

**Analysis of the Agriculture
Marketing (Wool and Mohair
Licensing) Regulations 2018 and
subsequent amendments of 2019
Kingdom of Lesotho**



This report was produced by a team of specialists recruited through the Wool and Mohair Promotion Project (WAMPP) and the International Fund for Agricultural Development (IFAD). The team was led by Professor Chris Tapscott, together with Mr Christian Dietz and Dr. Montoeli Rantlo.

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Executive summary

Introduction

1. This report presents the findings of an analysis of the impacts of the wool and mohair marketing reforms introduced in 2018. The study was conducted under the aegis of the Wool and Mohair Promotion Project (WAMPP) in response to a request to the International Fund for Agricultural Development (IFAD) by the Government of Lesotho (GoL), and is intended to inform future policy decisions on localisation of the industry and the commercialisation of its various sub-sectors.

2. The production of wool and mohair in Lesotho has a long history and, in addition to its contribution to the agricultural GDP, the industry plays a crucial role in the livelihoods of an estimated 250,000 households, whether directly or indirectly through their participation in allied commodity chains. It also holds considerable potential to alleviate rural poverty and food insecurity in Lesotho.

3. The channels through which wool and mohair are marketed and exported from Lesotho have developed over a period of several decades and they are closely intertwined with those of South Africa. Historically, the integration of its marketing system and value chains has been extensive in that wool and mohair purchased from Lesotho has been brokered and auctioned in South Africa.

4. This had led to concerns on the part of the GoL that the brokering of wool and mohair was dominated by South African brokerage companies, that deductions from the earnings of farmers were excessive, that tax revenue accruing from the sale of produce was not refunded to the national treasury, and that there was little value added activity in the industry as whole.

5. In May 2018 the Agricultural Marketing (Wool and Mohair Licensing) (Amendment) Regulations No. 37 were introduced by the Minister of Agriculture and Food Security as part of a programme of localisation in the industry. The new regulations brought in far reaching changes and stipulated that export licenses would only be issued to companies on condition that the wool and mohair was prepared, brokered, traded, and auctioned in Lesotho.

6. The introduction of the new regulations disrupted long established marketing channels and associated value chains. This resulted in delayed payments to farmers, their livelihoods suffered, and the wool and mohair industry experienced a serious setback. The disruptions which occurred in the industry also had a profound effect on the operations of WAMPP, which has received extensive support from the IFAD. It is also possible that uncertainty surrounding the current legislation, and the way in which it is implemented, will negatively impact investment could lead to an exodus of farmers and private companies from the sector.

7. Notwithstanding these unintended negative outcomes, the amended legislation has opened possibilities for enhancing wool and mohair marketing systems in Lesotho, for strengthening value chains, and for advancing the objectives of the localisation programme.

However, challenges remain in determining which components of the marketing system (processing, testing, brokering, and auctioning), might feasibly be undertaken within the borders of the country in the short and longer term. There is also a need for improved communication and closer cooperation between the Government and key stakeholders in the sector.

Objectives and methodology of the analysis

8. The broad objectives of this analysis were to:

- Provide an outline of the objectives of the marketing reforms.
- Provide an overview of the structure of wool and mohair marketing in Lesotho before and after the introduction of new regulations.
- Conduct an analysis of the productivity and revenue generation of small-scale wool and mohair farmers before and after the introduction of the new regulations.
- Assess the impacts of the reforms on value chains in the industry.
- Assess the extent to which the reforms impacted the operations of WAMPP.
- Make recommendations on measures to enhance the system of wool and mohair marketing in Lesotho and in strengthening value chains in the industry.

9. The findings of the report were based on a mixed-method approach, which included an analysis of available sales and production data, key informant interviews (KIIs), and focus group discussions (FGDs) with wool and mohair farmers. This was augmented by secondary information sourced from official documents, academic articles, and media reports.

10. More than 40 KIIs were conducted with stakeholders in the wool and mohair sector including local leaders, government officials (in Lesotho and in South Africa), as well as key actors in the private sector (including brokers, traders, and others engaged in the industry). FGDs were conducted in all ten districts of Lesotho (in five Shearing Shed Associations and in five Marketing Groups) and engaged 144 farmers out of the combined total of approximately 2, 600 members in these organisations.

Objectives of the marketing reforms and responses to their introduction

11. The need to strengthen value chains in the agricultural sector in Lesotho and to implement a more coherent marketing strategy had been raised by policy makers for some time and it had been identified as a priority in the National Strategic Development Plan for the period 2018/19 to 2022/23. Concerns had also been raised that wool and mohair farmers were losing out to intermediaries in the marketing of their produce.

12. The introduction of the new amended regulations was launched as a policy of localisation intended to advance the objectives of the NSDP II. Summarised, the stated objectives of the legislation were as follows:

1. To increase the income of local farmers.
2. To strengthen value chains in the wool and mohair industry in Lesotho.

3. To reduce the dominance of South African brokers and reliance on South African markets.
4. To create employment and improve the skills base in the sector
5. To grow tax revenues

13. The broad objectives of the localisation initiative were well founded and effectively designed and implemented, they held the potential to advance productivity and value addition in the wool and mohair industry. The objectives, however, were not set out in any policy document and nor was it ever made explicit how the new marketing regulations would assist in this process.

14. Informants in this study also suggested that the legislation had been prepared hastily and that it failed to take into consideration the complex inter-sectoral linkages in the marketing of wool and mohair in Lesotho and in neighbouring South Africa. It was also stated that the regulations had been introduced without any meaningful consultation with the farmers themselves, that the objectives of the reforms had been poorly communicated, and that little or no time had been provided to adjust to the new system.

15. Legal challenges were mounted against the legislation and this was followed by mass protest action by farmers, as well as by fierce contestation in the National Assembly where the matter became highly politicised. In response to widespread dissatisfaction with the restrictions, a further amendment to the legislation was introduced in November 2019. The amendment retained the objective of localising the industry but the criteria governing the issuing of brokerage licences were relaxed and South African firms were permitted to re-enter the sector.

16. The amendment eased some of the more stringent conditions of the previous legislation although farmers and traders interviewed complained that the bureaucracy entailed in securing licences was time consuming and the transactional costs of getting produce to market remained high. It was also evident that the 18 months in which the original amendments had been in force, had inflicted significant damage to relationships within wool and mohair value chains and to productivity in the entire sector.

The structure of wool and mohair marketing in Lesotho before and after the reforms

17. Prior to the introduction of the new regulations wool and mohair produced in Lesotho was sourced from government and privately owned shearing sheds and sent across the border to two South African brokers, BKB and OVK, which maintained around 90% of the market sale of wool in the period from 2010/11 until 2017/18. The brokers oversaw the testing and certification of the wool and mohair and its subsequent auctioning to international buyers. Thereafter, farmers and private traders would receive their payments following the deduction of various fees and taxes by the brokers.

18. These market channels and their associated value chains had been established over several decades and the processes of classifying, determining volumes, and of auctioning wool

and mohair were well understood and considered to be transparent by farmers affiliated to the Lesotho National Wool and Marketing Association (LNWMGA) as well as by those selling to private traders.

19. Despite the country's growing wool production and its status as producer of mohair in world markets, however, the structure of the industry remained solely that of a primary producer and, effectively, the start of a wool and mohair value chain which gained value beyond the borders of the mountain kingdom. Such activities in the value chain as the brokering, testing/certification, and auctioning of commodities took place in South Africa with little prospects that they would ever be localised.

20. In pursuit of the objective of localising the industry, the new regulations imposed restrictions on the auctioning of wool and mohair and stipulated that licenses issued for the running of shearing sheds, testing, trading, and auctioning would be reserved solely for Basotho. Only one company, the Lesotho Wool Centre (LWC), was deemed to have met the prescribed criteria and it was awarded the sole brokerage licence although subsequent licences were issued in March and November 2019. The penalties prescribed for contravening the regulations were severe.

21. Although the most significant change introduced by the new regulations was the stipulation that all brokering, and auctioning of wool and mohair should henceforth take place within the borders of Lesotho, the disruptions which it brought about in established value chains was extensive and negatively impacted the industry and reduced the earnings of small scale farmers. The regulations also failed to achieve most of their stated objectives.

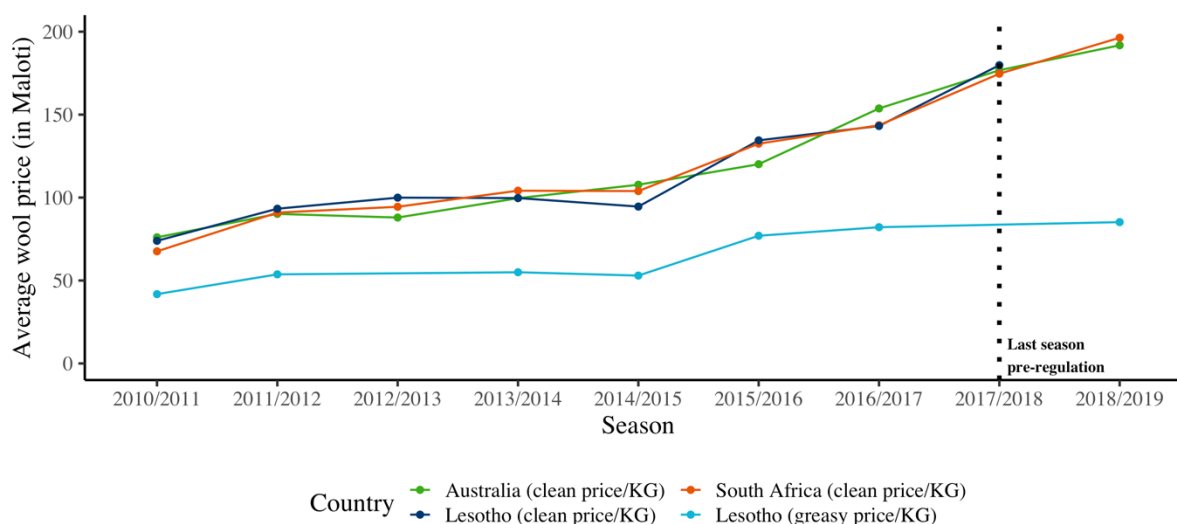
Reform Objective 1: To increase the incomes of local farmers

22. The net revenue of small-scale farmers who produce wool and mohair is dependent on several factors including the quantity and quality of their produce, the commodity prices achieved, and the deductions made by brokers.

23. Despite the importance of wool production for the livelihoods of many Basotho, the country plays only a minor role in the global wool trade and the gross profits of farmers depend heavily on the prices determined in larger markets such as those in South Africa and Australia.

24. From 2010/11 to 2017/18 the prices of both greasy and clean wool from Lesotho largely tracked trends in international prices and increased proportional to increases in the global price of clean wool. However, despite a boom in world wool prices, this positive correlation came to an end in 2018/19 when the price of Lesotho greasy wool remained static at the level of 2016/2017, in contrast to the clean wool prices achieved in South African and Australian wool markets, both of which had increased by more than 25% over that time period (see Figure 1). **This data indicates that wool farmers in Lesotho were unable to capitalise on the global increase in clean wool prices in 2018/2019.**

Figure 1 Average greasy and clean wool price per Kg in Australia, South Africa and Lesotho



25. Lesotho is a significant player in the mohair sector globally although the bulk of its produce is bought by South African companies who rely on this source to increase the volume of their own exports. Although subject to fluctuation, there was a peak in mohair prices in the 2017/18 season, but following the marketing reforms the prices declined by 18.9%, reportedly due to the fact that the entire clip had been sold to a single South African buyer.

Declining deductions from gross revenue decreased the cost burden of producers

26. There had been a progressive decline in wool and mohair sales deductions from around 17% in 2010/11 to around 13% in 2017/18 for mohair but **following the introduction of the regulations there was a significant drop in deductions from both commodities to 9%**. However, this decline was on the back of an already downward trend and the actual decrease can partly be attributed to the fact that the LWC collected neither VAT nor an administrative levy which the BKB had previously deducted on behalf of the LNWMGA to finance their operations.

Declining revenue amongst Lesotho farmers in real terms

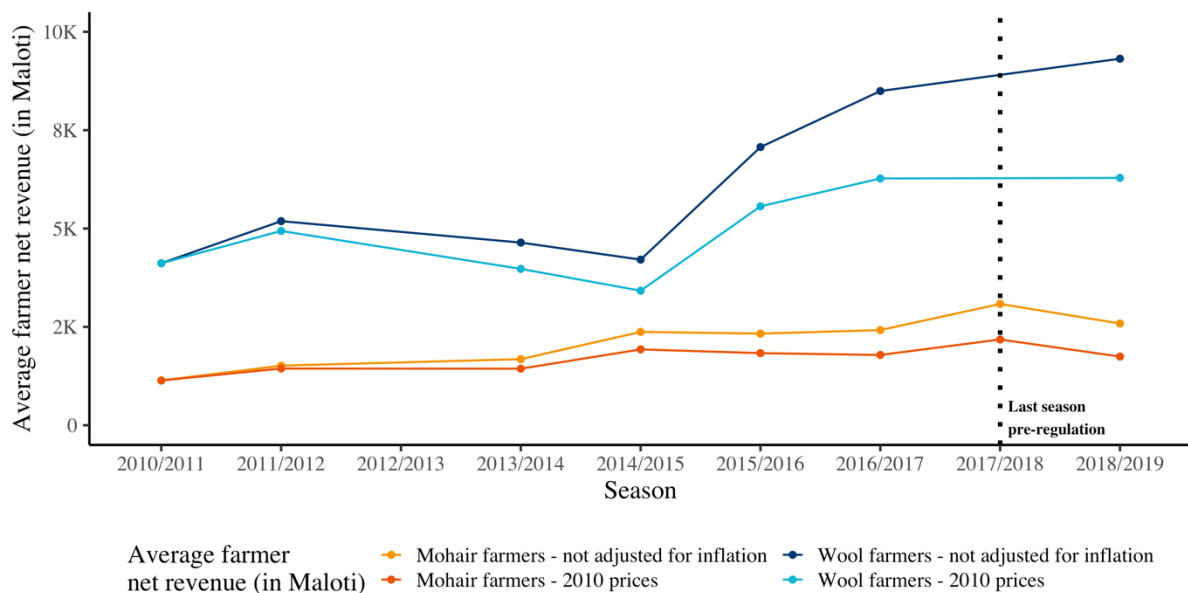
27. As a consequence of the rise in international wool prices, there was a marginal increase in the average nominal net revenue generated per wool farmer in 2018/19, despite the constraints imposed by the new regulations. In contrast there was a decline in the average nominal net revenue of mohair farmers due to a significant drop in prices.

28. It can only roughly be estimated what the average nominal net revenue of farmers might have been had they been able to benefit from the price boom. However, **counterfactual data suggests that farmers lost between 9.8% and 12.8% of the net revenue which they might have expected had the trends of preceding years not been disrupted.**

29. **When adjusted for inflation, the data indicate that growth in the net earnings of farmers failed to keep up with inflation (see Figure 2). A failure to maximise returns**

during the wool price boom meant that the average real net revenue of farmers in 2018/2019 remained largely the same as it had been in the preceding two years. Similar stagnation in this period is visible in the real net revenue of mohair farmers where gains in 2017/2018 were lost in 2018/2019, due to decline in the prices observed.

Figure 2 Average nominal and real net revenue of LNWMGA farmers for wool and mohair prices from 2010/11 to 2018/19 (based on 2010 prices)



Reform Objective 2: To strengthen values chains in the wool and mohair industry

30. **Value chains in the wool and mohair industry were weakened rather than strengthened by the new regulations.** Whilst there was a decrease in deductions from the earnings of farmers, this was followed by the loss of a range of embedded services (such as the provision of sheep dip, training etc.) which had been provided by brokers in the past and this impacted the productivity of farmers.

31. The trust which had developed over time as an integral part of the value chain and which had created some certainty between farmers and brokers ceased to exist. Farmers interviewed complained of a lack of transparency in the payment process and referred to delayed payments and the fact that some had not received any money at all.

32. **The disruption of the value chain impacted the livelihoods of shearers, herders, and others who lost their jobs in the industry. A shortage of cash in the rural economy, due to lower earnings and delayed payment, reduced the revenue of shopkeepers, traders, transporters, and businesses in related value chains.** Depending on the duration of the delay, the estimated average losses resulting from inflation for a time period of 1 to 12 months ranged from M40 to M483 for wool farmers and from M11 to M134 for mohair farmers (corresponding to between 0.4% and 5.2% of their average net revenue).

Reform objective 3: Reduced reliance on South African brokers and markets

33. The new regulations revoked the licences of the two South African brokerage companies operating in Lesotho and ended the effective duopoly which they had exercised over the marketing of wool and mohair in the country. However, **the issuing of a single brokering licence to the LWC replaced a duopoly with a monopoly with negative consequences.** Although further licences were issued (in March 2019 and again in November 2019 following further amendments to the regulations), considerable disruption had already occurred in the marketing value chains. Nevertheless, the recent increase in the number of brokers has opened up a market which will be to the benefit of farmers.

34. Little progress was made in efforts to effectively localise the marketing of wool and mohair and delays in the auctioning of produce and in the payment of earnings negatively impacted the livelihoods of farmers. Attempts to circumvent the use of South African testing and coring facilities were also unsuccessful. However, the two major South Africa brokerage firms which were excluded by the regulations have re-entered the market and one has opened an office in Lesotho with indications of possible future investment in the country which could advance localisation both by creating employment and increasing tax revenue.

Reform objective 4: To create employment and improve skills in the sector

35. A key objective of the reforms was to create jobs in a sector hitherto based on primary production. As most workers in the sector are informal wage earners, and their job status is not recorded national statistics, it was not possible to track employment trends in the wool and mohair industry. However, respondents in this study reported extensive retrenchment of herders, shearers, transport workers, and others working in the value chain following indicating that **more jobs were lost than gained following the introduction of the marketing reforms.**

Reform objective 5: To grow tax revenues

36. A key objective of the marketing reforms was to increase tax revenue from the industry. This was due to the fact that, historically, the bulk of wool and mohair produced had been sold in South Africa and corporate taxes and VAT were collected at the point of sale in South Africa but were not transmitted back to the Lesotho Revenue Authority (LRA) the South African Revenue Service (SARS).

37. **The LRA was unable, however, to capitalise on any revenue generating opportunities which might have been created by the localisation of brokerage services within Lesotho.** There was a 61.3% decline in the Corporate Income Tax collected in the Agriculture, Forestry and Fisheries sector from 2018/19 to 2019/20. Although there was a significant increase of 76.8% in the VAT collected between 2017/18 and 2018/19, this was attributed to an increase in revenue collected in the Fisheries sector and the increase was not sustained in the 2019/20 financial year which witnessed a growth of just 1.5%.

38. A loss of tax revenue occurred as result of smuggling of produce (wool in particular) into South Africa. Whilst there had always been a degree of smuggling in the past, following

the introduction of new regulations, which limited the marketing channels open to farmers, there was reportedly a surge in illicit trading in South Africa.

Impacts of the regulations on the operations of WAMPP

39. The findings of this study reveal that the **new marketing regulations negatively impacted the activities of WAMPP both directly and indirectly**. This included the overall development objective of the project which aims to “Boost the economic and climate resilience of poor wool and mohair producers in the Mountain and Foothill Regions of Lesotho”.

40. A key outcome was that livestock producers would be assisted to increase their market returns from wool and mohair farming. However, as the data in this study demonstrate, this outcome was impacted by the fact that farmers were restricted in their access to markets and the majority were unable to improve their income despite an increase in the global price of wool.

41. The fact that the regulations were introduced without prior consultation with the farmers and their representative associations, also meant that buy-in from key stakeholders in the industry was restricted and this was compounded by the fact that they had little time to prepare for the new marketing system.

42. It is evident that interventions by WAMPP in support of improved breeding, nutrition, and health in the livestock of wool and mohair farmers were compromised. When combined with the impact of several years of drought and, more latterly, the constraints imposed by Covid-19, it is now certain that several key targets and milestones in the project will not be achieved.

Summary and the way ahead

43. The findings of this study confirm that **there was a need to reform the system of wool and mohair marketing in Lesotho in order to advance value addition in the industry, increase farmers’ earnings, and the generation of public revenue**. The marketing regulations governing the sector were also 44 years old at the time and in need of revision.

44. As the findings of this study reveal, the manner in which the new marketing reforms were introduced resulted in **disruptions which could have been avoided but which led to considerable hardship for wool and mohair farmers and others dependent on the sector for their livelihoods**. It is also evident that **measured against their stated objectives, the impact of the marketing reforms was less than optimal**.

45. Notwithstanding the shortcomings described above however, as disruptions sometimes do, it has brought about some changes in the wool and mohair marketing system which, provided they are effectively managed and supported by further government interventions, could serve to advance the policy of localisation as initially intended. In other words, **opportunities exist to recalibrate the policy of localisation in the wool and mohair industry and to set it on a course which will deliver the objectives envisaged in NSDP II**.

46. The study found that localisation in the sector would have been more effective had it been informed by a broader policy document and had not been reliant on a set of regulations as the sole policy instrument to advance the programme. In that respect, **there is a need for greater policy coherence and integration in the sector and a clearer expression of the steps which will need to be followed in strengthening value chains, of the key stakeholders who will need to be involved, and the anticipated time and costs.**

47. Due to affordability and economies of scale, **it is unlikely that the wool and mohair sector in Lesotho will be able to operate completely independently of the market in South Africa, at least for the foreseeable future.** This includes use of the international testing centre in Port Elizabeth, but also applies to the viability of scouring and cleaning facilities which are likely to be constrained by the volume of wool currently produced. **Nevertheless, the setting up of coring facilities and the development of sampling capacity appear to be a viable proposition.**

48. There is **a need for increased efficiency in the sector as the transactional costs of getting wool and mohair produce to market are high, in terms of both time and money, and diminish returns to farmers.** Eliminating unnecessary red tape (for example in the issuing of licences and permits) will lower costs and ensure quicker returns to farmers and others involved in the value chain. There is also a need for **more effective recording of the production and sale of wool and mohair**, and cooperation from the LNWMGA and other stakeholders in this process. More effective record keeping will enable farmers, SSAs, brokers, and traders to provide accurate evidence of sales trends when seeking the investment and finance necessary to stimulate further growth in the sector.

49. **An unfortunate outcome of the reforms was the reported breakdown of trust between the Government on the one hand, and farmers, traders, and brokers on the other.** Since growth in the industry will depend on the development of a strong working relationship between the Government and key stakeholders, effective channels for communication between both parties will need to be established as a matter of priority.

Continuing Support from IFAD

50. IFAD is a key Government partner in the development of wool and mohair production in Lesotho and it remains the largest donor in the industry. Although WAMPP will end in 2022, **IFAD's Country Strategic Opportunities Programme for 2020-2025 affirms a continuing commitment to supporting the sector and this includes the design of a pipeline project which will focus on promoting value addition and efficiency gains in wool and mohair production.**

51. IFAD's approval of future investment on this scale, however, is likely to be contingent on greater legislative and policy certainty and stability in the sector, together with the adoption of a clearer strategic direction by all key stakeholders, since the absence of both pose a risk to future development of the industry.

Recommendations

52. The findings of this analysis suggest that there are a number of short- and longer-term measures which might be pursued by the Government in strengthening the marketing of wool and mohair, including some which would benefit from IFAD support.

1. A Need for a Wool and Mohair Marketing Localisation Policy

There is a need for a national wool and mohair marketing policy which sets out the principles and objectives of the localisation initiative, identifies the key state agencies and stakeholders which will be involved, and sets out a strategy for more effective marketing of produce from Lesotho.

2. Strengthening of the Marketing Regulations

There is a need for greater clarity in the scope of the existing marketing regulations and for legislation which protects farmers from the prospect of future monopolies, such as those which might arise from the establishment of local coring and testing facilities.

3. Revitalisation of Value Chains

There is a need to revitalise value chains which were disrupted by the introduction of the new regulations. This will require a more detailed examination of the ways in which links in the value chains were broken, which might be re-established, and which might be replaced with other value adding activities. This is an intervention which could be supported by IFAD.

4. On-line Auctioning

Despite the preference of traders and brokers for open-cry auctions, experience with the on-line auctions introduced in South Africa in response to the Covid-19 pandemic, suggest that this could become a viable future option for marketing wool and mohair within Lesotho. The use of an interactive online platform would promote transparency and would obviate the need for international buyers to travel to Lesotho to attend auctions.

5. Lowering the Costs of Getting Produce to Market

There is a need to review the system in which licences and export permits are issued, in that it is costly in terms of both time and money and ultimately diminishes returns to farmers. This includes the process of registering and securing an export licence, the time delays in clearing South African customs, and delays in exporting produce out of South African ports.

6. Exploration of New Market Opportunities

Historically wool and mohair farmers have marketed their produce through South Africa and, in the case of mohair, almost exclusively so. Whilst this system has worked satisfactorily up to a point, the sale of Lesotho wool and mohair wool would benefit from the exploration of new international marketing opportunities and, in particular, the identification of higher value niche markets.

7. Need for an Improved Data Base

There is an urgent need for the development of a more comprehensive government database on the wool and mohair produced and sold by farmers in Lesotho. Lacking this information, it is not possible for Government Ministries to effectively monitor production trends nor to assess the extent to which the localisation programme is achieving its objectives.

8. Strengthening of Tax Revenue Generation in the Wool and Mohair Sector

As a key objective of the localisation programme is to increase national revenue, it is essential that all available sources of tax revenue are collected. Whilst the production of wool and mohair should remain zero rated for tax purposes, issues relating to the payment of corporate income tax and VAT will also need to be clarified and communicated to brokers and other service providers.

9. Support for the Lesotho National Wool and Mohair Growers Association

The Lesotho National Wool and Mohair Growers Association is a partner to Government in WAMPP and is the largest and most representative organisation in Lesotho and is a key stakeholder in the wool and mohair industry. However, the Association will require support to improve its administrative systems and governance processes in order to better represent the interests of its members and, thereby, to eliminate concerns about their effectiveness.

10. Improved channels of communication

There is a need to establish a formal mechanism through which farmers and their representative associations can meet with relevant ministries on an annual basis to express their views on progress in the sector (challenges and prospects) and to identify areas where they can work jointly with the Government to enhance productivity in the sector.

Abbreviations and acronyms

CIT	Corporate Income Tax
FGD	Focus Groups Discussion
GoL	Government of Lesotho
IFAD	International Fund for Agricultural Development
LNWMGA	Lesotho National Wool and Mohair Growers' Association
LPMS	Livestock Products Marketing Service
LRA	Lesotho Revenue Authority
LWC	Lesotho Wool Centre
IWTO	International Wool Textile Organisation
KII	Key Informant Interview
MAFS	Ministry of Agriculture and Food Security
MFRSC	Ministry of Forestry, Rangelands and Soil Conservation
MG	Marketing Group
MSBDC	Ministry of Small Business Development, Cooperatives and Marketing
MWMC	Maluti Wool and Mohair Centre
NSDP	National Strategic Development Plan
SSA	Shearing Shed Association
VAT	Value-added Tax
WAMPP	Wool and Mohair Promotion Project
WTB	Wool Testing Bureau

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1. Introduction

The report that follows presents the findings of an analysis of the impacts of the wool and mohair sector marketing reforms introduced in 2018. The study was conducted under the aegis of the Wool and Mohair Promotion Project (WAMPP), in response to a request to the International Fund for Agricultural Development (IFAD) by the Government of Lesotho (GoL) for an assessment of the different dimensions of the reforms as a means to inform future policy decisions on localisation of the industry.

The production of wool and mohair in Lesotho has a long history¹ and, in addition to its contribution to the agricultural GDP, the industry plays a crucial role in the livelihoods of an estimated 250,000 households, whether directly or indirectly through their participation in allied commodity chains². Furthermore, since the production of wool and mohair production is predominantly in the hands of smallholder farmers in the mountainous areas of the country, the industry holds considerable potential to alleviate rural poverty and food insecurity in Lesotho.

The channels through which wool and mohair are marketed and exported from Lesotho have developed over a period of several decades and they are closely intertwined with those of South Africa. As a land-locked country, Lesotho has, of necessity, to export its produce through South African ports. Furthermore, historically, the integration of its marketing system and value chains has been extensive in that wool and mohair purchased from Lesotho has been brokered and auctioned in South Africa. This had led to concerns on the part of the Government of Lesotho that the brokering of wool and mohair was dominated by two South African companies which exercised something of a duopoly over sales in the sector and there was insufficient value addition within the country. Concerns were also raised that deductions from the earnings of farmers were excessive and that value-added tax (VAT) deducted at point of sale in South Africa was not refunded to the Lesotho Revenue Authority (LRA). A further concern was that legislation regulating the marketing of wool and mohair had last been updated in 1974 and was in need of revision to accommodate changes which had taken place in the industry and to support the Government's efforts to develop a more export driven economy.

In May 2018 new legislation governing the marketing of wool and mohair was introduced by the Minister of Agriculture and Food Security (MAFS), as part of a programme of localisation in the industry³. However in August 2018, just four months later, the legislation was repealed and a new set of regulations, which were substantially the same, were introduced by the Minister of Small Business Development, Cooperatives, and Marketing.⁴ Although never

¹ Hunter, J. (1987). "The economics of wool and mohair production and marketing in Lesotho". ISAS research report no. 16.

² National Assembly Ad Hoc Committee on the Wool and Mohair Industry (2019). "Report on the wool and mohair industry investigations", p. 6.

³ The Agricultural Marketing (Wool and Mohair Licensing) (Amendment) Regulations, 2018 (No. 37 of 2018).

⁴ The legislation was repealed when it became evident that the Minister of Agriculture and Food Security no longer had the jurisdiction to amend marketing regulations as this function had implicitly been transferred to Minister of Small Business Development, Cooperatives, and Marketing in terms of the Agricultural Marketing (Amendment) Act of 2001.

explicitly stated, the objectives of the localisation initiative included the need to strengthen value chains in the wool and mohair industry in Lesotho, increase the income of farmers, and diminish the reliance on South African markets. The *Agricultural Marketing (Wool and Mohair), (Amendment) Regulations (No. 65 of 2018)* introduced far reaching changes in the wool and mohair marketing system in Lesotho⁵. The regulations stipulated that any company wishing to trade in wool and mohair would have to acquire a license from the Ministry of Small Business Development, Cooperatives, and Marketing (MSBDC) and that the holder of an export licence would not be permitted to export any wool and mohair unless it was prepared, brokered, traded and auctioned in Lesotho.⁶ The net effect of this legislation was that the South African brokerage firms BKB and CMW/OVK, which had been integrally involved in the marketing of wool and mohair produced in Lesotho, were no longer permitted to trade in the country. In their place a single brokering licence was issued to the Lesotho Wool Centre (LWC)⁷, notwithstanding the fact that the company had just recently been established and had no track record in the wool and mohair sector in Lesotho.

The impacts of the new regulations were felt immediately and in a number of different ways which will be discussed in greater detail below. As might be expected in a reform of this scope, the introduction of the new regulations disrupted long established marketing channels and associated value chains. This resulted in delayed payments to farmers (some were not paid at all), their livelihoods suffered and the wool and mohair industry, as a whole, experienced a serious setback. The disruptions which occurred in the industry, as will be seen, also had a profound effect on the operations of the Government's Wool and Mohair Promotion Project which has received extensive support from IFAD.

Legal challenges were mounted against the legislation and this was followed by mass protest action by farmers, as well as by fierce contestation in the National Assembly where the matter became highly politicised. In response, a further amendment to the legislation⁸ was introduced in November 2019 and while this retained the broad objective of localising the industry, the criteria under which brokerage licences could be issued were relaxed and South African firms were permitted to re-enter the sector. The amendment also eased some of the more stringent conditions of the previous legislation although farmers and traders interviewed during the course of this investigation complained that the bureaucracy entailed in securing licences was

⁵ The new regulations replaced the Agricultural Marketing (Trading) Regulations of 1974 which included the provision that a "licence shall be required by every person who carries on the trade or business of buying wool or mohair or any products derived from wool or mohair for the purpose of sale or consignment whether by auction or out of hand"[1]. Licences could be issued to individuals or to corporate bodies and the only condition imposed by the regulations was that the recipient of a license "shall have an approved woolshed". Minister of Agriculture (1974). "Agricultural Marketing (Trading) Regulations of 1974", Item, 3.

⁶ Government of Lesotho (2018). *Agricultural Marketing (Wool and Mohair), (Amendment) Regulations, (No. 65 of 2018)*, para. 6.

⁷ The LWC had originally been established as a joint venture between the Lesotho National Wool and Mohair Growers and Maseru Dawning, a company owned by a Chinese national, and was intended to build a wool storage and processing facility in Thaba Bosiu. The joint venture collapsed, however, and by the time the brokering licence was issued in 2018 the company was under the sole control of Maseru Dawning.

⁸ Government of Lesotho (2019). *Agricultural Marketing (Wool and Mohair), (Amendment) Regulations, (No. 97 of 2019)*.

time consuming and the transactional costs of getting produce to market remained high (more will be said of this below).

The amended legislation has, nevertheless, opened up possibilities for enhancing wool and mohair marketing systems in Lesotho, for strengthening value chains, and for advancing the objectives of the localisation programme. However, challenges still remain in determining which components of the marketing system, processing, testing, brokering, and auctioning, might feasibly be undertaken within the borders of the country and which should be undertaken in conjunction with partners in South Africa. Consideration will also need to be given to the ways in which value chains disrupted by the first iteration of the regulations might be revitalised.

The report which follows was prepared in response to a Government request to IFAD to conduct a robust empirical analysis of the impact of the regulations introduced in 2018 (Amendment, Regulations, No. 65 of 2018) and a further amendment produced in late 2019 (Amendment, Regulations, No. 97 of 2019).⁹ Commenting on the need for a review of the localisation initiative in his 2020/21 Budget Speech, the then Minister of Finance stated: "Government ...decided to undertake a special study to understand the policy, technical, implementation and financial challenges that beset the localisation policy. Following this study and consultation with all stakeholders, Government will modify the localisation policy to cater for the smooth running of the industry and to ensure that farmers get the large (sic) of the efforts"¹⁰.

Box 1: The Wool and Mohair Promotion Project

Through its support for the on-going Wool and Mohair Promotion Project (WAMPP), IFAD is the biggest donor in the wool and mohair sector in Lesotho. The project is active in all ten of the country's administrative districts and its overall goal is to boost the economic and climate resilience of poor, smallholder wool and mohair producers living in the mountains and foothills of Lesotho. WAMPP is coordinated by the Ministry of Agriculture and Food Security (MAFS) and is jointly implemented by the Ministry of Forestry, Rangelands and Soil Conservation (MFRSC) in partnership with the Lesotho National Wool and Mohair Growers Association (LNWMGA), which provides co-financing to the project.

The WAMPP project consists of the three components which aim to enable smallholder livestock producers to generate higher incomes and more sustainable livelihoods and to increase their ability to cope with, and recover from, natural shocks.

⁹ Concerns about the impact of the marketing regulations on WAMPP activities were first raised with the Ministry of Development Planning following an IFAD Mission to Lesotho in December 2018 and the need for an analysis of their impact was mutually agreed to at the time. IFAD (2018). "Aide-Memoire Wool and Mohair Promotion Project (WAMPP) 2-14 December 2018".

¹⁰ Parliament of the Kingdom of Lesotho (2020). "Budget Speech to the Parliament of the Kingdom of Lesotho for the 2020/21 Fiscal Year", p.12 para. 58.

- Climate Smart Rangeland Management promotes a sustainable system of climate resilient communal grazing and rangeland management with the aim of improving livestock nutrition and maximizing production and returns.
- Improved Livestock Production and Management aims to increase the quantity and quality of wool and mohair produced by smallholder farmers in Lesotho.
- Wool and Mohair Fibre Handling and Marketing aims to increase market returns from the sale of wool and mohair by improving the quality of the fibre produced. It also aims to stimulate a niche cottage industry for wool and mohair tapestry products and provide a market outlet for unproductive animals that need to be removed from the rangelands.

Summarised, the support provided by WAMPP aims to develop what might be considered the three key pillars of wool and mohair farming, namely the focus on breeding, nutrition, and animal health. This includes interventions intended to improve the breeding stock, to improve the quality of available grazing and supplementary feeding, and to ensure that livestock are immunised against common diseases.

2. Objectives, methodology, and structure of the analysis

In light of the above, the broad objectives of the analysis were as follows:

1. To provide an outline of the intended objectives of the marketing reforms introduced in 2018 as a basis to gauge their effectiveness once implemented¹¹.
2. To provide an overview of the structure of wool and mohair marketing in Lesotho before and after the introduction of new regulations.
3. To conduct an analysis of the productivity and revenue generation of small-scale wool and mohair farmers before and after the introduction of the new regulations.
4. To assess the impacts of the reforms on value chains in the industry as well as on the livelihoods of small-scale farmers.
5. To assess the extent to which the operations of WAMPP were affected by the new regulations.
6. To make recommendations on measures which might be considered in enhancing the system of wool and mohair marketing in Lesotho and in strengthening value chains in the industry.

A number of additional issues relating to the possible future structure of wool and mohair marketing in Lesotho were raised during key informant interviews and whilst these fell outside of the broad scope of this study, they are discussed briefly in the conclusion as matters which will require further investigation.

¹¹ There is no preamble in the regulations which sets out the objectives behind their introduction.

The findings of the report were based on a mixed-method approach, which included an analysis of available sales and production data¹², key informant interviews (KIIs), and focus group discussions (FGDs) with wool and mohair farmers¹³. This was augmented by secondary information sourced from an array of official documents, academic articles, and media reports. More than 40 (KIIs)¹⁴ were conducted with stakeholders in the wool and mohair sector including local leaders, committee members of SSAs, government officials (in Lesotho and in South Africa), as well key actors in the private sector (including brokers, traders, and others engaged in the industry). FGDs were conducted in all ten districts of Lesotho (in five SSAs and in five Marketing Groups (MGs)) and engaged 144 farmers out of the combined total of approximately 2, 600 members in these organisations.

This report which follows is in six parts: following the introduction in Part 1, Part 2 sets out the objectives of the analysis and the methodology adopted, while Part 3 sets out the stated objectives of the marketing reforms. Part 4 provides an overview of the wool and mohair sector in Lesotho and describes the structure of value chains before and after the introduction of the regulations. Part 5 presents the findings of a statistical analysis of the impact of the reforms on the productivity of smallholders and those in allied value chains, on the revenue generation of the Government, as well as on the operations of WAMPP. Part 6 concludes with a summary of the findings of the analysis and some recommendations on the way ahead.

3. Objectives of the marketing reforms and responses to their introduction

The need to strengthen value chains in the agricultural sector in Lesotho and to implement a more coherent marketing strategy had been raised by policy makers for some time and it had been identified as a priority in the National Strategic Development Plan (NSDP II) for the period 2018/19 to 2022/23.¹⁵ The NSDP II also makes specific mention of the “potential for value chain development and scaling of production in the (wool and mohair” sector”.¹⁶

Concerns had also been raised that wool and mohair farmers were losing out to intermediaries in the marketing of their produce.¹⁷ The introduction of the new amended regulations (No. 37

¹² Accessing this data was complicated by the fact that there is no comprehensive national data base on wool and mohair sales in Lesotho. The data used in the analysis, consequently, was predominantly based on data provided by BKB and corroborated, whenever possible, with national data. Whilst this captures the bulk of the Lesotho wool produced and sold, it excludes the produce bought and sold by traders and other brokers.

¹³ It must be noted that whilst the farmers engaged in the FGDs do not constitute a representative sample (hence no statistics are presented), their responses are broadly indicative of trends across the country. It must also be noted that the advent of the Covid-19 pandemic restricted the scope of the fieldwork undertaken.

¹⁴ See Appendix 4 (p.65). It must be noted that some KIs requested that their names be withheld and consequently these are not listed.

¹⁵ (Government of Lesotho (2018). “National Strategic Development Plan, 2018/19-2022/23”. p.92).

¹⁶ Ibid. p. 89.

¹⁷ This was mentioned in the 2020/21 Budget Speech in which the Minister of Finance stated: “Government also recognises that less than half of the sale value of wool and mohair goes to the farmers, with intermediaries benefitting more than our people who produce the wool and mohair” (para. 54, p.11). Parliament of the Kingdom of Lesotho (2020), para. 54, p. 11.

of 2018) in May 2018 was thus launched as an initiative intended to advance the objectives of the NSDP II.¹⁸ Conceptualised as policy aimed at advancing localisation in the wool and mohair industry, the stated objectives of the regulations can be summarised as follows:

1. To increase the income of local farmers.
2. To strengthen value chains in the wool and mohair industry in Lesotho.
3. To reduce the monopoly of South African brokers and the reliance on South African markets.
4. To create employment and improve the skills base in the sector
5. To grow tax revenues

In and of themselves, the broad objectives of the localisation initiative were well founded and, effectively designed and implemented, they held the potential to advance productivity and value addition in the wool and mohair industry. The objectives of the localisation programme, however, were never set out in any policy document and nor was it ever made explicit how the new marketing regulations would assist in this process¹⁹. It has also been suggested that the legislation was prepared hastily, was insufficiently researched, and failed to take into consideration the complex inter-sectoral linkages in the marketing of wool and mohair in Lesotho and in neighbouring South Africa.²⁰ Furthermore, informants in this study maintained that the legislation had been introduced without any meaningful consultation with the farmers themselves, that the objectives of the reforms had been poorly communicated, and that little or no time had been provided to adjust to the new system²¹. Farmers interviewed in the FGDs reported that several Government Ministers had visited their districts, subsequent to the

¹⁸ According to the NSDP II “the country will pursue an export-led growth model, which makes trade a central component of Lesotho's economic development. This will be achieved by improving the country’s international competitiveness for trade and foreign investment in order to participate effectively in regional and global markets. The country will also effectively utilize opportunities emanating from trade preferences it enjoys with the rest of the world to pursue its strategic development objectives. (Government of Lesotho (2018). “National Strategic Development Plan, 2018/19-2022/23”. p.30).

¹⁹The only formal expression of the objectives of the regulations are to be found in the minutes of a Parliamentary sub-committee on Trade following a presentation by representatives of the Ministry of Agriculture and Food Security on 31 May 2018. These record the objectives of the new marketing regulations to be as follows: to reduce dependence of Lesotho wool and mohair marketing on South African agents; to strengthen local wool and mohair value chains, to create jobs for local people; to increase farmers income by reducing deductions made to their payments; to generate government revenue. Parliament of the Kingdom of Lesotho (2020). “Minutes of Meeting Between Sub-Committee on Trade and representatives of the Ministry of Agriculture and Food Security”, Chairperson: Honourable Thabang Kholumo (MP), 31/May/2018. Room: 6.

²⁰ The Parliamentary Ad Hoc Committee on the Wool and Mohair Industry reported that: “The intention behind localising wool and mohair was a good initiative, however the relevant Ministry did not undertake any feasibility study and research for operationalisation of the Regulations”, (National Assembly, 2019:6).

²¹ Parliamentary Ad Hoc Committee further maintained that “Farmers or producers were not consulted prior to the enactment of the Agriculture Marketing Wool and Mohair Regulations, 2018” and that “The Regulations did not have transitional period (sic) to allow farmers to prepare themselves for change” (National Assembly, 2019:6). The poor communication was also subsequently acknowledged by the then Minister of SBDCM who stated that as “the ministry that we still have to improve our efforts to propagate information on the regulations on what it actually entails”. (*Lesotho Times*, 28 August, 2019).

introduction of the new regulations, to inform them of the benefits they would derive from the legislation but this was after the fact. KIs also claimed that coercion had been placed on farmers and traders to comply with the new regulations and they had been warned of the penalties which would be imposed for non-compliance.

Shortly after the introduction of the new regulations in May 2018, concerns were raised by the LNWMGA, by traders, and by individual farmers that the process of issuing the sole brokering licence to LWC had not been transparent and, more seriously, that they were being coerced into selling their produce to this company with threats of litigation and other forms of intimidation²². Allegations were also raised in various quarters, and aired in the media, that the new regulations had been introduced with corrupt motives,²³ although it must also be noted that counter allegations of corruption raised by politicians who claimed that the BKB and LNWMGA, acting in consort, were endeavouring to undermine the marketing reforms.²⁴ A legal challenge was mounted against the regulations but this was deemed moot following the repeal of the legislation introduced by the Minister of Agriculture and its re-promulgation by the MSBDC²⁵. Shortly thereafter a similar legal challenge was mounted by the LNWMGA and in this instance the applicant was successful and in April 2019 the Agricultural Marketing (Wool and Mohair Licensing) (Amendment) Regulations No. 65 of 2018 were declared to be null and void and of no force in that they were ultra vires the Agricultural Marketing Act of 1967. In that respect the judgment identified areas where the regulations were vague and where the Minister's powers to prescribe punishment exceeded those conferred on him by the Agricultural Marketing Act.

The substantive reason for declaring the regulations ultra vires, however, related to the fact that they required "licences for wool and mohair brokering, testing, trading and auctioning and processing when such facilities do not exist in Lesotho"²⁶. According to the judgement, the Minister "acknowledges without answering issuably to the averment, that some facilities do not exist in Lesotho, but elsewhere beyond the borders of the Kingdom. If that is the case why and how on earth a minister would regulate a business activity which he knows fully well exist in another country"²⁷.

²² The Minister of Small Business Development, Cooperatives and Marketing conceded that "Where we agree that the farmers' concern was legitimate was on being forced to trade with one broker, especially now that now that broker is experiencing payment challenges as we can all attest" (Lesotho Times, 28 August 2019).

²³ AgriObit, (2019). "Lesotho wool, mohair trade at a crossroads" 27 February; Ntsukunyane, L. (2018). "The tangled web of the Lesotho Wool War". *Daily Maverick*, 11 October.

²⁴ Mpaki, B. and Phakela, M. (2018). "Bkb in M1, 4 Billion Tax Arrears". *Lesotho Times*, 22 June; Matheka, L. (2019). "Disastrous' wool sector attracts PAC", *Newsday*, 8 July.

²⁵ Dr. Mohlalefi Moteane and Others vs. Minister of Agriculture and Food Security and Others, CIV/APN/187/2018.

²⁶ The High Court of Lesotho (2019). "Judgement. In the Matter Between Lesotho National Wool and Mohair Growers Association (Applicant) and Minister of Small Business Cooperatives and Marketing (1st Respondent), and the Attorney General (2nd Respondent)". Honourable Acting Justice M. Mokhesi, Maseru, 04 April, CIV/APN/320/2018, p.23.

²⁷ Ibid. The judge also refused to strike from the record allegations made by the applicant to the effect that, in introducing the regulations, the Minister had been "influenced by ulterior motives and possibly, a corrupt relationship between himself and a company by the name of Maseru Dawning Trading (PTY) Ltd"[#]. This ruling

This judgement was taken on appeal by the MSBDC and, as result, the regulations continued to be enforced for the following seven months, during which time opposition to their implementation grew in strength. Farmers, in particular, were enraged that they were not reaping the promised benefits of the regulations, that they were receiving less for their produce than in the past, and that their payments were delayed or were not made at all. This culminated in a protest march to Parliament by an estimated 30, 000 farmers²⁸, the matter became one of fierce contestation between political parties and received extensive coverage in the media. Following this, a concession was made by the MSBDC and in March 2019 a further brokering licence was issued to Maluti Wool and Mohair Centre (MWMC), a Lesotho based trading company²⁹. In June 2019 an intra-party Ad Hoc Committee on the Wool and Mohair Industry was appointed by the National Assembly to assess how “individual stakeholders in the wool and mohair industry were affected by the advent of the said regulations and what kind of impact the regulations had on their individual businesses”³⁰. The Ad Hoc Committee reported that “The Regulations created an unfair monopoly for Lesotho Wool Centre to the detriment of local producers”³¹. It further observed that the LWC seemed to “lack adequate infrastructure, expertise, facilities, or machinery, trained personnel and financial muscle to operate within the wool and mohair industry in line with international standards as required by the International Wool Textile Organisation (IWTO)”³². The Committee observed that “(s)ince the operation of these Regulations, many people are left impoverished, destitute and hopeless”³³ and recommended their repeal with immediate effect.

In response to widespread dissatisfaction with restrictions imposed by the regulations, the MSBDC issued a further amended version of the regulations in November 2019. The Agricultural Marketing (Wool and Mohair Licensing) (Amendment) Regulations (No. 97 of 2019) eased restrictions on the issuing of brokering licences and a further six were issued (including the reissuing of licences to the South African firms BKB and OVK), and farmers and traders were also permitted to sell to buyers of their choice both in and outside Lesotho. Significantly, however, the regulations stipulate that “A holder of an export licence shall not export wool and mohair unless it is brokered, auctioned, and traded in Lesotho”³⁴. Explicit in this clause is the continued commitment to advance the objectives of localisation and to promote value adding activities in the sector. The regulations also define the permissible

was made on the grounds that no argument had been advanced by the respondent to refute or challenge the allegations.

²⁸ AFP (2019). “Lesotho farmers protest against wool deal”. *Sunday Times*, 28 June.

²⁹ The MWMC, at the time, lacked all the necessary infrastructure and systems to conduct its brokering activities and was initially reliant on support from South African brokers. It has since made significant investments to address these shortcomings.

³⁰ National Assembly (2019). “Report on the Wool and Mohair Industry Investigations”, p.1.

³¹ Ibid. This was also a view shared by Mothae et al. in a theme report prepared for the National Dialogue Planning Committee which states “There is an artificial monopolistic market created by this regulation which will breed rent seeking and fetch lower prices for the farmers. Payment of farmers has been in disarray” (Mothae et al. 2019: 99).

³² Ibid. p. 7.

³³ Ibid. p.8.

³⁴ Government of Lesotho (2019). *Agricultural Marketing (Wool and Mohair), (Amendment) Regulations 2019*, para. 6.2.

brokerage deductions in greater detail and set ceilings on levies which may be charged. The legislation also makes explicit the need for traders and brokers to pay relevant government taxes at the legislated rates,³⁵ a clause which was absent in the 2018 regulations³⁶. Whilst these amendments were generally welcomed, KIs interviewed complained of the bureaucracy involved in applying for a permit and the time and cost it takes to secure one³⁷.

The sections which follow provide an analysis of the extent to which changes in the marketing regulations achieved the stated objectives of increasing prices, lowering deductions, and increasing the incomes of farmers.

4. The structure of wool and mohair marketing in Lesotho before and after the reforms

Before proceeding to a statistical analysis of the data, it is first necessary to provide a brief overview of the structure of the wool and mohair sector in Lesotho, the key actors engaged in the sector and their positioning in the value chain. Figure 1 provides a schematic representation of the market structure prior to the introduction of the Agriculture Marketing Regulations (No. 37), in May 2018.

The wool and mohair sector can be divided into two categories of producers: individual farmers who sell their produce to private traders, some of whom own shearing sheds, and members and affiliated members of the LNWMGA³⁸. The LNWMGA is a non-profit organisation consisting of numerous SSAs and affiliated MGs which manage government owned shearing sheds throughout the country³⁹. Where individual and unaffiliated farmers sell their produce directly to the traders, members of the LNWMGA shear their sheep and goats in the shearing sheds and

³⁵ The permissible deductions were defined as follows: brokering commission (set to 4%); administration costs (set to 2.5%); dipping levy (M1.00 per kg for mohair and M0.38 per kg for wool or as revised from time to time by the Minister); insurance (less than 1% or at any rate justified by the broker to the Minister); and testing costs (1%). Ibid.

³⁶ It must be noted, however, that the need to pay VAT on produce sold in Lesotho by a trader or broker had already been set out in the Value Added Tax (Amendment) Act, 2003.

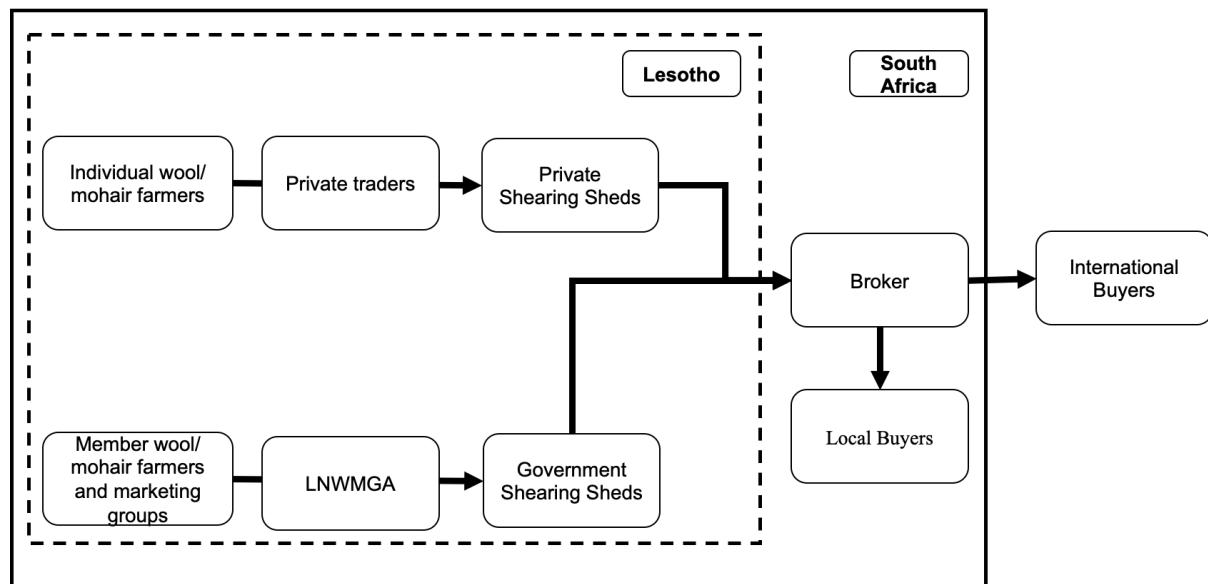
³⁷ Farmers wishing to acquire an export permit must do so annually, individually or collectively with other farmers, and must, inter alia, attach a bale transport form, a declaration on the consignment of wool and mohair in terms of the Customs and Excise Act of 1982, and proof that the vehicle transporting the consignment is registered in Lesotho. The acquisition of a permit requires authorisation by both MAFS and the MSBDC. Following the sale of wool and mohair, the farmers must furnish the MSBDC with an auction or sale report and the proceeds of sale of wool and mohair shall be deposited into a bank account in Lesotho. Individuals wishing to apply for a bulk storage licence must also supply a police clearance certificate and a letter from their area chief. Government of Lesotho (2019). *Agricultural Marketing (Wool and Mohair), (Amendment) Regulations 2019*, paras. 6.3 and 8.

³⁸ Mokehti et al. (2015) maintain that there is a third group of marginal producers, which they classify as smugglers, who shear, transport and sell their own produce. However, whilst there are unquestionably some farmers who engage in smuggling, and their numbers increased following the introduction of the new regulations, they could not be considered a collective in any sense and nor would they interact with the government in any way.

³⁹ Members of the LNWMGA vote in their annual General Assembly on the broker they would like to work through in the upcoming wool and mohair in the season. Except for a brief period between 2016/17 to 2017/18 when they had channeled their mohair through CMW/OVK, BKB had been the broker of choice for the LNWMGA since 1974.

thereafter engage the services of the Livestock Products Marketing Services (LPMS), a government agency under the MSBDC which facilitates the administrative procedures necessary to sell the wool through wool and mohair brokers⁴⁰. Prior to the introduction of the new regulations, as indicated, the wool and mohair collected in both the government and privately owned shearing sheds was sent across the border to two South African brokers. In the period from 2010/11 until 2017/18 the largest of these brokers, BKB, maintained a 63% share in the market sale of wool⁴¹. A second broker, CMW/OVK, maintained 27% of the market during this period but sourced its wool and mohair solely from private traders. On receipt of the wool and mohair from Lesotho, the brokers arranged for it to be tested and certified by the South African Wool Testing Bureau (WTB) and, thereafter, oversaw its auctioning to international buyers. After the sale of their produce, LNWMGA members and private traders would receive their payments following the deduction of various fees and taxes by the brokers. These market channels and their associated value chains had been established over a significant period of time (more than four decades in the case of BKB) and the processes of classifying, determining volumes, and of auctioning wool and mohair were well understood by farmers affiliated to the LNWMGA as well as by those selling to private traders.

Figure 1 Structure of Wool & Mohair Marketing Channels prior to 2018/19



⁴⁰ Farmers who sold directly to traders did so because they received payment quickly whilst those who sold through a broker had to wait for their produce to be sold on auction in Port Elizabeth in South Africa and this could take up to two and a half months to be finalised. However, those who sold through the brokers, as a rule, received higher prices and better returns.

⁴¹ Authors computation based on BKB Fibretrack reports 2010/2011 - 2017/2018

Box 2 Factors motivating the reforms introduced in 2018

The historically evolved structure of the wool and mohair industry in Lesotho and its inter-connectivity with South African markets had remained virtually unchanged for four to five decades. Despite the country's growing wool production and its significance status as producer of mohair in world markets, the structure of the industry remained solely that of a primary producer and, effectively, the start of a wool and mohair value chain which gained value beyond the borders of the mountain kingdom. Thus, activities in the value chain such as the brokering, testing/certification, and auctioning of commodities took place in South Africa with little prospects that they would ever be localised. In light of this, complaints were raised about shortcomings in the existing marketing structure and Lesotho's disadvantaged position in the value chain in respect to:

- The low negotiating power of Lesotho farmers
- High deductions by brokers
- Foregone tax revenues (such as VAT)
- Limited employment creation
- Limited knowledge/ technology transfer in-country

In pursuit of the objective of localising the industry, the new regulations imposed restrictions on the auctioning of wool and mohair and stipulated that licenses issued for the running of shearing sheds, testing, and trading and auctioning would be reserved for Basotho⁴². The regulations also specified the deductions which could be made by a commodity broker and prohibited any others⁴³. The penalties prescribed for contravening the regulations were severe. Any person found guilty of brokering, testing, processing, trading and auctioning wool and mohair without a licence was liable to a fine of Maloti 50 000 or a maximum of five years imprisonment, whilst anyone guilty of shearing or exporting wool and mohair without a licence was liable to a fine of Maloti 20 000 or be imprisoned for two years⁴⁴.

The legislation further stipulated that licences would only be issued to brokers who had access to 9 000 square meters of operating space, possessed sampling equipment, a data collection system, wool and mohair handling equipment and a bank account in Lesotho. Based on these criteria, only one brokering licence was issued by the Ministry and this, as indicated, was to

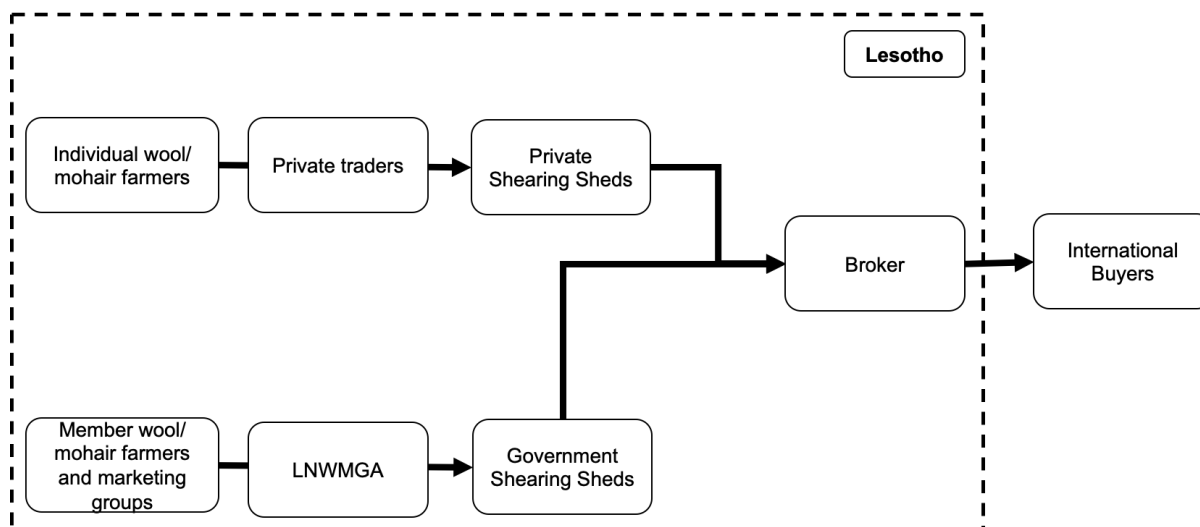
⁴² Government of Lesotho (2018). *Agricultural Marketing (Wool and Mohair), (Amendment) Regulations*, para.6. Although not stated in the regulations, it would appear that joint ventures with foreigners were permissible in that the owner of Maseru Dawning was not a citizen of Lesotho.

⁴³ The deductions included a brokering commission (set at 4%), a dipping levy, insurance, and testing costs.

⁴⁴ Ibid. para. 11. It is noteworthy that in further amended regulations approved in November 2019, the severity of the penalties was reduced significantly to "a fine not exceeding two hundred Maloti or to imprisonment for a period not exceeding six months". Government of Lesotho (2019). *Agricultural Marketing (Wool and Mohair), (Amendment) Regulations*, para. 7

the LWC⁴⁵. This meant that it would no longer be possible to sell produce to brokers in South Africa, either directly or indirectly, and sales and auctions would need to take place within the borders of Lesotho. The reconfigured structure of marketing channels is presented in Figure 2.

Figure 2 Reconfigured Structure of Wool and Mohair Marketing Channels 2018 onwards



Whilst, at face value, the most significant change introduced by the new regulations was the stipulation that all brokering and auctioning of wool and mohair should henceforth take place within the borders of Lesotho, their wider impact on the sector was far more extensive. The section which follows looks at the extent to which each of the marketing reforms fulfilled their intended objectives.

5. Assessment of reform objectives

5.1 Reform Objective 1: To increase the income of wool and mohair farmers

At the beginning of the wool and mohair value chain, which ultimately extends into global markets are the predominantly poor farmers who produce the commodity. The extent of their engagement in this production network is contingent on a number of factors but crucially depends on the net revenue which they receive and this, in turn, depends on the quantity and quality of their produce, the prices achieved, and the deductions made by brokers. These factors are critical indicators in determining the status of the wool and mohair industry in Lesotho and it was a consistent complaint of farmers in all the FGDs that they were adversely affected by the introduction of amended marketing regulations in 2018 and by subsequent adjustments of the legislation.

⁴⁵ KIs interviewed maintained that the LWC, itself, had not met all the specified criteria, including access to 9 000 square meters of operating space, when it was first issued a brokerage licence. This was also a concern raised by the Parliamentary Ad Hoc Committee (National Assembly, 2019:6).

A growing divide between global and local prices meant that Basotho farmers were unable to capitalise on positive market trends

Despite the importance of wool production for the livelihoods of many Basotho, the country plays only a minor role in the global wool trade and the gross profits of farmers depend heavily on the prices determined in larger markets such as those in South Africa and Australia⁴⁶. An examination of trends in the price of Lesotho wool in the global context over the course of the past decade reveals that the industry had experienced periods of strong growth alternating with periods of stagnation (see Figure 3, p.29). Thus, commencing with an average greasy wool⁴⁷ price of around M41.8 per Kg in 2010/2011, the average earnings of a farmer from the sale of 1 kg of greasy wool increased annually by around 15.9% to a price of M82.1 per Kg in 2016/2017. Similarly, the price for clean wool increased from M73.9 to M143.2 per Kg during this period. In this time, the prices of both greasy and clean wool from Lesotho largely tracked trends in international clean wool prices achieved by major producers such as South Africa and Australia. In other words, the price of Lesotho greasy wool increased proportional to increases in the global price of clean wool. This relationship continued until 2017/2018 when clean wool prices in all three countries reached between M174.7 and M179.8 per Kg of wool.

In 2018/2019, this positive correlation came to an end and the price of Lesotho greasy wool plateaued at M85.2 per Kg (an increase just 3.8% higher than the price achieved in 2016/2017), in stark contrast to the clean wool prices achieved on the South African and Australian wool markets, both of which exceeded M190 per Kg (increases which were 24.8% to 36.7% higher than those achieved in 2016/2017)⁴⁸. From this data, it is evident that wool farmers in Lesotho were unable to benefit from the global increase in clean wool prices in 2018/2019 despite the fact that there had been a positive correlation between the price of greasy and clean wool up to 2017/2018.⁴⁹

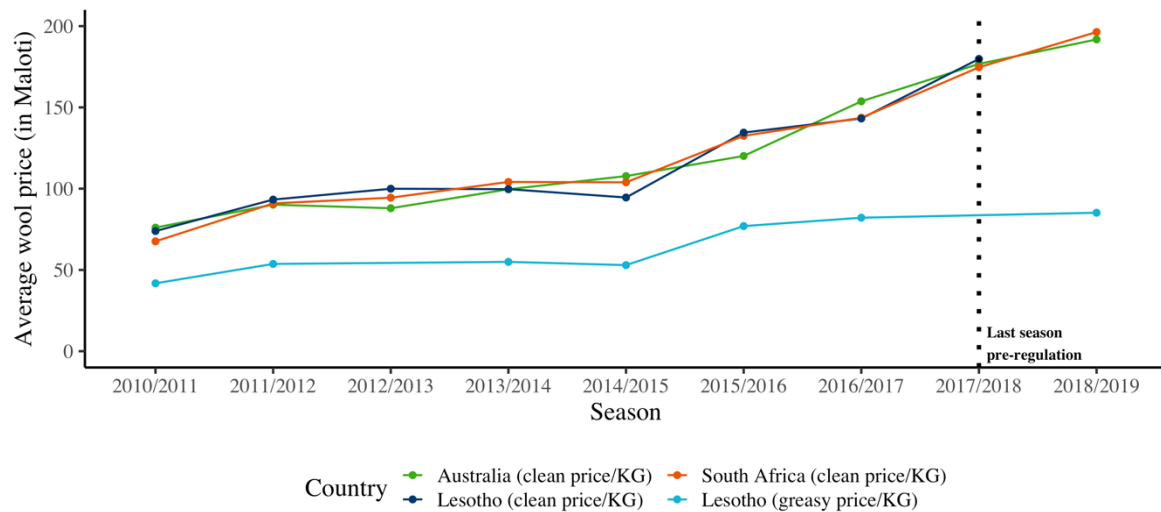
⁴⁶ For more information on Lesotho's wool and mohair export volumes at national level, see Table 4 and 5 (Appendix 1, p.60f)

⁴⁷ Greasy wool refers to fibre which has not been cleaned of grease and other impurities. Wool is auctioned in its greasy form and then cleaned by the buyers outside the borders of Lesotho.

⁴⁸ No statement on Lesotho clean wool prices in 2018/2019 can be made as the relevant data was not disaggregated by quantity and class quality and it was not possible to calculate a weighted average price that could be compared to the BKB data from previous seasons. The greasy price in the figure is thus the average price calculated by dividing the total gross revenue at national level by the total greasy net quantity produced; it is therefore also influenced by changes in the composition of the national wool clip in terms of quality.

⁴⁹ KIs ascribed this to the fact that LWC had sold wool solely to buyers in China and that prices had been determined by market demand in that country rather than by global demand.

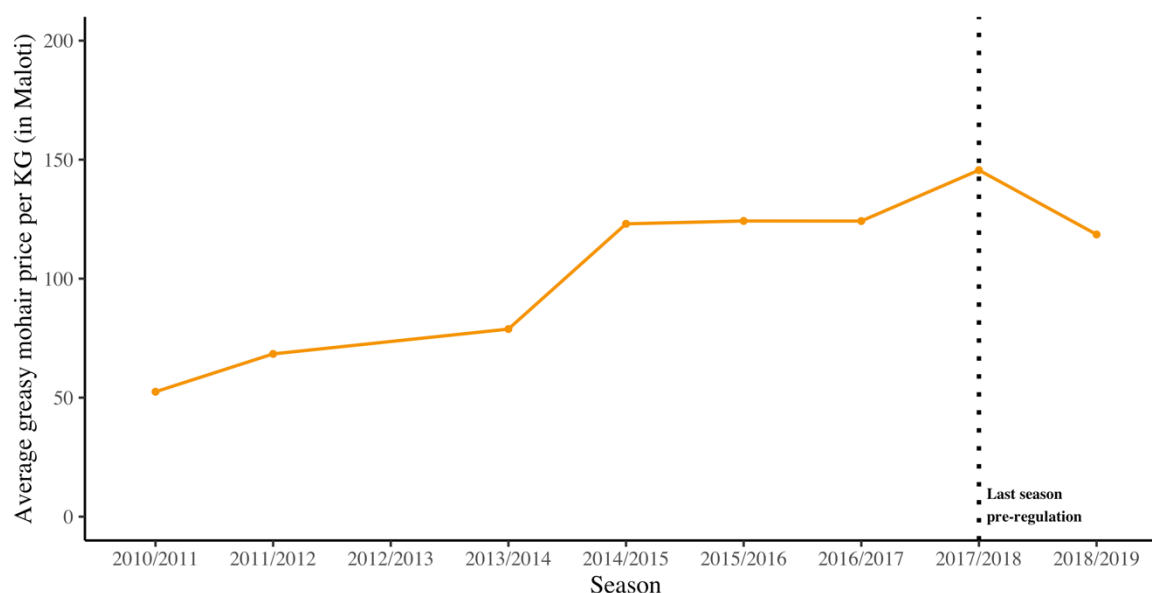
Figure 3 Average greasy and clean wool price per Kg in Australia, South Africa and Lesotho



Compared to its global standing as a wool producer, Lesotho is a much more important player in the mohair sector and the bulk of its produce is bought by South African companies who rely on this source to increase the volume of their own exports. As a consequence of this, mohair prices are determined more by regional than global demand and there is a degree of interdependence between farmers in Lesotho and buyers in South Africa. Whilst this relationship provides the opportunity for greater bargaining power on the part of growers, it also makes them more vulnerable to any disruptions in marketing channels.

Figure 4 (p.30) reveals that there were fluctuations in the price of mohair during the past decade, with steady growth between 2010/11 and 2014/15, stagnation in the two succeeding seasons, and thereafter a spike in 2017/18 when a price of M146.1 per Kg of greasy fibre was achieved. However, in the season following the introduction of the marketing reforms the average earnings of a Basotho farmer fell to M118.6 per Kg of greasy mohair; this represented a decline of 18.9% and a price which was lower than the average achieved in the 2014/2015 season. According to KIIs, this drop in price can be explained by the fact that during the 2018/2019 season mohair was sold to a single buyer in South Africa, due to the fact that the LWC opted to concentrate on the marketing of wool. This development highlights the dependence of mohair producers in Lesotho on South African buyers in the absence of their own links to buyers abroad.

Figure 4 Average national greasy mohair price per kg 2010/11 to 2018/19⁵⁰



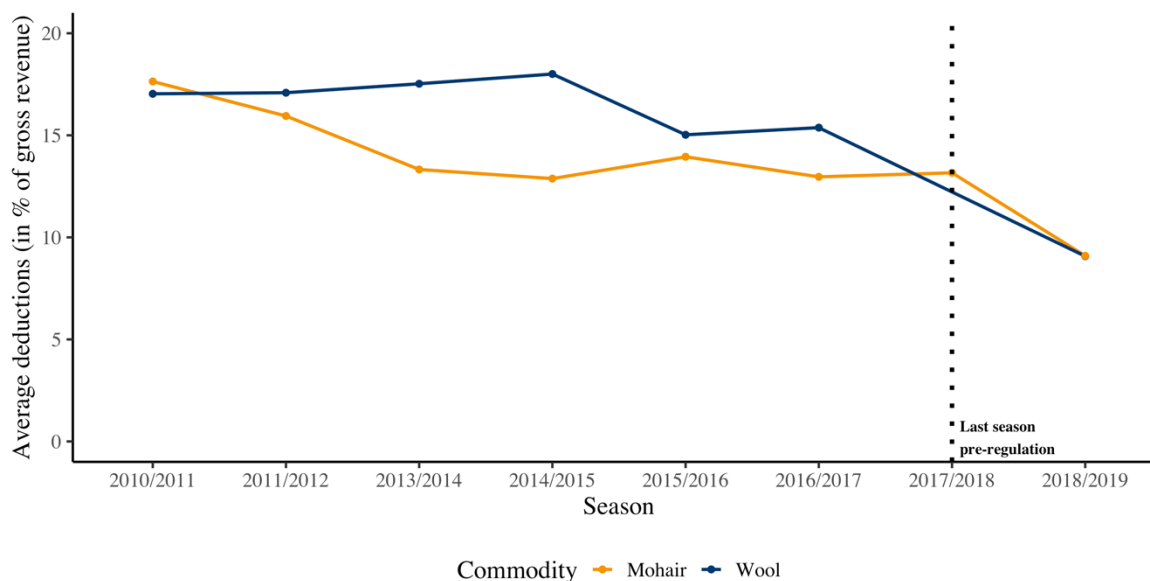
Declining deductions from gross revenue decreased the cost burden of producers

Whilst price inevitably plays a key role in determining the profit levels achieved by farmers, their net revenue is also influenced by the deductions made by brokers from their gross income. The data on deductions from gross revenue prior to the new regulations reveals mixed trends for wool and mohair (Figure 5, p.31). Deductions from wool sales in the past decade remained consistently between 17.0% and 18.0% until 2014/2015, and, thereafter, declined significantly in succeeding years and by 2016/17 it had fallen to around 15%. Mohair deductions, in contrast, had begun to fall in 2010/2011 and only reached parity with those of wool in 2015/2016, whereafter they declined to around 13% in 2017/2018 and eventually reached just 9% in the 2018/2019 season as well.

Whilst the graph below reflects a significant drop in deductions in both commodities in the immediate aftermath of the regulations, it must be noted that this was on the back of an already downward trend and that the decrease can partly be attributed to the fact that LWC collected neither VAT nor a 2c per Kg levy which the BKB had previously deducted on behalf of the LNWMGA to finance their operations (see Table 6 in Appendix 1, p. 61). It must be noted, however, that complaints had been raised by some KIs that the levy had been imposed on farmers who sold their produce through Government shearing sheds and yet were not members of the LNWMGA and hence derived no benefit from the surcharge. Notwithstanding this complaint, the haste with which the reforms were introduced allowed little time for the introduction of an alternative system to support the activities of the Association. Further, as will be discussed below, the fall in deductions was also accompanied by the loss of a range of embedded services which are of critical importance to many farmers.

⁵⁰ Due to a lack of available data on international mohair prices, this graph only covers Lesotho prices.

Figure 5 Average brokerage deductions from nominal gross revenue of LNWMGA wool and mohair farmers nationally from 2010/11 to 2018/19



Mixed trends in the quantity of wool and mohair sold by farmers

Lesotho’s national flock is comprised of around 1.6 million sheep and 0.9 million goats⁵¹, and in 2018/19 around 83% of the sheep (1.33 million) and 54% of the Angora goats (490 000) were farmed by members of the LNWMGA and by those of affiliated marketing groups. The Association thus represents by far the largest group of wool and mohair producers in the country, and over the past decade the productivity of its collective membership increased significantly, as illustrated in the growth of net greasy wool sold (Figure 6, p.32). Following a steady growth in the amount of wool produced through the LNWMGA in the two preceding years, a record clip of Kg 4 million of greasy wool was achieved in 2016/2017, due largely to an increase in the average net weight produced per farmer.

However, a reversal in this trend is observed in 2018/2019 where the average net weight of wool remained at around Kg 120 per farmer and yet total production declined by roughly Kg 200 000 compared to the clip achieved in 2016/2017. Insights from KIIs and FGDs, suggest that the drop in the total quantity of wool sold was due to the fact that some farmers chose not to sell their wool through the LWC for various reasons which are discussed in more detail in box 3 (p.45). A different scenario is observed in the case of greasy mohair which increased from around Kg 180 000 in 2017/18 to Kg 430 000 in 2018/2019⁵². When looking at the net

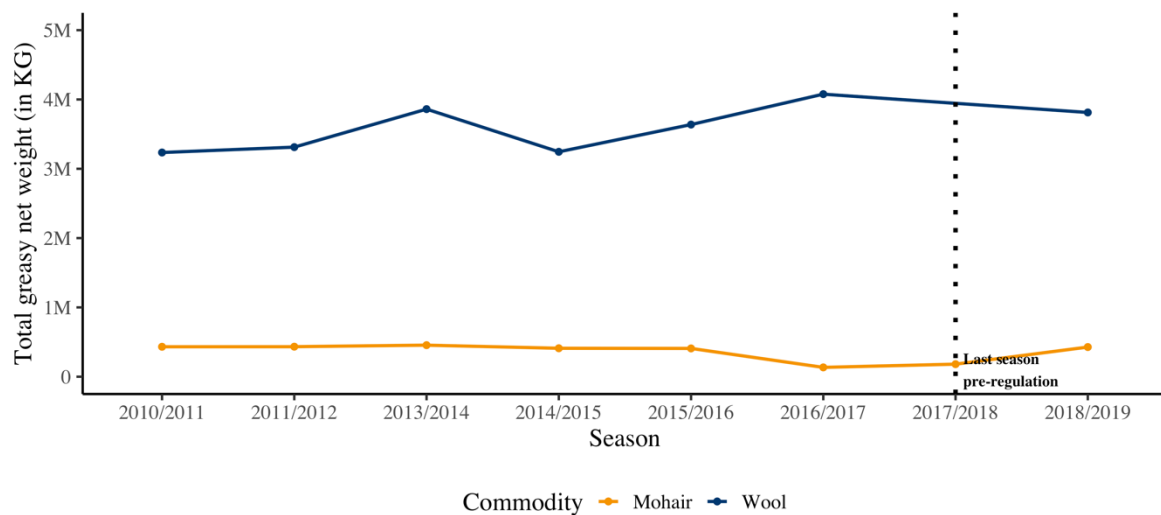
⁵¹ Lesotho Bureau of Statistics (2020). Agriculture Series Indicators 1999/2000-2017/2018.

⁵² According to KIIs interviewed, the low volume of greasy mohair sold in the period from 2016/2017 to 2017/2018 was due to the fact that in these years the LNWMGA sold most of their produce to CMW/OVK and it was not possible access this data for this report.

weight of greasy mohair over a longer period from 2015/2016 to 2018/2019, however, the volume produced increased only slightly (by around Kg 20 000).

In the case of mohair, the graph indicates that the quantity sold increased but, according to KIIs, this may be attributed to the fact that in the two seasons prior to 2018/19 the LNWMGA had sold their produce through CMW/OVK and this data is not included in the graph. However, the fact that the volumes sold in 2015/2016 and in 2018/2019 are virtually the same indicates that production levels in the mohair sector were largely static throughout this period.

Figure 6 Total greasy net weight of wool and mohair sold by the LNWMGA farmers from 2010/11 to 2018/19



Reduced deductions, low prices, and variable trends in quantities sold contributed to diverse trends in the earning of farmers

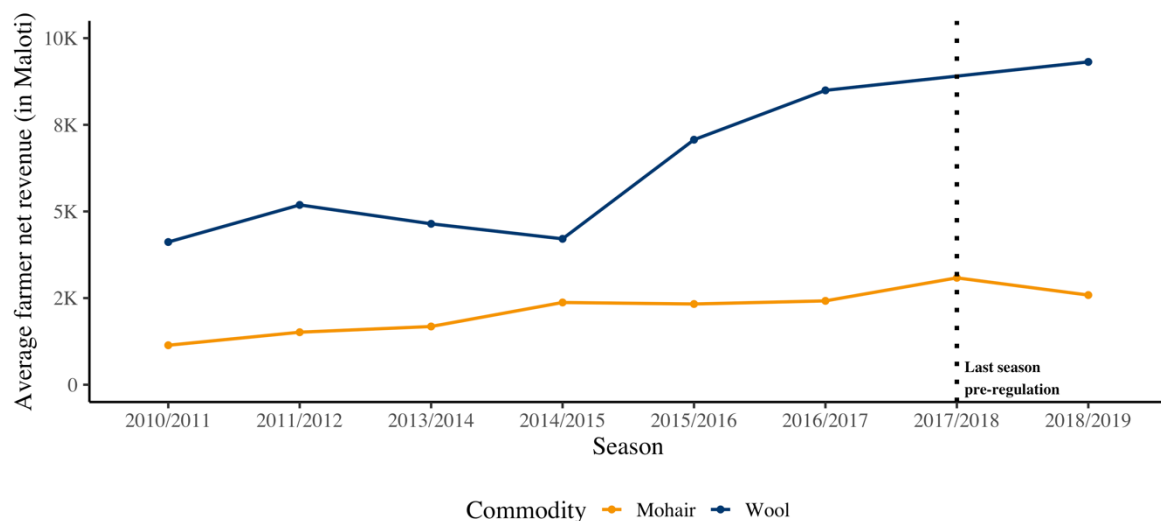
The mixed trend in prices, quantity produced, and deductions contributed to equally diverse trends in the average nominal net revenue of wool and mohair farmers from 2010/2011 to 2018/2019. Figure 7 (p.33) demonstrates that there has been a positive trend in the nominal net revenue generated by wool farmers since 2014/15. This was due primarily to a dramatic increase in the price of greasy wool, which saw a spike of 55% between 2014/15 and 2016/17 alone (Figure 3, p.29).

Although this trend slowed and no longer kept up with global markets, prices continued to rise between 2016/17 and 2018/19. As a consequence, notwithstanding the marketing constraints imposed by the new regulations, the average nominal net revenue generated per wool farmer in 2018/19 amounted to M9 315.6, which was around M828 more than the average in 2016/2017. Although the average nominal net revenue of mohair farmers also increased over the past decade, the growth was sluggish, and this can be attributed to the stagnation of greasy mohair prices between 2014/15 and 2016/17. Significantly, the nominal average net revenue

of mohair farmers reached a peak of M3 046.0 in 2017/18 but then dropped to M2 586.9 in 2018/19, a level which was only slightly above the average revenue in 2015/16⁵³.

The drop in the average nominal net revenue of mohair farmers in 2018/2019 can be attributed to the fall in price since the quantity produced was actually higher and deductions lower than in previous seasons. In contrast, the average net revenue of wool farmers increased slightly in this period. However, the fact that the strong growth in wool prices globally was not realised in Lesotho, implies that earnings of farmers could have been much higher than observed if the trend had continued to follow international markets. This will be examined in more detail below but it is noteworthy that, in both instances, a decrease in the level of deductions did not compensate for the sluggish growth in wool prices and the notable decrease in mohair prices.

Figure 7 Average nominal net revenue of LNWMGA wool and mohair farmers nationally 2010/11 to 2018/19



Unrealised gains in nominal net revenue of wool farmers followed the introduction of the new regulations

It can only roughly be estimated what the average nominal net revenue of farmers might have been had they been able to continue benefiting from the significant price increases in international markets in recent years. In the case of wool, the counterfactual scenario in Lesotho would have been that prices would continue to track international market price trends as they had done prior to the introduction of the regulations in 2018/2019.

The difference between the real observed trends in farmer average nominal net revenue and the expected value, given the previously identified relationship between the South African clean

⁵³ Further analysis of the trends in nominal average net revenue revealed geographic differentiation across Lesotho and that some districts lost or gained more in average net revenue than others. A possible explanation for this would be yearly variations in the quality or quantity of fibre produced by farmers. (See Appendix 3, p.63 for the graphs and further information).

prices and Lesotho greasy prices, can thus yield an estimate of the effect of the regulations. This method is illustrated in Figure 8, which shows a counterfactual version of the average farmer net revenue over the period 2010/11 to 2018/19, based on South African clean wool prices with a constant rate of deductions, and the real observed average net revenue in Lesotho. The visible increase in the gap between the counterfactual and the real Lesotho data in Figure 8, suggests that farmers lost between 9.8% and 12.8% of the net revenue which they might have been expected to accrue had the trends of preceding years not been disrupted⁵⁴. The data further confirm that farmers in Lesotho were unable to capitalise on the rise in the global price of wool. This observation is supported by an analysis of the relationship between Lesotho greasy and South African clean wool prices in Table 1 which reflects a 14% drop in Lesotho prices proportionate to those of South Africa in the period from 2016/2017 to 2018/2019.

Figure 8 Counterfactual scenario for wool farmer nominal net revenue using South African market prices 2010/11 to 2018/19

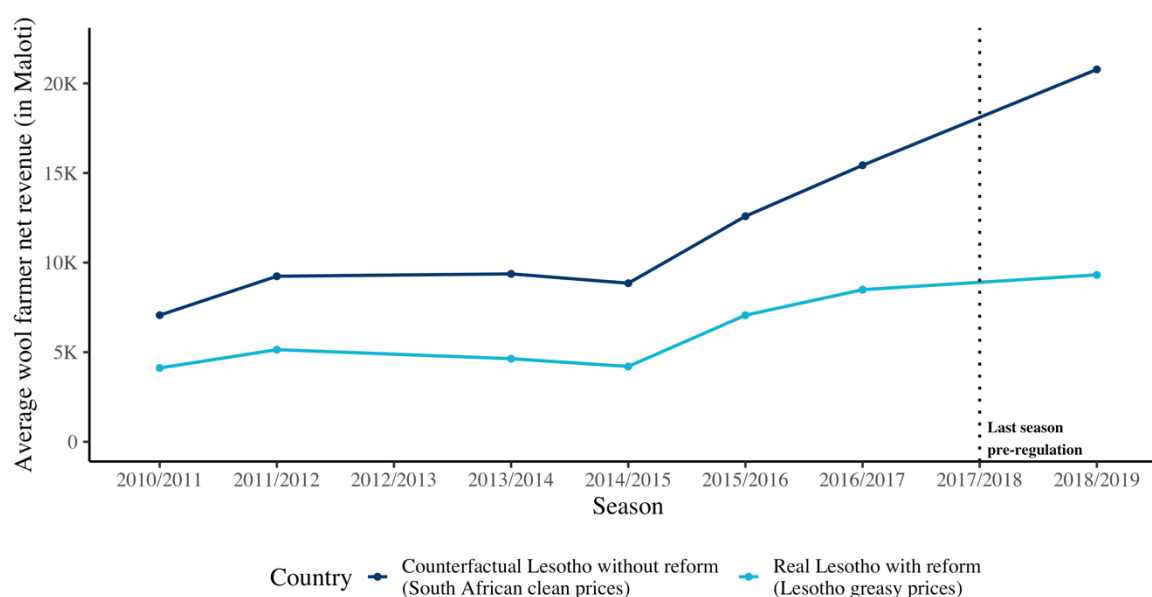


Table 1 The price of Lesotho greasy wool proportionate to the price of South African clean wool between 2010/2011 to 2018/2019

	Seasons									
	2010/ 2011	2011/ 2012	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016	2016/ 2017	2017/ 2018	2018/ 2019	
% LS price of SA price ⁵⁵	62%	59%	N/A	53%	51%	58%	57%	N/A	43%	

⁵⁴ The model assumes the continuation of parallel tracks in the prices achieved for South African clean wool and Lesotho greasy wool as well as a counterfactual deduction from the gross revenue of 12%.

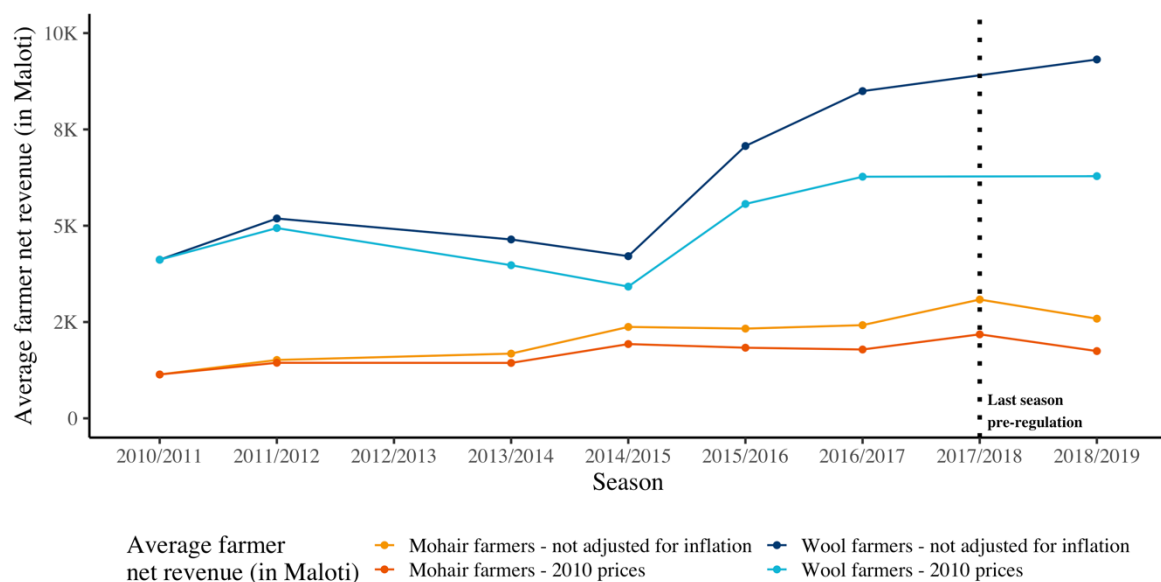
⁵⁵ This figure refers to the price of Lesotho greasy wool proportionate to the price of South African clean wool. Prior to the reforms this ratio was influenced predominantly by the percentage of clean yield, but subsequent to

Declining revenue amongst Lesotho farmers in real terms

The recent drop in the nominal net average revenue of mohair farmers and the marginal increase in revenue generated by wool farmers is particularly concerning when adjusted for inflation. Since Lesotho experienced an annual average inflation rate of 4.9% over the period from 2010 to 2018,⁵⁶ the observed nominal increase in average net revenue has to be adjusted in order to account for the general rise in price levels and to reflect the real gains in net revenue which occurred during the past decade.

In this context, Figure 9 presents the nominal average net revenue for wool and mohair compared with the real average net revenue (based on 2010 prices). It reveals that over the past decade, the growth in the net earnings of farmers failed to keep up with inflation and the nominal gains of wool farmers were particularly hard hit in the years between 2016/2017 and 2018/2019 despite the global price increases. A failure to maximise returns during the wool price boom meant that the average real net revenue of Lesotho farmers in 2018/2019 remained largely the same as it had been in the preceding two years. Similar stagnation in this period is visible in the real net revenue of mohair farmers, where previous gains in 2017/2018 were lost in 2018/2019, presumably due to the steep decrease in the global prices.

Figure 9 Average nominal and real net revenue of LNWMGA farmers for wool and mohair prices from 2010/11 to 2018/19 (based on 2010 prices)



their introduction it was also influenced by the difference in prices realised by different brokers and, specifically, by BKB and LWC

⁵⁶ World Bank (2020). World Development Indicators. Inflation, consumer prices (annual%) 2010-2019. Lesotho.

Box 2: The relevance of the wool and mohair sector for poverty alleviation in rural Lesotho

The importance of wool and mohair production for the rural population of Lesotho is reflected in the number of farmers engaged in the sector. Figures 10 and 11 reflect the number of wool and mohair farmers (comprising both LNWMGA and marketing groups members), who used the LPMS marketing channel over the course of the past decade. The data reveals fluctuations in the number of farmers utilising this facility. Thus, following three years of fairly constant numbers (roughly 33 000 wool farmers) in the period from 2014/15 to 2016/17, there was a decline of 1 300 farmers in the 2018/19 season. Farmers interviewed in the FGDs ascribed this fall in numbers to two factors. Firstly, this was due to the fact that some farmers had opted to sell their produce to traders as they were assured quick payment through this channel. Secondly, according to some responses in the FGDs, the advent of the new regulations had led to tensions in some SSAs over the course of action to be followed and some members had left. It is also possible that the reported increase in the number of smugglers could have been a further factor in reducing the membership of the LNWMGA.

A different pattern is evident in the case of mohair farmers. Although, as in the case of wool, there had been fairly constant numbers between 2013/4 and 2015/16 (fluctuating between 17 000 and 18 000 farmers) there was a dramatic decline (67.9%) in their numbers in 2016/17 and in 2017/18. This was due to the fact that the LNWMGA opted to sell their produce to the CMW/OVK. In the 2018/2019 season this arrangement came to an end and the data indicate that the number of mohair farmers (17 800) remained roughly the same as they had been in 2015/16. Despite the slight decline in the number of farmers selling their wool through the LNWMGA, it is evident that 30,000 sheep farmers and some 18,000 goat farmers respectively, continue to use the LPMS marketing channel on a regular basis. Since there are very few farmers who raise just goats or sheep, it is certain that there is an overlap in the number of farmers per commodity captured in the BKB and LWC databases. Based on a conservative estimate of 30,000 farmers, consequently, it is likely that up to 111 000 Basotho benefit directly from the production of wool and mohair by members of the growers' association alone⁵⁷. Taking into consideration other farmers associations, farmers who sell their wool and mohair to private traders, and a range of other actors in the value chain such as those involved in the transportation of produce, workers employed in the shearing sheds, and herders, the number of people who were adversely affected by declining revenues in the sector is likely to be much higher⁵⁸.

⁵⁷ This figure is based on an average household size of 3.7.

⁵⁸ As previously indicated, an estimated 250,000 Basotho are directly or indirectly reliant on the wool and mohair sector (National Assembly; 2019:6).

Figure 10 Number of LNWMGA wool farmers by season 2010/11 to 2018/19⁵⁹

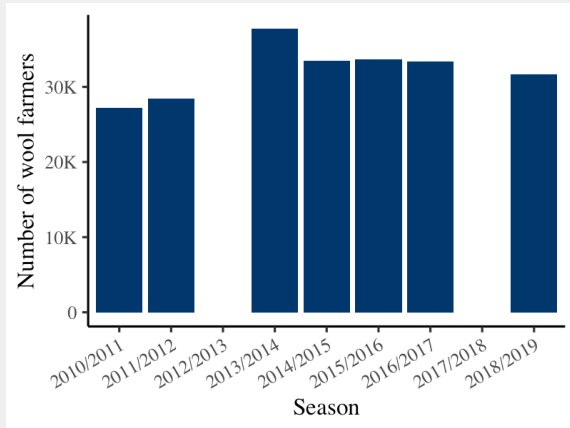


Figure 11 Number of LNWMGA mohair farmers by season 2010/11 to 2018/19

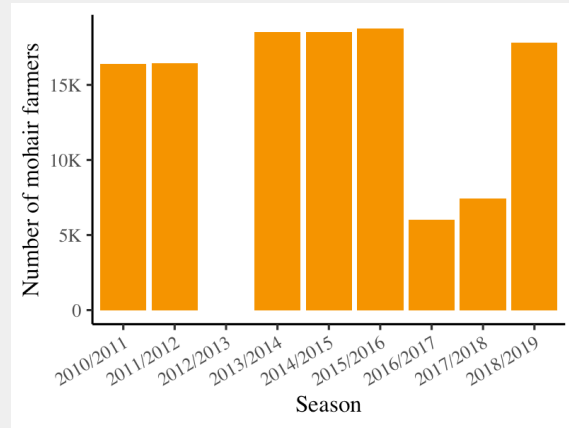


Figure 12 Number of wool farmers under the LNWMGA per district in 2018/2019

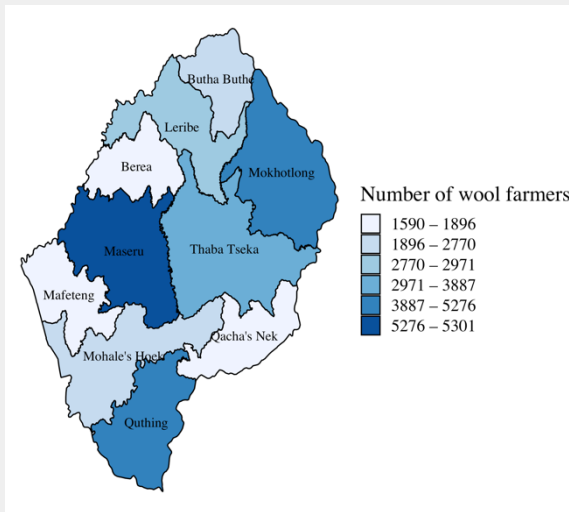
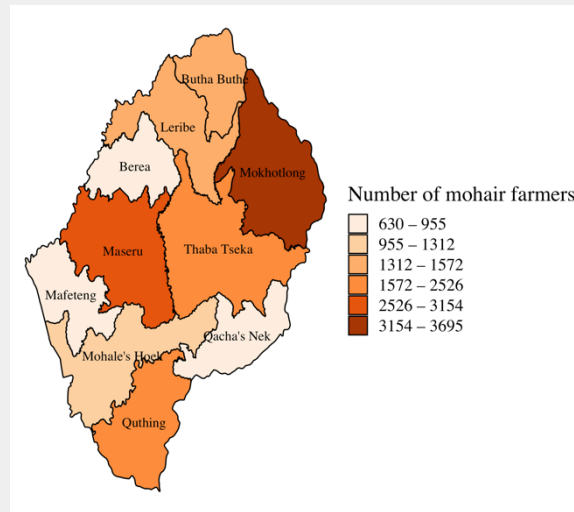


Figure 13 Number of mohair farmers under the LNWMGA per district in 2018/2019



An analysis of the number of farmers per SSA recorded in the BKB and LWC databases reveals that, despite the importance of Maseru as a wool hub, the majority of farmers are based in the mountainous districts of Lesotho namely, Mokhotlong, Quthing and Thaba-Tseka (see Figure 12 and 13). These mountainous areas also have the highest incidence of poverty and recent data indicates that some 67.8% of their combined population are unable to meet their basic needs⁶⁰, a statistic which is 18.1% above the national average of 49.7%. The fact that there is a geographic overlap between districts which are heavily reliant on wool and mohair production and those with the highest incidence of poverty, underscores both the risk posed by a loss of productive income in these areas but also the potential which the industry holds to boost rural development and improve the livelihoods of the poor.

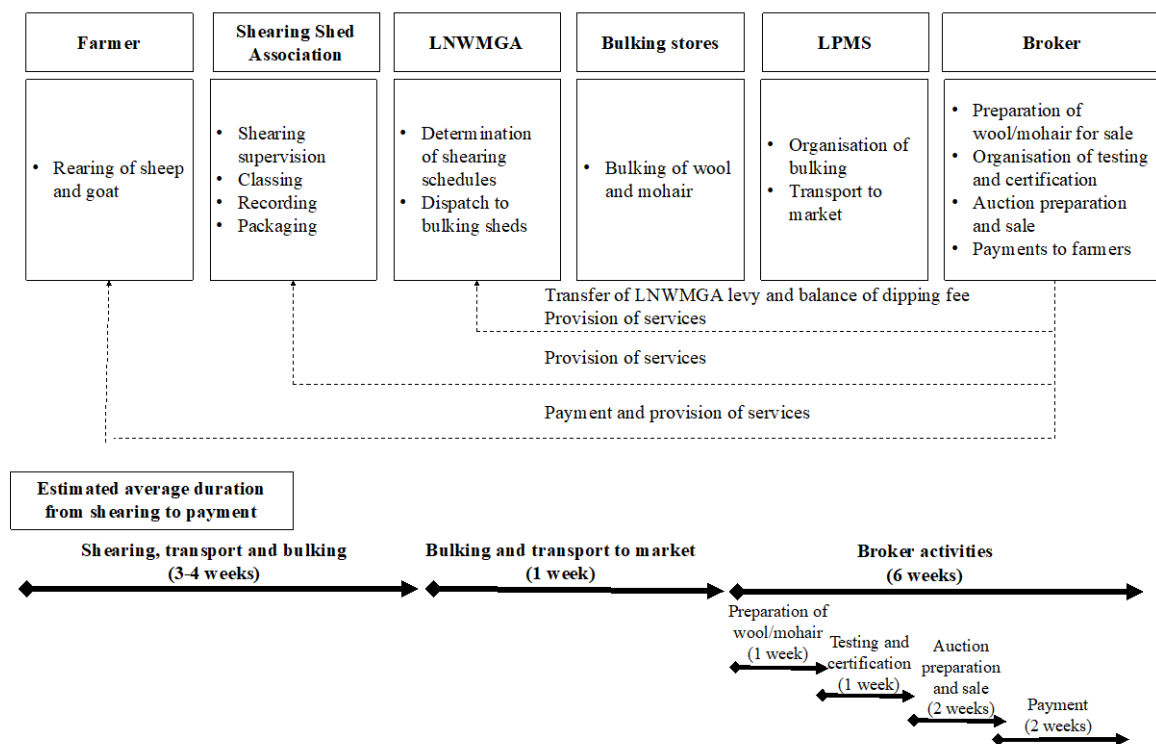
⁵⁹ These numbers include both marketing groups and full association members. Data gaps are due to missing Fibretrack reports in those particular years.

⁶⁰ Lesotho Bureau of Statistics (2019). "Lesotho poverty trends and profile report 2002/2003-2017/2018".

5.2 Reform Objective 2: To strengthen values chains in the wool and mohair industry

The introduction of the new regulations in 2018 not only disrupted marketing channels to South Africa but it also adversely affected the wool and mohair value chain within Lesotho. Figure 14 provides a schematic outline of the key stages in the production and sales process prior to the introduction of the regulations. In the case of a farmer marketing his or her produce through the LNWMGA, livestock would be brought to a shearing shed affiliated to the Association. Sheep and goats were then shorn in a shearing shed, the clip was classified, and its quantity and quality were recorded by the SSA. The LNWMGA was responsible for organising a shearing schedule for the farmers in order to ensure an orderly shearing process and it also assumed responsibility for the transportation of the collected wool and mohair to bulking stores. After the bulking process, which was organised by the LPMS, the agency would organise the transport of produce to brokers in South Africa and assist with the necessary bureaucratic processes. On arrival in South Africa the produce would be prepared for sale and the Wool Testing Bureau would test and certify the produce on the premises of the broker. Thereafter, the broker assembled the different classifications of wool and mohair it had received and prepared a sales catalogue for distribution to international buyers participating in the open-cry auctions which had been scheduled. Following the auctions, the revenue generated, minus various deductions described below, was paid to each farmer.

Figure 14 Outline of the wool and mohair value chain up to the payment of farmers before the regulations



The time between shearing and auctioning varied significantly from farmer to farmer as did the amount of the time they had to wait to receive payment. According to KIIs, this process would, on average, take around 8 to 9 weeks. After wool and mohair had been auctioned it would usually take about 2 weeks until farmers were issued a cheque or funds were deposited directly into their bank accounts. The majority of farmers who participated in the FGDs expressed the view that this process was transparent and that in instances where there were delays they would be swiftly resolved once they had been brought to the attention of the brokers. Following the introduction of the new regulations, the same time frames existed up to the stage where produce was delivered to the LWC bulking stores. Thereafter, KIIs reported, there was uncertainty about how and where produce was being sold (it was understood to be to buyers in China), but it was widely claimed that there were long delays in the payments made to farmers.

Prior to 2018, the broker would deduct various fees from the gross revenue achieved in the auction. In the case of BKB (see Table 6 in Appendix 1, p.61), the fees consisted of brokerage charges (commission and administrative costs), testing and certification costs (paid to the Wool Testing Bureau), VAT (collected on behalf of the South African Revenue Service) and levies were collected on behalf of the LPMS and the LNWMGA. The fees and levies collected for the latter included a dipping fee, which was used for the purchase of veterinary drugs, and the association's membership fees. BKB used the dipping fee to procure medication on behalf of the LNWMGA and arranged transportation to Maseru and any remaining funds would be transferred back to the Association. Further deductions were made for a range of embedded services provided by the broker. Amongst the services provided by the BKB, for example, were the distribution of packaging material (e.g. woolpacks), the provision of training for shearers and classers; assistance in the procurement and distribution of veterinary drugs and breeding stock; and the issuing of loans to individual farmers, SSAs, and the LNWMGA (for the acquisition of breeding stock, for example, or for the construction and maintenance of infrastructure). Whilst a minority of farmers in the FGDs stated that the deductions were too high, the data in Figure 5 (p.31) indicate that there had been a progressive decline in deductions from 2010/11 onwards. It is also evident that many farmers rely heavily on the embedded services which they receive, both to protect the health and improve the quality of their livestock, and to tide them over difficult times. In that respect, it is of significance that farmers in nine out of the ten FGDs expressed a desire to return to the status quo prior to the introduction of the new regulations and to re-establish the working relationship which they had previously had with the BKB. Conversely, farmers in the dissenting FGD raised concerns that the leadership of the LNWMGA had become autocratic and self-serving and that they had established a close relationship with the BKB that was not in the interests of the majority of members.

The sudden introduction of a new brokerage in Lesotho came at the expense of previously existing embedded value chain services

As is common in the development of commodity value chains, long-term relationships built up over time lead to trust between producers and buyers and this can result in the extension of credit, advance payment of a proportion of earnings, and the provision of a range of

supplementary services, such as those described in the case of BKB above, which are aimed at strengthening the sector as a whole. These relationships, however, depend on reciprocity, mutual respect, and the expectation that each party will hold up their end of the deal. As the services embedded in the value chain were specific to individual brokers, they fell away once BKB and OVK ceased trading in Lesotho and they were not replaced by LWC. As a consequence, the trust which had been an integral part of the value chain and which had created some certainty between farmers and brokers ceased to exist. For example, although the regulations made provision for the deduction of a dipping fee, farmers in the FGDs maintained they had never received any dipping medication despite the fact that this levy was reflected on their payment sheets. They also complained of the lack of transparency which occurred in the payment process and the fact that there were frequently large discrepancies between the amounts indicated on the payment sheets issued to them by the LWC⁶¹ and the often substantially lower amounts paid into their bank accounts. Complaints were also raised that payments were delayed or, more seriously, that farmers were not paid at all. This was confirmed by the fact that in early 2020 the Government eventually stepped in to pay about 1 000 farmers who had never received any payment from the LWC.⁶² It was stated that this was in contrast to the previous marketing system where farmers knew exactly what to expect from the sale of their produce, having received a statement of the amount and quality of their clip at shearing-shed level.⁶³ This was further aided by the fact that many were paid by cheque and hence knew the precise amount which would be paid into their accounts. It was reported that some farmers are illiterate and are distrustful of the electronic transfer of funds and prefer to be paid by cheque. The LWC, however, offered no alternative to electronic banking and, indeed, repeatedly attributed delays in the payments made to the farmers' ignorance of on-line banking systems.

A deficient payment system placed the livelihoods of farmers and future productivity of the industry at risk

Delayed payment had a particularly negative impact on farmers but as there is no way to quantify these effects, estimates of the losses incurred as a result of these delays are limited to costs caused by inflation. Table 2 (p.41) shows the average losses due to inflation experienced when wool and mohair farmers had to wait respectively 1, 3, 6 or 12 months for their payment after auction⁶⁴. Depending on the duration of the delay, the average losses incurred by mohair

⁶¹ See Table 7 in Appendix 1 (p. 62) for the deductions of LWC indicated on their payment sheets.

⁶² This was acknowledged by the then Minister of Finance in his budget speech of January 2020 when he stated: "I am pleased to announce that Government on 18th February 2020 decided to take responsibility to pay about 1,000 farmers that Maseru Dawning had failed to pay on time". Parliament of the Kingdom of Lesotho (2020). "Budget Speech to the Parliament of the Kingdom of Lesotho for the 2020/21 Fiscal Year".

⁶³ It must be noted, however, that the farmers could not, from the outset, know what price their wool and mohair would fetch when auctioned internationally.

⁶⁴ See Table 8 in Appendix 1 (p.62) for more example calculations of other farmer income levels.

farmers solely as a result of inflation ranged from M11.18 and M134.19 Maloti and for wool farmers the average loss was between M40.27 and M483.21.⁶⁵

Table 2 *Losses of average net revenue due to late payment in 2019*

	Average net revenue (2018/2019)	Number of months			
		1	3	6	12
Mohair Farmers	2,586.94	-11.18	-33.55	-67.09	-134.19
Wool Farmers	9,315.62	-40.27	-120.80	-241.60	-483.21

A shortage of cash in the rural economy, whether as a consequence of lower prices or delayed payment of earnings, had further downstream and upstream impacts and led to reduced sales by shopkeepers and local traders (including those providing services to the farmers). Wool and mohair traders interviewed, in particular, reported significant losses and stated that they had been compelled to retrench staff. Farmers in the FGDs also stated that they had no option but to let go of herders, while transport operators and sub-contractors reported that they had suffered major losses due to the fact that produce was no longer being moved to auction in South Africa.

5.3 Reform objective 3: To reduce the monopoly of South African brokers and the reliance on South African markets

The introduction of the new regulations in 2018, as indicated, revoked the licences of the two South African brokerage companies operating in Lesotho and brought to an end the duopoly which they had exercised over the marketing of wool and mohair produced in the country. However, aside from the disruptions to the marketing value chains discussed above, the issuing of a single brokering licence to the LWC, in effect, replaced a duopoly with a monopoly. In other words, where in the past farmers and traders had limited options they could still choose between two companies,⁶⁶ they now had no choice but to sell their produce to LWC. Furthermore, the fact that wool was sold solely to buyers in China KIs suggested that the prices received were conditioned by market demand in that country rather than by global market demand⁶⁷. Attempts to circumvent South African coring and testing facilities were also singly unsuccessful and led to delays in the auctioning of produce and the payment of farmers’

⁶⁵ These rounded estimates are based on the observed annual inflation rate in Lesotho of 5.2% in 2019, which corresponds to a monthly rate of 0.43%. World Bank (2020). World Development Indicators. Inflation, consumer prices (annual%) 2019. Lesotho.

⁶⁶ Farmers did, on occasion, move from one broker to another as occurred, for example, in the 2016/17 and 2017/18 seasons when the LNWMGA switched from BKB and sold most of their mohair to CMW/OVK.

⁶⁷ Evidence of this is to be found in Table 1 (p.34)..

earnings⁶⁸. The issuing of a second brokerage licence to the MWMC in 2019 eased this situation somewhat but considerable damage had already been caused to the industry by that time. The subsequent issuing of a further six brokerage licences, however, has created a market which could be of benefit to farmers.

5.4 Reform objective 4: To create employment and improve skills in the sector

An intended objective of the marketing reforms was to stimulate employment in a sector which hitherto had been based on primary production and to improve the skills necessary to localise the industry. Whilst the available data suggests that there was, in fact a slight decline in unemployment levels from 24.03% in 2017 to 23.4% in 2019⁶⁹ it is not possible to determine whether this was in any way related to an increase in employment in the wool and mohair industry. This is due to the fact that by far the bulk of individuals engaged in the sector are informal wage earners and their employment status is not captured in national statistics. It was reported in KIIs as well as in FGDs that herders, shearers, and transport workers, amongst others, had been retrenched following the introduction of the marketing reforms and yet these job losses are unlikely to have been captured in national data sets. Furthermore, whilst it was reported that the localisation of the sale of wool and mohair had resulted in the generation of 110 permanent jobs⁷⁰, the losses reported by farmers, traders, and others, whilst difficult to estimate accurately, certainly exceeded this number.

5.5 Reform objective 5: To grow tax revenues

The Lesotho Revenue Authority (LRA) was unable to capitalise on any opportunities which might have been created by the introduction of the new regulations. This continued a trend which had pre-existed the introduction of the marketing regulations in 2018, particularly in respect to the collection of Value Added Tax (VAT). According to the Value Added Tax (Amendment) Act of 2003, the produce of subsistence farmers is exempt from VAT, as is any agricultural produce exported directly from the country.⁷¹ Income tax and VAT only become payable when produce is purchased and sold on, either by a broker or a trader, and is subject to payment thresholds determined periodically by the Minister of Finance. Historically, the bulk of the wool and mohair produced was sold in South Africa and hence those involved in the value chain in Lesotho were largely exempt from taxation. Corporate taxes and VAT were, however, collected at the point of sale in South Africa and, as this was not refunded to the LRA this amounted to a loss to the national treasury in Lesotho⁷². This was a system which had

⁶⁸ The Post (2019). “Anger over new wool rules”, 26 November. Accessed at: <https://www.thepost.co.ls/news/anger-over-new-wool-rules/>

⁶⁹ Plecher, H. (2020). “Unemployment rate in Lesotho 2019”. *Statistica*, 21 July.

⁷⁰ Parliament of the Kingdom of Lesotho (2020). “Budget Speech to the Parliament of the Kingdom of Lesotho for the 2020/21 Fiscal Year”, p.11. para. 56.

⁷¹ Parliament of Lesotho (2003). *Value Added Tax (Amendment) Act*, para. 6A(1).

⁷² Provision for this did exist in the Value Added Tax of 2001 but it appears not to have been acted upon: “The Minister may, on behalf of the Government, enter into an agreement with the Government of another country on a reciprocal basis for the prevention of fiscal evasion or avoidance, the rendering of assistance and cooperation and the establishment of a refund system in respect of general sales tax or value added tax collected in the participating countries. Parliament of Lesotho (2001). *Value Added Tax Act*, para 87(1).

pertained for some decades and redress of this problem was one of factors motivating the drive to localisation.⁷³

The data on Corporate Income Tax and VAT collected by the Lesotho Revenue Authority (LRA) in the Agriculture, Forestry and Fishing⁷⁴[1] sectors for the years 2016 to 2019 presented in Table 3 below are revealing.

Table 3 Corporate Tax and VAT generated in Agriculture, Forestry & Fisheries, 2016 – 2019 (in Maloti)

Tax type	Parameter	2015/16	2016/17	2017/18	2018/19	2019/20
CIT	Collections	266,586	2,658,951	659,797	351,104	135,745
	% Sector share	0.04%	0.26%	0.08%	0.04%	0.02%
	YoY growth	-	897.41%	-75.19%	-46.79%	-61.34%
VAT	Collections	1,318,297	7,345,466	6,349,804	11,228,728	11,399,107
	% Sector share	0.07%	0.26%	0.21%	0.34%	0.33%
	YoY growth		457.19%	-13.55%	76.84%	1.52%

As might be expected in an agricultural sector dominated by smallholder farming, very little revenue was generated through corporate income tax (CIT). Furthermore, there was a -46.79% decrease in the CIT collected from 2017/18 to 2019/20 and an even bigger decrease of -61.34% from 2018/19 to 2019/20. Conversely there was a marked increase of 76.84% in the VAT collected from 2017/18 to 2018/19 although this is attributed largely to growth in VAT collected in the Fisheries sector. It is also noteworthy that this increase in the collection of VAT was not sustained in the 2019/20 financial year which witnessed a growth of just 1.52%. The marketing regulations introduced in 2018 were intended to increase the generation of tax

⁷³ The signing of a “Memorandum of Understanding (MOU) on Processing and Administering the Value Added Tax (VAT) Refund System” between the Lesotho Revenue Authority and the South African Revenue Authority (SARS) in November 2019, makes provision for the refund of VAT collected in South Africa to the LRA. Lesotho Revenue Authority (2019). “LRA & SARS take major step to improve the VAT Refund System”.

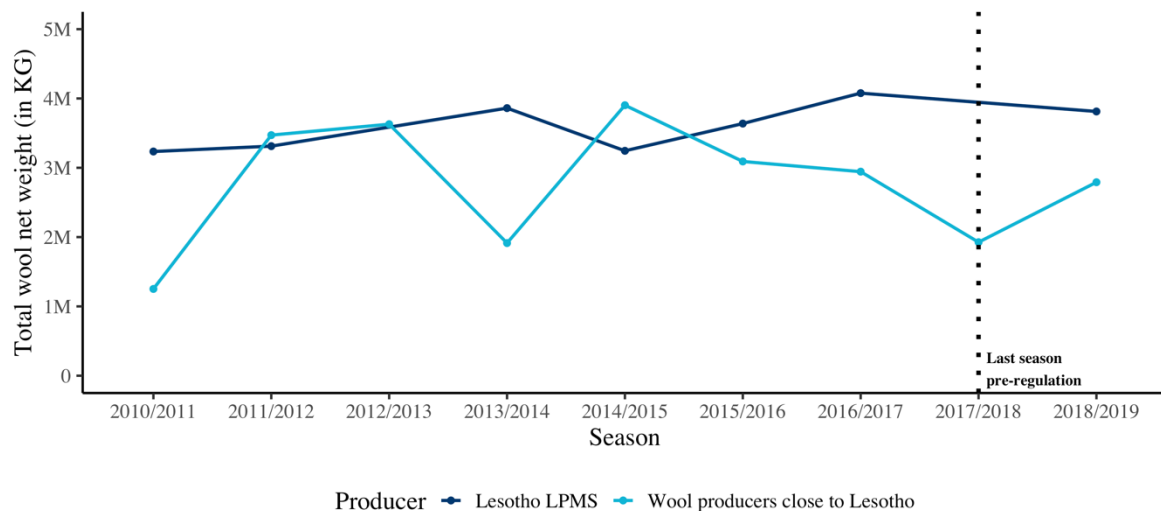
⁷⁴ Although this sector is made up of three components, agricultural produce, and wool and mohair in particular, makes up the bulk of it.

revenue but failed to prescribe the payment of VAT by brokers and traders operating in Lesotho⁷⁵ and, from the information available, it is evident, with some exceptions, that little revenue was collected from this source. To date, there is no comprehensive register of traders operating in Lesotho and their total number is unknown⁷⁶. It is likely, however, that the revenue of most traders will fall below the prescribed threshold for VAT payment, and they will not be liable for this form of taxation.

The coping strategies of some farmers bypassed legal marketing channels

A further loss of tax revenue occurred as result of smuggling of produce (wool in particular) into South Africa. Whilst there had always been a degree of smuggling in the past, this was generally at a low level and was not deemed to have a significant impact on national sales. Following the introduction of new regulations, which limited the marketing channels open to farmers, there was reportedly a surge in illicit trading in South Africa. This is because the Lesotho-South Africa border is porous, and it is relatively easy to transport illicit goods between the two countries. This illicit trade was mentioned by a number of KIs (including government officials) interviewed and whilst it is impossible to quantify the extent of the smuggling which occurred, an analysis of trends in wool production in neighbouring farming areas in South Africa provides an indication of the possible scale of this illegal trade.

Figure 15 Total wool net weight sold through Livestock Products Marketing Service & by South African producers in proximity to Lesotho 2010/11 to 2018/19⁷⁷



⁷⁵ It must be stated, however, that both the Value Added Tax Act 2001 and the Value Added Tax (Amendment) Act of 2003 set out the conditions under which VAT is payable.

⁷⁶ The LRA has since established a special unit charged with registering brokers and traders and has embarked on a programme to inform them of the need to pay VAT.

⁷⁷ These estimates were based on a list of all producers in South Africa who sold their wool through BKB in the period from 2010/11 to 2018/19; all producers operating within 120km of Lesotho border were selected from the

A review of the net weight of wool sold through the LPMS system compared to the amount sold to BKB by South African producers operating close to the borders of Lesotho reveals some interesting trends (see Figure 15, p.44). While the net weight of wool produced by LNWMGA growers and processed through LPMS declined by 6.5% in the period from 2016/17 to 2018/19, the amount of wool sold by South African producers in areas bordering Lesotho increased by 15% between 2017/18 and 2018/2019.

Whilst an increase in smuggling resulted in losses to the fiscus and was illegal, it can also be viewed as a coping strategy on the part of some farmers, fearful that the restrictions imposed by the new regulations would delay payment on their produce as discussed in the section which follows.

Box 3 Negative impact of the regulations

Various negative effects of the marketing reforms can be traced back due to their sudden implementation and lack of stakeholder consultation:

- Disconnection of Lesotho and international wool prices
- The loss of embedded value chain services
- Delayed or missing payments
- Widespread claims of a lack transparency
- Inadequate collection of VAT and CIT
- Growing distrust between farmers and the Government

These and other shortcomings can be seen to have arisen as a result of the insufficient time granted to the industry to prepare for the new regulations, the lack of a sound analysis of the existing value chain and its functioning in Lesotho, and, lastly, the awarding of a single brokerage licence to a company which did not, at that time, have the necessary infrastructure and capacity to effectively broker and auction the wool and mohair clip in 2018/2019.

5.4 Impacts of the regulations on the operations of WAMPP

The findings of this study reveal that the new marketing regulations negatively impacted the activities of WAMPP both directly and indirectly. This included the overall development objective of the project which aims to “Boost the economic and climate resilience of poor wool and mohair producers in the Mountain and Foothill Regions of Lesotho”. Whilst the project in its totality was impacted, some outputs and outcomes were especially affected. Thus, under Outcome 2 it was intended that smallholder sheep and goat producers would increase the production of superior quality wool and mohair. However, a lack of access to dipping medication meant that livestock went untreated and an outbreak of sheep scab is now reported to be widespread; this has reduced the quality of the wool and mohair produced and, with that, the prices likely to be achieved at auction.

list and their aggregated productivity was analysed (see Figure 16 in Appendix 2 (p.63) for a map with the locations of the selected producers).

A National Breeding Programme has been established to boost wool and mohair production (Output 2.2.a), but this output was undermined by the fact that some farmers had sold breeding stock in order to generate an income. The economic viability of their flocks has also been threatened by the number of animals sold. A shortage of income also meant that farmers were unable to purchase supplementary feed, resulting in under-nourished stock and the loss of kids and lambs. Similar setbacks have reportedly been experienced in initiatives to establish an exchange programme for the substitution of unproductive sheep and goats with quality breeding stock (Output 2.2.b). Farmers have reportedly sold many of their less productive stock and now have none to exchange for superior breeding stock.

Under Outcome 3 it was expected that livestock producers would be assisted to increase their market returns from wool and mohair systems. However, as the data presented in this study demonstrate, this outcome was impacted by the fact that farmers were restricted in their access to markets and the majority were unable to improve their income despite an increase in the global prices of wool and mohair. The fact that many farmers were underpaid, were paid late, or have yet to be paid has further undermined this outcome. Initiatives were also underway to provide shearing shed facilities and infrastructure (Output 3.1), but this output, too, was reported to have been compromised by the fact that farmers in the LNWMGA had been unable to raise funds for the 20% co-funding prescribed by the project⁷⁸. The fact that the 2 cent per Kg levy was not collected on behalf of the LNWMGA also meant that there were insufficient funds to cover the administrative costs of the Association and this negatively impacted its organisational efficiency and effectiveness⁷⁹. Although concerns were raised by some KIs as well as in one FGD, that the leadership of the LNWMGA had become autocratic and undemocratic in its governance of the Association, it remains an influential organisation in the industry. Furthermore, notwithstanding any shortcomings, the Association has been built up of over a number of decades, and its ability to negotiate on behalf of the majority of farmers undoubtedly increases the bargaining power of the collective both in dealing with traders and brokers.⁸⁰

From the findings of this study it is evident that WAMPP's interventions in support of improved breeding, nutrition, and health in the livestock of wool and mohair farmers were compromised. When combined with the impact of several years of drought and, more latterly, the constraints imposed by Covid-19, it is now likely that a number of key targets and

⁷⁸ According to the WAMMP mid-term review (MTR) conducted in September 2019: "The new wool and mohair marketing regulations in Lesotho has had a very significant negative impact on the capability and capacity of the LNWMGA's contribution to the WAMPP", IFAD (2019). "Wool and Mohair Promotion Project Mid-term Review, 09- 21 September 2019,

⁷⁹ This was a further concern raised in the MTR which reported that: "under the previous broker and regulatory regime, the LNWMGA was collecting 2 cent/kg of wool/mohair shorn in each shed. This cash was their main income base and is currently not collected, negatively affecting the financial status of the association", *ibid.* p.14

⁸⁰ The important role played by SSAs, and by implication the LNWMGA, in the development of the sector is mentioned in a number of studies including Jordaan, A. (2004) "An analysis of the Production and Marketing Practices of the Wool Industry in Lesotho", and Centre for Development Support (2005). "Assisting poor wool producers to access the international wool market: Successes and stumbling blocks".

milestones in the project will not be achieved. Over the period from 2018/19 to 2019/20 WAMPP was, in effect, compelled to provide support to the wool and mohair sector in an abnormal policy environment which would not have been anticipated during the project design. This was because, rather than the predicted range of threats posed by climate change, exogenous economic shocks, or by political instability, the crisis was precipitated as a result of the seemingly uncoordinated and hasty introduction of new marketing regulations.

As the findings of this study have revealed, all three of the pillars of livestock rearing supported by WAMPP, those on breeding, nutrition, and animal health, were compromised in the process and, according to the estimates of some officials engaged in the project, they have been set back by two to three years. The fact that the regulations were introduced without consultation with the farmers and their representative associations, also meant that there was inadequate buy-in from key stakeholders in the industry and this was compounded by the fact that they had little time to prepare for the new marketing system. It was also repeatedly stated, in both the key informant interviews and FGDs, that there had been a breakdown in trust between farmers and the government and relations between the two continue to be strained to the detriment of the industry.

6. Summary and the way ahead

The findings of this study confirm that there was a need to reform the system of wool and mohair marketing in Lesotho in order to advance a programme of localisation aimed at improving national revenue and the earnings of small-scale farmers. The need to strengthen value chains and to promote greater localisation of the wool and mohair industry in Lesotho, as indicated, had been identified in the NSDP II as had been the need to promote an export driven economy. It is also clear that the legislation in place to regulate marketing in the sector was, at the time, 44 years old and in need of revision in order to provide guidance on how these objectives might be achieved.

However, the study also found that localisation in the sector would have been more effective had it been informed by a broader policy document and had not been reliant on a set of regulations as the sole policy instrument to advance the programme. As the findings of this study reveal, the manner in which the new marketing reforms were introduced resulted in disruptions which could have been avoided but which led to considerable hardship for wool and mohair farmers and others dependent on the sector for their livelihoods. Furthermore, whilst it is not possible to comment on the widespread allegations of corruption expressed by some respondents in this assessment, it is certain that measured against their stated objectives, the impact of the marketing reforms was less than optimal.

Objective 1: Increasing the earnings of wool and mohair farmers

As the data has shown, the objective of increasing the income of local farmers was not achieved and, for many, their earnings declined. This was most clearly demonstrated in the fact that wool farmers in Lesotho were unable to capitalise on the boom in global wool prices which took

place between 2016/17 and 2018/19. This was due both to a decline in the net volume of greasy wool produced and the fact that, despite an increase in average net revenue generated per farmer, when adjusted for inflation, the growth in real terms was negligible.

The data presented in the analysis above provide evidence of the negative impacts of the marketing regulations on the earnings of wool and mohair farmers. Less easily quantified, but no less damaging, was the hardship which it brought about in the lives of farmers and, as indicated above, in the lives of those who work in the wool and mohair industry. Whilst there are a few wool and mohair producers who operate on a commercial or semi-commercial scale, the vast majority are small-scale farmers who generate just enough for a sustainable livelihood. These farmers are typically reliant on a single large annual payment received from the sale of their wool and mohair and their budgets are based on the anticipated income. In a context where cash flow is critical for the economic sustainability of most farmers, the timing of payment is critical. When payment is delayed, or is simply not made at all, the consequences for farmers are severe.

Farmers in the FGDs reported that some amongst them had been unable to pay children's school fees or to buy supplementary feed and medication for their livestock. It was reported in interviews that the situation had become so dire that some farmers had been forced to sell some of their wool sheep in South Africa in order to generate an income and, in the process, reduced the economic viability and productivity of their flocks⁸¹. There were also reports that desperate farmers were suffering from depression and that others had committed suicide⁸².

Objective 2: Strengthening of value chains in the industry

It is also clear that value chains in the wool and mohair industry were weakened rather than strengthened by the new regulations. At the same time, whilst there was a decrease in deductions from the earnings of farmers, this was accompanied by the loss of a range of embedded services (such as the provision of sheep dip, training etc.) which had been provided by brokers in the past and this, according to farmers interviewed in the FGDs, seriously impacted their productivity. As has also been discussed, the disruption of the value chain further impacted the livelihoods of shearers, herders, and others directly involved in the farming of sheep and Angora, who lost their jobs as a consequence. A shortage of cash in the rural economy also negatively impacted the business of traders, transporters and other businesses in a range of related value chains.

Objective 3: Bringing an end to monopolistic marketing practices

A stated objective of the reforms was to end the monopolistic control of the wool and mohair sector exercised by South African brokers and, in effect, to create a market which would be of

⁸¹ Dean, S. (2019). "Wool sheep from Lesotho now being slaughtered in SA". *Farmers Weekly*, June 14.

⁸² Van Wyk, A. (2019). "Lesotho: Mohair Farmers Suffer Depression, Suicide Amid Trade Crisis". *allAfrica.com*, 25 June. The report of the National Assembly's Ad Hoc Committee noted "It has been alleged that some farmers died as a result of stress and depression due to financial difficulties they endured because they never received payments", (National Assembly, 2019:7).

benefit to farmers. However, it is evident that rather than breaking up the duopoly of the two South African brokers, they were replaced by a monopoly which provided none of the embedded services on which farmers had come to rely⁸³. Delays in the payment of earnings under this monopolistic system, as indicated, was one of the major contributors to the hardships which farmers experienced following the reforms and it was also a contributory factor in the breakdown of their relationship with the Government. The monopolistic situation has since been overcome following the introduction of the amended marketing regulations in November 2019.

Objective 4: Creating employment

A key objective in localising wool and mohair marketing was that of employment creation and of expanding the skills base in the country. However, despite the difficulty involved in quantifying employment trends in the agriculture sector, the available evidence suggests that more jobs were lost following the introduction of the new legislation than those which were created. It also led to significant setbacks in the activities of WAMPP and interventions aimed at increasing the productivity and earnings of small-scale wool and mohair farmers.

Objective 5: Growing tax revenues

There is little evidence that tax revenues in the agricultural sector were significantly increased as a consequence of the introduction of the new marketing regulations. The available data indicate that corporate income tax in the Agriculture, Forestry, and Fisheries sector declined significantly in the financial years 2017/18 to 2019/20. At the same time, although there was a significant increase in VAT collected in 2018/19 this was from a low base and was attributed to a growth in collections in the Fisheries sector.

Opportunities and the way ahead

Notwithstanding the shortcomings described above however, as disruptions sometimes do, they have brought about some changes in the wool and mohair marketing system which, provided they are effectively managed and supported by further government interventions, could serve to advance the policy of localisation as initially intended. In other words, opportunities exist to recalibrate the policy of localisation in the wool and mohair industry and to set it on a course which will deliver the objectives envisaged in NSDP II.

The need for policy coherence

As a point of departure, there is a need for greater policy coherence and integration in the sector. The regulatory reforms introduced in 2018, as discussed, were not supported by a wool and mohair marketing policy which set out how the regulations would advance the objectives of localisation in the industry together with a statement on the threats and opportunities which might arise in the process. As the broad objectives of the localisation initiative were to increase

⁸³ This situation was partly alleviated when MWMC was awarded a brokering licence in 2019.

the returns to farmers, create employment, and increase national revenue, it might also be assumed that it would also include a focus on strengthening productivity in the sector as a whole. This would include a greater focus on breeding, nutrition, and animal health and whilst these components form part of WAMPP, there remains a need to scale up measures on the regeneration of rangelands as well as on the immunisation of livestock (against scabies and anthrax for example). Furthermore, whilst the need to strengthen value chains in the sector is identified in NSDP II, and it remains a focal area for WAMPP, there is a need to set out the steps and inter-sectoral integration necessary to achieve this objective. For example, the establishment of cottage industries producing wool and mohair products would benefit significantly from growth in the tourism industry, which is a further objective of NSDP II.

Regulation of the sector

The findings of this study suggest that the current marking regulations are in need of some revision to more clearly define the conditions under which licences and permits will be issued and in order to reduce the transactional costs involved in securing them. There is also a need for legislation which will protect farmers from the prospect of future monopolies, such as those which might arise from the establishment of privately owned coring and testing facilities and the unregulated tariffs which might be charged for their usage.

The Parliamentary Ad Hoc Committee on the Wool and Mohair Industry proposed the establishment of an independent authority to monitor and regulate the sector, consisting of stakeholders from government, private sector and producers/farmers.⁸⁴ However, the responsibilities and composition of such a body will require careful consideration in order to avoid additional bureaucratisation of the marketing process and potential future rent seeking activity. Suggestions to the effect that the marketing of wool and mohair should be transferred from the MSBDC to MAFS will also need to be explored and the potential advantages and disadvantages carefully weighed. This is especially important in view of the fact that farmers, in the majority, appear to be calling for a greater say in the industry and in the way in which it is regulated. Without exception the collective view in all ten FGDs was that farmers themselves should be allowed to manage the marketing of their own produce and that government intervention should be limited to assisting them in improving the quality of their stock and in the sale of their produce. Above all, however, there is a need for legislative and policy certainty if investors, both national and international, are to be attracted to the wool and mohair sector in Lesotho.

The opening up of markets

The easing of licencing regulations has ended the monopolistic situation which arose following the promulgation of new legislation in 2018 and has opened up the field to new brokers. There are currently eight brokerage firms licenced in Lesotho and despite the fact that the volume of wool and mohair produced in the country is unlikely to be able to sustain this number, their

⁸⁴ National Assembly (2019). “Report on the Wool and Mohair Industry Investigations”, p.7.

registration has created a market which could be of benefit to farmers⁸⁵. The two major South Africa brokerage firms which had been excluded by the regulations, BKB and OVK, have re-entered the market and, in the case of the former a new office has been opened in Lesotho and there have been indications of possible future investment in the country. Furthermore, whilst it was not a specific focus of this study, it also became apparent that there is a need to explore new markets for the sale of wool and mohair. The sale of mohair to niche markets in Europe, for example, appears to hold potential provided it is produced according to various eco-friendly standards.

Reduced the reliance on South Africa

For a range of reasons discussed above, it is also evident that the wool and mohair sector in Lesotho will not be able to operate completely independently of the market in South Africa, at least for the foreseeable future. Issues relating to affordability and economies of scale, for example, will necessitate the continued use of the international testing centre in Port Elizabeth and linkages to the South African market in order to generate the volume of produce needed to attract international buyers. The possibility of establishing scouring and cleaning facilities in Lesotho at this stage, in particular, would appear to be constrained by the fact that the volume of wool produced would not justify the investment.⁸⁶ However, the possibility of setting up coring facilities in Lesotho⁸⁷ and developing sampling capacity does appear to be a viable proposition which will need to be explored.

The need for increased efficiencies in the sector

It is also certain that there is a need for increased efficiencies in the sector. The transactional costs, in terms of both time and money, of getting wool and mohair produce to market is high and diminishes returns to farmers. These include the process of registering and securing an export licence, the time delays in clearing South African customs, and delays in exporting produce out of South African ports. Eliminating unnecessary red tape in this process will lower costs and ensure quicker returns to farmers and others involved in the value chain.⁸⁸ There is also a need for more effective recording of the production and sale of wool and mohair (both

⁸⁵ It must also be noted, however, that not all of the newly registered brokers may have the necessary financial reserves to fulfil their commitments to farmers and the risk of defaults which occurred in the past could happen once again.

⁸⁶ Molapo, P. (2016). "The Agoa Response Strategy for Lesotho", p.56. According to Molapothe, the two scouring and cleaning facilities in South Africa still have to import wool from Australia to augment the volume of local production in order to cover operating costs.

⁸⁷ MWMC has indicated that it will shortly be setting up a coring facility in Lesotho.

⁸⁸ Concerns of this nature are expressed in the NSDP II: "Generally, the costs of doing business are higher in small, landlocked or mountainous countries - all three of which apply to Lesotho. The need to import intermediate goods and export final goods raises production costs, as do the small markets for labour and other domestic inputs. Consumer markets are small, transport costs are naturally high, and firms face much competition despite the high costs of production. Such high production costs have a greater impact on firms in low value-added goods and services. To enable firms to become internationally competitive, the costs of doing business must be reduced in other areas, notably the business environment, to compensate for these costs". Government of Lesotho (2018). *National Strategic Development Plan*, p.22 para. 39

within and without the country),⁸⁹ and cooperation from the LNWMGA and others stakeholders in forwarding this data to the Bureau of Statistics.⁹⁰

The need for improved communications with farmers

One of the most unfortunate outcomes of the reforms reported in KIIs and FGDs, as indicated, was the breakdown of trust between the Government on the one hand, and farmers (individually and as part of the LNWMGA), traders, and brokers on the other. Although farmers in the FGDs expressed appreciation of the fact that the revised regulations had once more opened up the market and they were free to sell to the brokers of their choice, concerns were expressed about the losses which they had occurred in the preceding two years and the fact that this had been aggravated by the severe drought and, more recently, by the impact of Covid-19. Along with this, there were appeals to the government for assistance in re-establishing their businesses.

It was further stated that the objectives and conditions of the regulations amended in 2019 had also not been well communicated to farmers and there was evidence of continuing distrust of the motives of the Government. Thus for example, notwithstanding the legal and veterinary obligations behind the decision taken in 2020 to refuse veterinary certification of Lesotho wool awaiting exportation in Port Elizabeth,⁹¹ KIIs and farmers interviewed in the FGDs widely believed this to be an extension of the government coercion that had existed under the previous regulations⁹² in that, once more, they were being compelled to sell their produce to local brokers. Conversely, some officials interviewed expressed the view that the LNWMGA had been concluding with South African brokers to sabotage the localisation initiative. Since growth in the industry will depend on the development of a strong working relationship between the Government and key stakeholders, effective channels for communication between both parties will need to be established as matter of priority. Increased trust and transparency

⁸⁹ The Strategic Plan for Agricultural and Rural Statistics 2019/20 - 2023/24 identifies a number of weaknesses in the National Agricultural Statistical System (NASS) including the following: The “Lack of strategic, legal and institutional frameworks for the production of agricultural and rural statistics and lack of regulations for the 2001 Statistics Act; Lack or poor coordination of statistical activities in the agricultural sector; Lack of data quality management procedures for all processes involved in producing agricultural and rural statistics; Lack of staff with statistical skills in some agricultural subsectors and shortage of staff with expertise in agricultural and rural statistics specifically, in the division of Agriculture and Food Security Statistics of the BOS; (and) No formal user-producer forum necessary for coordinating user needs, activities leading to production of agricultural and rural statistics as well as discussing both demand and supply of agricultural data”. Kingdom of Lesotho (2019). *Strategic Plan for Agricultural and Rural Statistics 2019/20-2023/24*, p.23.

⁹⁰ Government officials interviewed stated that a reluctance on the part of the LNWMGA to forward production statistics to the relevant authorities was a major constraint to the compilation of a comprehensive data base in the industry. This constraint is also mentioned in *The Strategic Plan for Agricultural and Rural Statistics* which refers to the “Unwillingness to share information by some of the key stakeholders, lack of agricultural information platform (institutional networked platform) and hence lack of inter-institutional data sharing”. Ibid.

⁹¹ The Veterinary Department had refused to sign off wool in Port Elizabeth awaiting shipment on the grounds that South Africa had recently experienced an outbreak of foot-and-mouth disease and this would compromise Lesotho’s preferential trade agreements with China. KIIs also made reference to the fact that the Veterinary Department had recently issued an instruction that its veterinarians will no longer travel to Port Elizabeth to certify wool exported from Lesotho unless the costs of their travel and subsistence was covered either by brokers in South Africa or by the LNWMGA.

⁹² This matter was subsequently resolved by the establishment of an ad hoc Ministerial committee comprising government officials, representatives of farmers associations, representatives from civil society organisations.

in the sector are likely to lead to lower transactional costs, in that stakeholders will know what to expect in interactions with other players and they will be more willing to invest in the industry.

Continuing Support from IFAD

IFAD, as discussed above, has been a key partner to the Government in the development of wool and mohair production in Lesotho and it remains the largest donor in the industry. Whilst its current support to WAMPP, which comes to an end in 2022, remains the most prominent reflection of this partnership, IFAD's recently produced Country Strategic Opportunities Programme 2020-2025 (COSOP) affirms a continuing commitment to supporting the sector. This includes support in strengthening the regulatory framework and governance of the sector such that smallholders have a voice in this process. Significantly, the COSOP also includes a commitment to develop a new Wool and Mohair Sector Development Project (WMSDP). This pipeline project will build on the achievements of WAMPP in promoting wool and mohair production in Lesotho but will focus on value addition and efficiency gains at the national level. It must be noted, however, that IFAD's approval of future investment on this scale is likely to be contingent on greater legislative and policy certainty and stability in the sector, together with the adoption of a clear strategic direction by key stakeholders, since the absence of both pose a risk to future development of the industry. Notwithstanding this caveat, scope does exist for future IFAD support in strengthening the wool and mohair localisation policy through short-term technical assistance, and longer-term strategic interventions aimed at strengthening value chains and growing the industry as a whole.

Recommendations

The findings of this analysis suggest that there are a number of short and longer term measures which might be pursued by the Government in strengthening the marketing of wool and mohair, including some which would benefit support from IFAD, through WAMPP in the first instance, and through the proposed new pipeline in the second. Amongst these are the following:

1. A Need for a Wool and Mohair Marketing Localisation Policy

There remains a need for a national wool and mohair marketing policy which sets out the principles and objectives of the localisation initiative, identifies the key state agencies and stakeholders which will be involved, and sets out a strategy for more effective marketing of produce from Lesotho. Such a policy would also take into consideration the lessons learnt from the recent regulatory reforms and would look to both short- and long-term measures to promote growth in the sector. This would include measures both to revitalise and strengthen the sector and to improve market access.

2. Strengthening of the Marketing Regulations

There is a need for greater clarity in the scope of the marketing regulations, including consideration as to whether prescription of the permissible brokerage deductions will support the objective of creating a brokering market. In other words, if all brokers can legitimately make the same deductions producers have little to choose between them. In contrast, compelling brokers to make public their brokers fees and other deductions will at least permit farmers and their associations to make more informed choices when selecting a broker. There is also a need for legislation which protects farmers from the prospect of future monopolies, such as those which might arise from the establishment of local coring and testing facilities. This, for example, might prescribe the permissible tariffs which might be charged by the sole owner/supplier of a specific service.

3. Revitalisation of Value Chains

As the findings of this study reveal, there is an urgent need to revitalise value chains which were disrupted by the introduction of the new regulations. This will require a more detailed examination of the ways in which links in the value chains were broken, which might be re-established, and which might be replaced with other value adding activities. This is an intervention which could be supported by IFAD.

4. On-line Auctioning

Whilst traders and brokers interviewed expressed a preference for open-cry auctions, experience with the on-line auctions introduced in South Africa in response to restrictions imposed by the Covid-19 pandemic, suggest that this could become a viable future option for marketing wool and mohair within Lesotho⁹³. The use of an interactive online platform would obviate the need for international buyers to travel to Lesotho to attend auctions and, if undertaken in conjunction with auctions in South Africa, would circumvent concerns that the volume of wool produced in Lesotho on its own was too small to attract the interest of major

⁹³ It was reported that the LWC had used on-line auctioning but it transpired that this was not an interactive system in that it merely permitted farmers and traders to view auctions taking place outside of the country.

markets⁹⁴. The introduction of on-line auctioning in Lesotho would also strengthen ongoing efforts to increase direct tax generation within the country.

5. Lowering the Costs of Getting Produce to Market

The system in place to issue licences and export permits is costly in terms of both time and money and this diminishes returns to farmers. These include the process of registering and securing an export licence, the time delays in clearing South African customs, and delays in exporting produce out of South African ports. A review of these processes and the regulations which govern them is thus recommended.

6. Exploration of New Market Opportunities

Historically wool and mohair farmers have marketed their produce through South Africa and, in the case of mohair, almost exclusively so. Whilst this system has worked satisfactorily up to a point, the sale of Lesotho wool and mohair wool would benefit from the exploration of new international marketing opportunities and, in particular, the identification of higher value niche markets.

7. Need for an Improved Data Base

There is an urgent need for the development of a more comprehensive government database on the wool and mohair produced and sold by farmers in Lesotho. Lacking this information, it is not possible for Government Ministries to effectively monitor production trends nor to assess the extent to which the localisation programme is achieving its objectives. At present the most comprehensive data sets are maintained by brokers in South Africa.

8. Strengthening of Tax Revenue Generation in the Wool and Mohair Sector

As a key objective of the localisation programme is to increase national revenue, it will be necessary to ensure that available sources of tax revenue are collected. Issues relating to the payment of VAT and corporate income tax will also need to be clarified and communicated to brokers and other service providers. In light of the setback to the industry, however, it is not recommended that there be any change in the current zero tax rating on wool and mohair producers.

9. Support for the Lesotho National Wool and Mohair Growers Association⁹⁵

Notwithstanding concerns about the governance of the LNWGA raised by some respondents in this study, it is the largest and most representative organisation in Lesotho and is a key stakeholder in the wool and mohair industry and, not least, it remains a Government partner in WAMPP. The Association does, nevertheless, need support in order to improve its administrative systems (including a more comprehensive database) and governance processes. Both of these interventions would require technical assistance and IT support.

10. Improved channels of communication

There is a need to establish a formal mechanism through which farmers and their representative associations can meet with relevant Government ministries on an annual basis to express their

⁹⁴ The use of on-line platforms such as Zoom or Team, for example, could facilitate access to auctions and, if projected onto a large LED screen, could allow farmers, traders and other interested parties to follow proceedings in a transparent manner.

⁹⁵ The LNWGA remains the Government's partner in WAMPP but this recommendation need not be limited to one organisation and consideration could also be given to extending technical assistance to other growers associations.

views on progress in the sector (challenges and prospects) and to identify areas where they can work jointly with the Government to enhance productivity in the sector.

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Appendices

Appendix 1 Additional tables

Table 4 *Wool and fine animal hair exports by commodity code from Lesotho in 2017⁹⁶*

Commodity Name	Commodity Code	Netweight (Kg)
Wool, not carded or combed	5101	2,861,147.00
Fine or coarse animal hair, not carded or combed	5102	687,260.00
Hair; fine animal hair, not carded or combed, of kashmir (cashmere) goats	510211	36,568.00
Hair; fine animal hair, not carded or combed, other than of kashmir (cashmere) goats	510219	643,552.00
Hair; coarse animal hair, not carded or combed	510220	7,140.00
Wool and fine or coarse animal hair; carded or combed (including combed wool in fragments)	5105	3,004,460.00
Wool; carded	510510	24,861.00
Wool; wool tops and other combed wool, other than in fragments	510529	2,856,615.00
Hair; fine animal hair, carded or combed, other than of kashmir (cashmere) goats	510539	73,184.00
Hair; coarse animal hair, carded or combed	510540	49,800.00

⁹⁶ UN COMTRADE (2020). Exports all countries by selected commodity codes 2017, *UN COMTRADE Database*. Available at: <https://comtrade.un.org/data/> (Accessed: 14 July 2020).

Table 5 Wool and fine animal hair exports by commodity type from Lesotho in 2017

Commodity Type*	Netweight (Kg)	% of Total
Wool	5,742,623.00	88%
Mohair	716,736.00	11%
Other	93,508.00	1%
Total	6,552,867.00	100%

* The following commodity codes per commodity type were selected for this table: For *Wool*, 5101,510510 and 510529; For *Mohair*, 510219 and 510539; For *Other*, 510211,510220 and 510540.

Table 6 Overview of general BKB deductions for farmers using the LPMS channel

Fee Category	Individual Fee
BKB costs	<ul style="list-style-type: none"> ● Marketing commission ● Admin split fee ● Basic tariff/Bale ● Basic Tariff/Bag ● Bin commission ● Transport-bulking store/PE
Wool Testing Bureau South Africa	<ul style="list-style-type: none"> ● Analysis of Offcuts ● Core test ● Insurance
Lesotho deductions	<ul style="list-style-type: none"> ● LPMS Dipping fee ● LNWMGA fee (2c levy) ● LPMS wool-/mohairpacks ● District association deduction
Taxes	<ul style="list-style-type: none"> ● Value-added tax

Table 7 Overview of general LWC deductions

Fee Category	Individual Fee
LWC costs	<ul style="list-style-type: none"> ● Administration costs ● Maseru Dawning Commission ● Lab testing ● Insurance
Lesotho deductions	<ul style="list-style-type: none"> ● LPMS Dipping fee (2c levy) ● Transport

Table 8 Losses of net revenue due to later payment per farmer income level in 2019

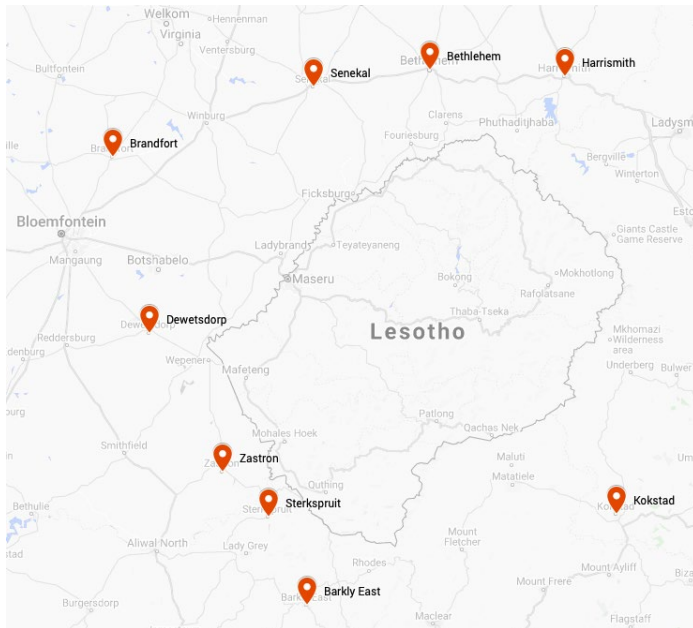
Net revenue	Number of months							
	1		3		6		12	
500.00	-	2.16	-	6.48	-	12.97	-	25.94
1,000.00	-	4.32	-	12.97	-	25.94	-	51.87
3,000.00	-	12.97	-	38.90	-	77.81	-	155.61
5,000.00	-	21.61	-	64.84	-	129.68	-	259.35
10,000.00	-	43.23	-	129.68	-	259.35	-	518.71
15,000.00	-	64.84	-	194.52	-	389.03	-	778.06
20,000.00	-	86.45	-	259.35	-	518.71	-	1,037.42
25,000.00	-	108.06	-	324.19	-	648.39	-	1,296.77
30,000.00	-	129.68	-	389.03	-	778.06	-	1,556.13

Note: Those rounded estimates are based on the observed annual inflation rate of 5.187084 % in 2019 in the Kingdom of Lesotho which corresponds to a monthly rate of 0.432257%⁹⁷

⁹⁷ World Bank (2020). World Development Indicators. Inflation, consumer prices (annual%) 2019. Lesotho.

Appendix 2 Additional figures

Figure 16 Wool producers selling through BKB that are close to the border of Lesotho



*created by the authors' based on BKB South Africa wool data using Google Maps.

Appendix 3 Further findings from the data analysis

Uneven wool and mohair revenue gains in districts across the country

The gains and losses in average net revenue are not consistent across shearing sheds, and there are large geographical variations in the average net revenue of farmers between districts. (see Figure 17 and 18, p.63). This is particularly evident in the case of wool production in Mokhotlong, where the average nominal net revenue per farmer in 2018/19 was lower than it had been in 2016/17 (Figure 17, p.63). Among mohair farmers, the observed drop in average net revenue is more nuanced than the national graph implies (Figure 18, p.63). Thus, whilst most districts experienced a drop in average net revenue in the 2018/19, there were some that realised small gains in the season such as Butha Buthe. Possible explanations for the geographical differences are varying quality and quantities produced per average farmer in the districts which translated into different prices and eventually revenues. Those findings indicate that wool and mohair farmers in Lesotho are not a homogenous group. The difference could be caused by a number of factors which would have to be analysed in detail at the level of individual SSAs, however, a more in-depth analysis of this data was beyond the scope of this study.

Figure 17 Average nominal net revenue of LNWMGA wool farmers by district 2010/11 to 2018/19

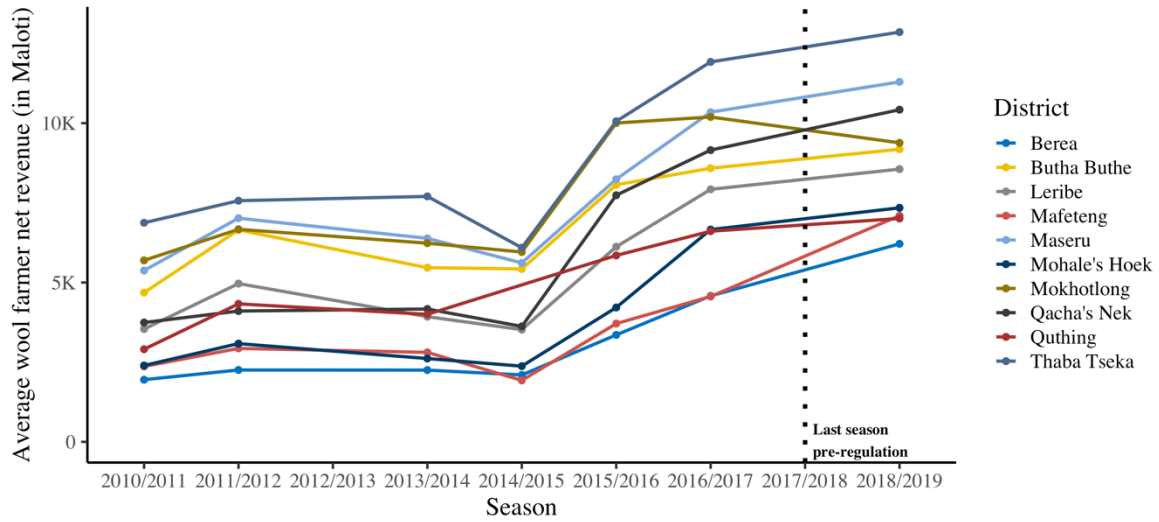
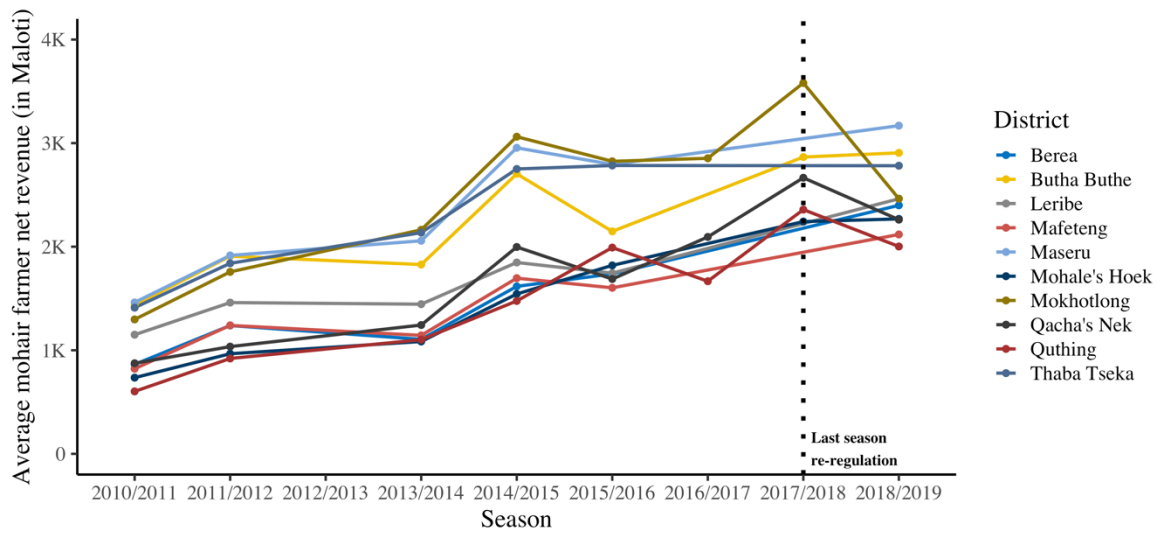


Figure 18 Average nominal net revenue of LNWMGA mohair farmers by district 2010/11 to 2018/19



Appendix 4 List of Key Informants

#	Name	Institution/Organisation
1	Mr. Isak Staats	BKB
2	Mr. Seelan Pillay	BKB
3	Dr. Mohlalefi Moteane	Highlands veterinary services
4	Ms. Mpho Nelly Nkune	Lesotho Bureau of Statistics
5	Ms. Mamaria Mohale	Lesotho National Wool and Mohair Growers' Association
6	Mr Moeketse Kuenane	Lesotho Wool Center
7	Mr. Guohui 'Stone' Shi	Lesotho Wool Center
8	Mr. David Telford	Maluti Wool and Mohair Centre
9	Dr. Gerard Mahloane	Ministry of Agriculture and Food Security
10	Mr. Molefe Petlane	Ministry of Agriculture and Food Security
11	Ms Nora Hae	Ministry of Agriculture and Food Security
12	Ms. Mpho Maja	Ministry of Agriculture and Food Security
13	Mr. Lekhooe Makhate	Ministry of Small Business Development, Cooperatives and Marketing
14	Mr. Kimetso Mathaba	National Assembly
15	Mr. Wallie Weeks	OVK
16	Mr. Monyaka Letsie	Private Sector
17	Mr. Tsolo Kou	Private Sector
18	Mr. Abisi Alotsi	Wool and Mohair Promotion Project
19	Mr. Khemi Moithali	Wool and Mohair Promotion Project
20	Mr. Lepheana Ntai	Wool and Mohair Promotion Project
21	Mr. Retselisitsoe Khoalenyane	Wool and Mohair Promotion Project
22	Ms. Matieho Maseka	Wool and Mohair Promotion Project
23	Ms. Monehela Tau	Wool and Mohair Promotion Project
24	Ms. Thuso Mulapo	Wool and Mohair Promotion Project
25	Mr. Khotsang Moshoeshoe	Wool Growers Association Thabane
26	Mr. Wian Heath	Wool Testing Bureau of South Africa
27	Dr Mpho Maja	Director, State Veterinary Dept. South A
28	Mr Savator Niyonzima	UN Resident Representative for Lesotho
29	Ms Ntsehiseng Letsoela	Lesotho Revenue Authority
30	Chief Masupha Seeiso	Principal Chief

Appendix 5 Summary of the Focus Group Discussions and Key Informant Interviews Conducted in August 2020

Focus Group Discussions

Shearing Shed Associations (SSA) are located across the country and they are responsible for operating most of the shearing sheds in Lesotho. The management of a shearing shed is the responsibility of an SSA committee. Most of the SSAs visited during the investigation had been established in the period from the early 1950s to 1980s. These SSAs offer services to members of the Lesotho Wool and Mohair Growers Association (LNWMGA) and Marketing Groups.

There was a variation in the flock sizes that are kept by farmers in the Association and those in the Marketing Groups (MG). It was reported that the minimum number of sheep kept by individual farmers in the Association was 4 while the maximum was 600. It must be mentioned that the constitution of the LNWMGA stipulates that in order to be admitted into the Association, farmers should have at least 20 improved ewes plus one improved ram, implying that the constitutional provisions are not always adhered to. It was reported that the minimum number of goats kept by the members of the Association was 1 and the maximum was 300. Among MG members the minimum sheep flock size was 5 while the maximum was 400 sheep; the median for both the Association and MGs was 70 and 30 sheep respectively.

There was little difference in the ownership of goats between members of the Association and those of MGs, as the flock sizes ranged from 1 to 300, in the case of the former and from 1 to 400 in the case of the latter. The size of the median flock was 20 goats for both the Association and MG members.

In general, the ownership of small stock was dominated by sheep and a number of reasons were advanced for this disparity; these included the fact that as a result of volume wool production yields higher returns than mohair, goats are expensive to maintain as they are susceptible to a variety of diseases, and there is a shortage of shrubs for browsing. It was also stated that sheep are traditionally used for rituals, the payment of dowries, and, as their meat is preferred to that of goat, there is a ready market for mutton. Farmers interviewed in the highlands cited cold weather as a major reason why few goats were kept as they generally do not thrive in cold conditions.

In size the SSAs ranged from 142 to 500 members, with a similar spread in the MGs which ranged from 144 members to 600 members. According to the farmers, the membership of both the Association and MGs has been in decline since around 2013 although the decrease has worsened since 2018. The main reason advanced for the decline prior to 2018, was the fact that some farmers were unhappy with the way in which the affairs by the LNWMGA were being run by the central committee. In particular, it was maintained, these farmers felt that the opinions and interests of ordinary members were no longer taken into consideration in policy decisions and their concerns and grievances were not taken seriously by the central committee. It was stated that the only interests and views that mattered were those of the central committee members and as some ordinary members came to the conclusion that the power imbalance

could not be corrected, they decided to terminate their membership in the association. It must be noted, however, that this was a minority view in the FGDs.

Marketing before the introduction of 2018 regulations

Prior to the introduction of the 2018 wool and mohair marketing regulations, the farmers had mainly marketed their wool and mohair through the South African broker BKB. For a short period, they had also sold some of their mohair through another South African broker, CMW. However, this deal collapsed when they felt that the prices they were receiving for their produce were unsatisfactory and they reverted back to BKB.

Generally, the members of both the Association and MGs stated that they had been satisfied with the marketing structure and arrangements of the time. According to both groups of farmers, the primary advantage of selling their produce through BKB was that the process was a transparent one. BKB communicated the projected prices for different grades of wool and mohair prior to auctioning, and payslips were issued to farmers reflecting all the deductions from their earnings; in addition, payment records and auctioning procedures were well communicated and explained to the farmers. A further advantage was that farmers were paid promptly and used to receive their earnings within four to five months after the sale of their wool and mohair. It was also stated that when payment mistakes occurred the farmers would, through their representatives, communicate with BKB and the problems would be swiftly resolved. This enabled farmers to meet their domestic financial obligations as well as those of their farming enterprises. In addition, BKB used to provide various embedded value chain services such as training to herd boys, wool classers, shearers and recorders. The broker also provided breeding stock, packaging bales, shearing scissors, wool presses, vaccines and drugs. It also provided interest-free credit for the maintenance and repair of shearing sheds and this was issued on affordable terms and under conditions agreed upon by both parties to the transaction.

In general, the farmers stated that there were no weaknesses in the arrangement, and they were happy with their working relationship with BKB. However, some farmers maintained that around 2013/2014 the deductions from their earnings had increased inexplicably and, unusually in their long relationship with BKB, but the reasons for this had not been communicated to them. They had raised their concerns about the increased deductions with the central committee of the LNWMGA, but they had adopted a top-down approach and dismissed the issues which they had raised. This response angered some members and they ended up resigning from the Association.

Marketing after the introduction of the 2018 wool and mohair marketing regulations

Respondents from both the SSA and MG FGDs stated that the new marketing regulations had been imposed on them as they had never consulted prior to their formulation. They maintained that the regulations dictating that wool and mohair could only be sold in Lesotho through the Lesotho Wool Centre (LWC) had been implemented well before Government Cabinet members went on a roadshow to explain the objectives of the legislation and to demonstrate

how they were going to benefit the wool and mohair industry and the nation at large. The farmers claimed that they had been assured that by selling their wool and mohair within the country they would secure higher prices, prompt payment (within a month after an auction), the provision of high quality agro-chemicals for dipping, and that there would be employment creation, increased government revenue, and no more exploitation by BKB.

The farmers, from both the SSAs and MGs, stated that during this roadshow the Ministers had failed to explain how, and why, selling wool and mohair exclusively to LWC would lead to high market prices; they also failed to explain the ways in which the BKB was exploiting them or how the dipping chemicals would be delivered to them. Notwithstanding these concerns, some farmers still decided to give the new regulations a chance and initially supported their introduction. However, many other farmers did not buy the explanations offered and fiercely opposed the regulations from the outset. According to the respondents, these mixed views and opinions had led to a split in the membership of both the Association and Marketing Groups and this had led to the establishment of a splinter association, “Skylight”, which strongly supported the new regulations of 2018.

The farmers further stated that in the lead up to the introduction of the new marketing regulations, the LWC representative, Mr. ‘Stone’ Shi, who had initially entered into a joint venture with the LNWMA to develop new storage facilities at Thaba Bosiu, had been on a roadshow of his own, presenting his interests and his desire to offer brokering services to Basotho wool and mohair farmers. The farmers maintained that he outlined the benefits that would accrue to the farmers and the country from selling their wool and mohair within Lesotho and that these were similar to those subsequently presented during the Cabinet Ministers roadshow. According to the respondents, this raised suspicions that Mr. Shi had political connections which ensured that the regulations were implemented despite strong opposition from the key stakeholders, the farmers themselves.

On the question of the advantages of selling their produce to LWC, respondents from all of the SSAs and MGs stated that no benefits had been derived from the arrangement and the promised higher prices, prompt payment, high quality dipping agro-chemicals, and reduced exploitation were never realised. Instead, the farmers cited a plethora of problems stemming from the sale of their produce to LWC and these had led them to fiercely oppose the regulations until the present.

Extreme delays in payment of their earnings was cited as a key weakness resulting from the sale of their produce to LWC. It was stated that a significant number of farmers, in both SSAs and MGs, had yet to receive payments from 2018 while those who had been paid had had to wait almost two years to receive their earnings. Added to this, it was reported that most farmers had not received the full amounts due to them, and, upon enquiry, they had been told that the balance would be paid to them in due course. The farmers maintained that they had been surprised that the prices they received from LWC were considerably lower than those that they used to receive from BKB, despite increased flock sizes, and the higher volume and improved quality of fleece attained in 2018.

The farmers cited the lack of transparency as a serious challenge in their dealings with LWC; they maintained that most farmers were not given payslips and that those who were lucky enough to receive one encountered unexplained deductions from their earnings. It was stated that the reasons for these deductions were either unknown to the farmers or were not what had been agreed to with the broker. For example, it had been agreed that LWC would deduct no more than 4% for brokering services but a higher amount was deducted from the earnings of some farmers for reasons which were never made clear. In some cases, it was maintained, farmers would receive a notification that they should report to the bank to receive their payment but on arrival at the pay point, they would be informed by bank officials that the actual amount deposited was lower than the amount specified in the notification; in more extreme cases, it was claimed, farmers responding to a notification had arrived at a bank only to be informed that no funds at all had been transferred in their name.

Farmers from both SSAs and MGs cited dishonesty as a further challenge they encountered in their dealings with LWC. It was stated a dipping fee levy had been deducted from their earnings, but no dipping chemicals were distributed to them in 2018, and, thereafter, were they only distributed to a few selected farmers. It must be mentioned that the LWC was supposed to work in conjunction with the Department of Livestock Services, which was charged with purchasing and distributing dipping chemicals, subject to the transfer of the dipping levy from the former.

Prior to 2018 BKB would purchase dipping chemicals on behalf of the LNWMGA and this would be sent to the District Wool and Mohair Growers Associations and, from there, distributed to the SAAs where all members would be able to dip all their flocks. In the 2018/19 season, it was claimed, the State Veterinary Department had informed farmers that only those amongst them who had animals infected with scabies would be given dipping chemicals. However, it was further claimed, members of the newly formed “Skylight” association had all received dipping chemicals, whether or not their flocks were infected. The farmers stated that they were not surprised by this development as members of the splinter group had strongly supported the 2018 regulations from the outset, and it was alleged some of them were known allies of the ministers who had introduced the new legislation⁹⁸.

OUTLOOK

Preferred marketing channel

Most of the respondents in the SSAs and MGs indicated that, based on their successful business interactions in the past, they would prefer to sell their wool and mohair clip through the South African brokerage firm BKB. However, there was a minority of farmers who stated that they preferred to sell their produce through channels other than BKB as a consequence of difficulties they had experienced with this broker prior to the introduction of the 2018 regulations.

⁹⁸ It must be stressed that these were views expressed by farmers in the FGDs and it was not possible to affirm or refute their opinions.

Design of the ideal marketing channel

Despite differences in their preferred marketing channels, wool and mohair farmers from both the SSAs and the MGs concurred that they preferred a value chain driven by the private sector. Along with this, they expressed a preference for a marketing system which operates with minimal government interference and in which the role of the state is largely that of a facilitator. They also stated a preference from a marketing structure that was not dominated by one broker, both to avoid a monopolistic situation and to enhance competition between brokers which they believed would be to the benefit of farmers and the industry as a whole. It was also stated that they would like to receive embedded services (training, breeding stock, the maintenance of infrastructure etc.) as they had done in the past. Above all, they expressed a strong desire for a marketing system in which there is accountability, transparency, and trust between the parties involved. Linked to this, the view was advanced that the LNWMGA and other farmers associations should be governed by boards which would ensure that their executive structures are accountable and that they work towards the financial and economic emancipation of all their members.

Challenges foreseen in the wool and mohair industry

Farmers asserted that if the current dire situation is left unattended the quantity and quality of Basotho wool and mohair will decline to such an extent that there would be very few farmers using the shearing sheds in the next 2 to 5 years. It was also stated that there will be further job losses in the industry as farmers are forced to lay off still more herders and shearing shed staff (shearers, classers and recorders). Along with this, concerns were expressed about continuing high levels of poverty and hunger, as well as stress, in the communities that are heavily dependent on the wool and mohair farming sector.

At the same time, although both sets of farmers (in SSAs and MGs) expressed strong appreciation of the support provided by WAMPP, concerns were raised that this will have been vain as they predicted the wool and mohair industry will collapse by the end of 2025 if nothing is done to rescue the current situation.

KEY INFORMANT INTERVIEWS

The Involved the Key Informants

The key informants interviewed were drawn from various segments of the wool and mohair value chain in Lesotho and included individuals operating in the transport, finance, service provision, and production sectors. These informants included wool and mohair transport operators, informal money lenders, agricultural input traders, as well as SSA committee members.

Challenges faced during the Key Informant Interviews

Most of the key informants approached were reluctant to participate in interviews relating to the wool and mohair marketing regulations, and it was only when they were assured that strict

protocols of confidentiality were being observed in the research process that they consented to do so. In a somewhat telling commentary, they explicitly informed the interviewer that, in fear of victimisation, they did not trust anyone when it came to speaking about the wool and mohair regulations. They ascribed these fears to the highly politically charged nature of the subject under discussion.

Summary of the Key Informant Interviews

It was stated that in addition to farmers, traders, and brokers, the wool and mohair value chain includes a number of service providers who for years have provided essential inputs to the industry throughout the country. Thus, informal money lenders have been providing credit to the wool and mohair producers, transport operators have been transporting wool and mohair to collection points locally and beyond, and commercial traders have been selling a range of products, such as animal feed, vaccines and drugs, essential to the productivity of the industry.

The period before introduction of regulations

Key informants from the SSA committees indicated that they had had a mutually beneficial business relationship with BKB, wherein problematic issues were resolved timeously and effectively and the returns from wool and mohair farming were satisfactory. There also were embedded services provided to the farmers by BKB which included training, improved breeding stock, dipping chemicals, and various other inputs that were offered on credit with affordable terms and conditions. They also stated that the running of SSA affairs was easy as farmers were generally satisfied and there were no conflicts within and between farmers and committees.

The key informants from the transport sector stated that prior to the introduction of the marketing regulations in 2018 business had been good as there were consignments of wool and mohair to be delivered to collection points in Maseru and to South Africa. They maintained that they had had a good business relationship with the local farmers who paid them on time for the transport services rendered. Their businesses were performing well and growing, to the extent that some of them had been able to increase their fleet of delivery vehicles and thereby created employment for a significant number of Basotho.

The commercial traders reported that prior to the introduction of the new regulations in 2018 the inventory turnover of their enterprises was high, there was a ready market for animal feed, vaccines and drugs, and farmers mostly bought on a cash basis. Even those who bought on credit repaid within the stipulated time period as their wool and mohair production was doing well. The sentiments of wool and mohair transporters and input traders were repeated by the informal money lenders who maintained that prior to the regulations they had had many wool and mohair farming clients and they were able to repay their loans within the stipulated repayment periods. The responses of these KIs suggest that the profitability of wool and mohair farming also served to increase the revenue of other enterprises in the value chain.

After the introduction of regulations

Key informants from the SSA committees maintained that the regulations had been imposed on the sector by some “well-known ministers”. It was suggested that local politics had played a part in this process and that there had been disagreements in the leadership of the LNWMGA over the Association’s relationship with BKB and its perceived monopoly in the industry. It was maintained that these disagreements had been carried forward into the national political arena, following a change of government in 2017, and the subsequent introduction of the new regulations was part of a settling of old scores⁹⁹.

Respondents stated that the number of farmers using the SSA managed shearing sheds had declined because they had received little or payment from the sale of their hard-earned wool and mohair production. It was also maintained that some farmers no longer have trust in the SSA committees as they believe they are part of the system which is exploiting them. This has led to difficulties in managing the affairs of SSAs as some farmers no longer attend meetings and no longer respect the decisions and directives emanating from the committees.

The respondents indicated that as a result of a drop in the quantity and quality of produce, and a decline in membership, cash flows into the SSAs had reduced significantly. This drop in income had been aggravated by the fact that some farmers had opted to sell their produce through the informal channels where, albeit lower, payment is instant. The reduced revenue has negatively affected the operations of the SSAs and they now face difficulty in buying equipment and other resources, as well as in maintaining and repairing infrastructure, to the extent that the condition of some shearing sheds is very poor, especially in areas which have yet to receive assistance from WAMPP.

The respondents from the finance, transport and inputs sectors stated that the 2018 regulations had negatively impacted their businesses and that they had experienced a sharp decline in their customer base; this was because wool and mohair farmers no longer had the disposable income to support their businesses. The service providers stated that, to date, those to whom credit had been extended had still not been able to settle their loans. They had also been forced to reduce prices and interest rates, but the situation had yet to improve and they had been unable to meet their short term financial obligations. They indicated that they had cut their operating costs by laying off some of their employees and had reduced the range of agricultural inputs which they usually supplied. They all maintained that reduced income streams had led to poverty, hunger, and stress in their families.

Business after the adjustment of regulations

The respondents all indicated that despite amendments to the regulations and the granting of some concessions, the profitability of their businesses had not improved and, if anything, they had deteriorated to the extent that some severely impacted enterprises had been forced to close.

⁹⁹ It must be noted that these were the opinions of some farmers in the FGDs and it is not in any way possible to comment on their veracity. Nevertheless, irrespective of their veracity, opinions do shape popular perceptions and can fuel distrust.

This was a view shared by the committee members who stated that the amendments had not brought about any positive change and farmers and SSAs continued to suffer.

Outlook

Respondents from SSAs and MGs in all ten districts asserted that if the situation is not addressed, a sizeable proportion wool and mohair farmers, transport operators, informal money lenders, and input traders will be forced to cease operations, implying that the entire wool and mohair industry in Lesotho is currently under threat, with severe implications for the national economy and the livelihoods of thousands of households.

Significantly, there was a concerted opinion that Government intervention in the running of the industry should be kept to a minimum and that the current regulations should be repealed. It was further asserted that the business of wool and mohair production should be driven solely by farmers and related private enterprises. It was also proposed that the bureaucracy surrounding the issuing of export permits be revised, that the regulatory powers of the state veterinarian should be curtailed, that wool and mohair farmers should be involved in decision making processes affecting the industry, and that their interests should take precedence provided they are within the confines of the laws of the country.

Appendix 6 List of participants in the validation meetings

Name	Position	Institution
Dr. Philipp Baumgartner	Country Director	IFAD
Prof. Chris Tapscott	Consultant	IFAD
Christian Dietz	Consultant	IFAD
Dr. Montoeli Rantlo	Consultant	National University of Lesotho
Retšelisitsoe Khoalenyane	Project Director	WAMPP
Moitahli Khemi	M&E Officer	WAMPP
Monehela Tau	M&E Assistant	WAMPP
Phomolo Lebotsa	Knowledge Management Officer	WAMPP
Thuso Molapo	COMP C Manager	WAMPP
Nchakha Makara	Principal Secretary	MAFS
Mole Kumalo	Principal Secretary	MFRSC
Lekhoee Makhate	Director Marketing	MSBDC
Mamaria Mohale	Manager	LNWMGA
Dr. Keneue Lehloenya	Director Livestock Services	MAFS
Mothobi Letoane	Director Projects	MoDP

Matieho Maseka	COMP A Manager	WAMPP
Lucia Phakisi	Acting Director Planning	MAFS
Puleng Pali	Chief Legal Officer	MAFS
Penane Shale	CEO	BEDCO
Dr. Lefulesele Lebesa	Director Agric Research	MAFS



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