in many of them losing orders'. In recognition of this, companies have taken up training courses and have seen increased productivity.

In terms of a long-term influence, the training scheme has set up a network to enable companies to connect with specialised training service providers that can offer the appropriate training services. Prior to the establishment of this scheme, the channels of communication between training providers and garment manufacturers was weak (Mthente, 2009). The training scheme has also enabled a cultural shift within some firms, which otherwise would not have assessed their training needs or sought assistance. It has also demonstrated the economic and business case for investing in the workforce

3.4 Influence on trade policy

The ComMark apparel programme has supported trade negotiations with international brands, South African firms, US government officials and national stakeholders and has contributed to shaping trade policy in Lesotho. Technical assistance helped to focus and coordinate the LNDC's investment promotion strategy and thus to market the existing productive capacity in-country. Trade negotiation support was provided around the expiration of the MFA, the extension of AGOA and the SACU DCCS.

Although it is impossible to attribute any changes in trade policy to ComMark's intervention, a number of developments occurred in the international trade environment that had direct implications for Lesotho's textile and apparel exports. These include the following:

- The US Government agreed to extend the AGOA until 2015 (favourable).
- It was also subsequently agreed to extend the third country sourcing provision of AGOA until 2012 (favourable).
- The US Congress repealed the abundant supply provision under AGOA at the end of September 2008 (favourable).
- The MFA expired on 31 December 2004 (unfavourable).
- The EU's complex rules of origin requirement were simplified, with the interim EPA that Lesotho initialled in early 2008 (favourable) (Mthente, 2009).

The introduction and extension of AGOA²¹ served as a catalyst for growth and investment in the textile and apparel sectors in Lesotho.²² Deepening preferences, specifically around rules of origin as AGOA represents, can have a significant impact (Collier and Venables, 2006), but time-bound agreements (such as AGOA) can have significant built-in negative effectives for the future, as preferences erode. In the case of Lesotho this is already happening, with increased competition from Association of Southeast Asian Nations (ASEAN).²³

Given the looming expiration of AGOA, the ComMark programme has provided important support to Lesotho by promoting diversification of export destinations, building its productive capacity and supporting trade negotiations with a diverse set of firms and trade desks.

4. Conclusions and lessons for Aid for Trade programming

4.1 Delivery against the objectives of inclusive growth and poverty reduction

The ComMark apparel programme in Lesotho focuses on the garment industry and has contributed to its expansion. Within this sector, it has promoted inclusive growth, specifically enabling the inclusion of two groups of people often excluded from the growth process. Given the nature of the sector's workforce, the expansion of the garment sector has preferred female employment. Additionally, through ALAFA, it has supported and empowered employees living with HIV/AIDS to access care and treatment and therefore continue working in the sector.

Inclusive growth is not only about including excluded or vulnerable groups in the market: it is also about the terms of their inclusion. An evaluation of ComMark's training programme illustrates how working conditions have improved. Not only are fewer complaints reported, with concomitant improvements in communication between national and expatriate staff, but also national staff are increasingly being promoted.

The ComMark programme has shaped poverty largely through the employment channel – providing a wider population with an income. Increases in employment have spillover effects into the real economy – where income earners i) have resources to invest in their own or their children's human development (health, education, etc), with implications for their wellbeing and lifelong earnings; and ii) use the resources to consume goods and services, expanding the national market. The extent of positive spillover effects depends on the structure of the economy, and how well poor people are integrated into national markets.²⁴ Human development impacts of rising income depend on several factors, including consumers' choice to invest in health and education and the quality of services provided.

In providing HIV/AIDS prevention and treatment to employees, ALAFA mitigates the poverty effects that HIV/AIDS can have on poor households, specifically the adverse coping mechanisms households resort to in order to deal with the dual shock of an HIV-infected income earner becoming dependent him or herself.

4.2 Key features enabling and hampering the success of the programme

The Lesotho case study shows how opportunities in the global economy can be harnessed for poverty reduction and inclusive growth in three Aid for Trade categories, namely trade policy and regulations, building productive capacity and trade development. However, these opportunities are

21 Trade negotiation support provided by ComMark contributed towards lobbying that has successfully resulted in the extension of AGOA.

22 For instance, on the back of AGOA, in broad terms Lesotho, Swaziland and Kenya continued to experience a sharp growth in exports to the US between 2002 and 2008 (Mthente, 2009).

23 As AGOA preferences have been extended to least developed Asian economies such as Bangladesh.

24 An analysis of the structure of Lesotho's economy, with an analysis of which groups were excluded from the market, was not made.

largely dependent on international trade policy, in Lesotho's case AGOA. The expansion of the textile sector was driven by the incentives provided by AGOA. This trade agreement is set to expire in 2015, with phase-out beginning in 2012. Without its competitive advantage of privileged market access to the US, which has attracted significant investment, and with the global recession, the industry is expected to experience a severe decline. Trade-related and poverty reduction benefits achieved through ComMark's programme are therefore unlikely to be sustained (Mthente, 2009).

The Aid for Trade programme in Lesotho has nonetheless helped Lesotho maximise gains from trade preferences provided by AGOA. It illustrates that effective partnerships between government, development agencies and the private sector can enable a sector to harness opportunities in the global market and use trade as an opportunity to promote inclusive growth and poverty reduction.

The programme has also contributed to reducing dependence on AGOA by encouraging diversification of export destinations, building the sector's productive capacity and supporting trade negotiations with non-US firms and non-US trade desks. However, Lesotho's textile and apparel industry remains in a precarious position, as attempts to diversify the market for textile and apparel exports have seen limited success (Mthente, 2009). Reliance on the US market renders Lesotho's textile and apparel industry vulnerable to changes in the international trade environment (e.g. removal of AGOA preferences or their extension to least developed Asian countries).

Lessons on how Aid for Trade can contribute towards promoting more pro-poor trade and growth, within the context of time-bound trade agreements, include the following:

- **A consultative process in design and implementation, whereby all stakeholders (including various government ministries, private sector and unions) are engaged and given voice**, leads to positive achievements. Technical assistance, trade negotiation support and training services were tailored to the needs of recipients and aligned with existing processes and institutions. In Lesotho, an alliance between stakeholders ensure that the programme could respond to concerns regarding the enabling environment for trade and investment and provide various forms of assistance tailored to the context and the audience.
- **Research and needs assessments are essential to underpinning the long-term strategic vision** of the programme, as well as to informing design and implementation of various components of the programme
- Beyond engaging stakeholders, **convening stakeholders from institutions associated with the garment industry** (i.e. across several ministries, private sector organisations, labour unions, NGOs, electricity and water sectors, etc) on a regular basis to discuss challenges and to develop practical solutions improved the efficiency of the sector and created an enabling environment for investment.
- **Committed and informed leadership at all levels** is key. Dedicated government leadership was often cited as a key enabler of the success of the ComMark apparel sector programme. The leadership of the programme manager, who supported national ownership and alignment and came to the job with experience in the textile industry, was also often said to be a key enabler of the programme's success.
- **Flexible design and tailored implementation** is a recurrent theme across the various components of the apparel programme. Technical assistance was provided by a ComMark staff member placed in the LNDC who built strong relationships within the ministry and could tailor assistance accordingly. The training programme was lauded by companies for its flexibility. ALAFA was also tailored to the needs of each firm. All components of the programme were underpinned by a process of consultation with stakeholders.

- **Invest in the sector's infrastructure.** Documentation and respondents highlight infrastructure as a major barrier to the expansion of the garment industry. If the industry and government had developed the resources and infrastructure in time, the sector's recent expansion would have been greater.

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