Invest in Lesotho's

Deciduous Fruit Sector

LESOTHO

Thanks to its favourable location, climate and soil, Lesotho is an ideal place in which to invest in growing deciduous fruits for export to Southern Africa and more distant markets.

Invest in Lesotho

LNDC
LESOTHO NATIONAL DEVELOPMENT CORPORATION
We Build Industry

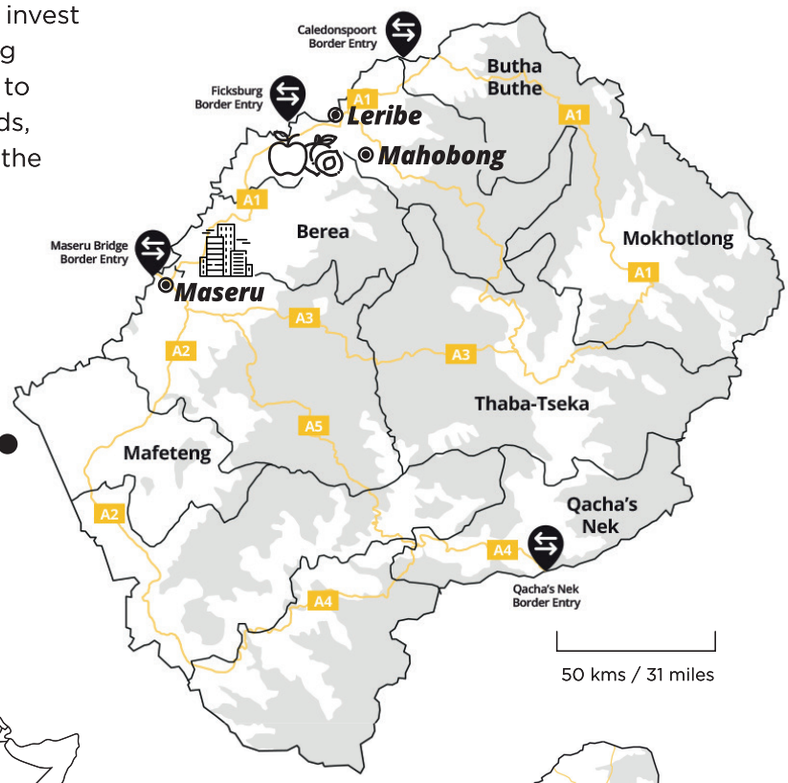
Deciduous Fruits

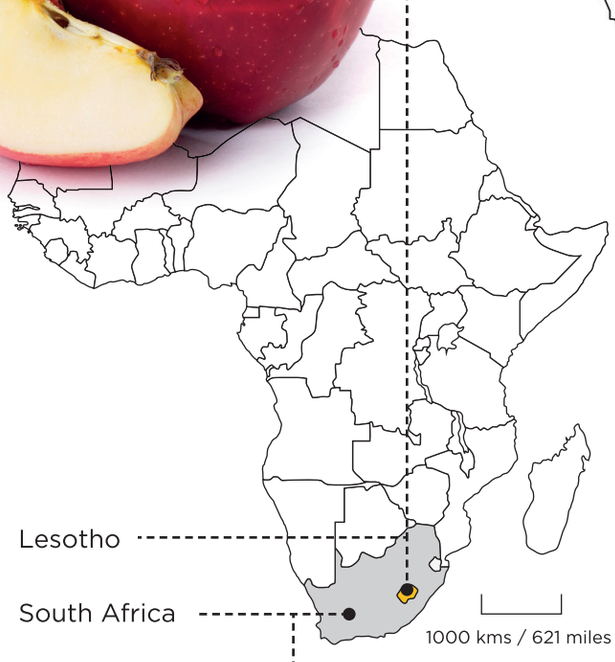
Introduction

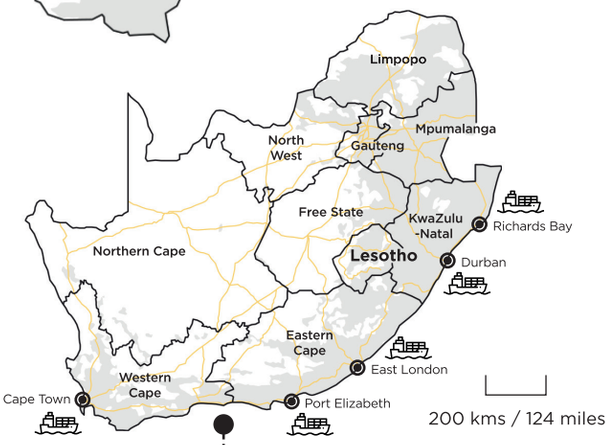
This project centres on investing in growing deciduous fruit commercially in Lesotho and packaging the produce for export to neighbouring markets in the SADC region.

The main crops are apples, plums, apricots and peaches. There are also opportunities to invest in the related cold storage and packaging facilities. In the longer term, and subject to compliance with relevant health standards, Lesotho could export deciduous fruit to the USA and EU taking advantage of preferential trade agreements.

Deciduous fruit is already grown in the Mahobong area in the Leribe region of north west Lesotho, but other parts of the country are also suitable thanks to the favourable topography and climate.







- COMMERCIAL FARMING
- STORAGE AND PACKING
- EXPORTING AGREEMENTS WITH USA & EU
- FAVOURABLE CLIMATE AND TOPOGRAPHY

Strengths & Opportunities

Lesotho's rich organic topsoil, relatively high rainfall and climate provide excellent growing conditions for deciduous fruits. The air quality is high. There are also plentiful supplies of pure water. Lesotho could capitalise on these advantages and focus on the production of organic fruit, for which global demand is rising.

5 500

HECTARES OF SUITABLE LAND

are available for growing deciduous fruits in Lesotho. Foreign companies can own land on a leasehold basis in the country subject to a 20% stake being retained locally. Leases are typically 99 years.

OF THE POPULATION

70%

LIVE IN RURAL AREAS

where the workforce is heavily engaged in agriculture and enjoys a well-deserved reputation for manual dexterity. The literacy rate is 76%, some 90% of the population speaks English and workers are trainable in new techniques.

Wage rates compare favourably with neighbouring South Africa. Labour relations are harmonious.

The Horticulture Training and Research Center at Mahobong provides classroom training for fruit farmers. The nearby Likhothola and Mahobong orchards are owned by local villagers and run both commercially and for demonstration purposes. Investors may have access to the demonstration plots.

Potential exists to convert existing structures into cold storage and packing facilities. Alternatively, the Lesotho National Development Corporation (LNDC) may be able to provide factory shells for rent. Reliable hydro-electric power is available thanks to the Lesotho Highlands Water Project.

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Markets

Lesotho's membership of SADC and SACU allows Lesotho to export deciduous fruit to SADC countries without being subject to quotas or tariffs. The estimated market size is 300 million consumers. Lesotho's geographical position and good road connections with South Africa permit short lead times and reasonable costs to transport produce from the Maseru area to Johannesburg, Cape Town and Durban (the port of dispatch for exports by sea). Lesotho has already trialled the export of fruit to South Africa to supply supermarket chains, with encouraging results.

Apricots and peaches are AGOA-eligible, so they can be exported to the USA, provided that US health standards are met. That potentially opens up a market of 300 million consumers. Apples, apricots, peaches and plums may also be exported tariff-free to the EU under the EU/SADC EPA, again subject to compliance with relevant standards. The 27 EU member states have a population of around 450 million.

Beyond those markets Lesotho could also exploit its trade preferences under the Generalized System of Preferences to export to countries such as China, Japan, Australia, Canada and Turkey.

Fiscal incentives

- Corporate tax: 10% on profits from sales of agricultural goods produced in Lesotho
- Training: Cost of Lesotho citizens allowable at 125% for tax purposes

Withholding tax:

- 10% on service contracts with non-residents
- 25% on dividends distributed from income by resident companies to non-resident shareholders
- No withholding tax on dividends distributed to Lesotho residents

VAT:

- 15% on goods and services sold in Lesotho
- 0% on direct exports

Risk guarantees:

- Partial credit guarantee through the LNDC
- Tailor-made, agriculture-specific loan through the Post Bank of Lesotho

Specific incentives for the horticulture sector:

- Access to a Sesotho language technical training manual for local workers in on-farm and crop management
- Access to demonstration and crop pilot plots
- Facilitation support to identify and mobilize village level farmer engagement
- Access to technical data on historical crop performance

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Support from the LNDC includes:

- Serviced industrial and commercial sites at competitive rentals
- Provision of industrial and commercial buildings at competitive rentals
- Financial assistance on a selective basis
- Investment facilitation services
- Assistance with permits and licenses
- Assistance with company registration
- Assistance with industrial relations issues
- Appraisal of investment projects
- Assistance with preparation of project briefs for the Environment Impact Assessment (EIA) Certification

The project would align with SDGs 1, 2, 8, 9, 10 and 15.

Operational fruit farm in Mahobong, Lesotho.

Deciduous Fruits

Financial Analysis

For the establishment of a 100-hectare deciduous fruit farming enterprise, a total investment of approximately:

LSL* 18.6m

comprising fixed assets of LSL 16.5 million, pre-production expenditure of LSL 1.6 million and initial working capital of LSL 495 thousand will be required. The graphs below illustrate a financially viable operation with the opportunity expected to generate a profit throughout its operational life.

In addition to the positive NPV and IRR, the initial investment cost of the project is expected to be fully recovered in just under 5 years. The investment opportunity supports the country`s developmental objectives through its positive socio-economic impact in terms of job creation, economic agglomeration and potential forex earning opportunities.

NET PROFIT

The enterprise's annual net profit after tax increases from

LSL 4.3m

in year 1 to approximately:

LSL 7.6m

in year 10. Similarly, the projected cash flows of the envisaged project indicate that the project will generate positive net cash flows throughout the 10-year operational period.

*1 **LSL** = 1 ZAR
15 LSL = 1 USD (as of April 2021)

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Financial Analysis

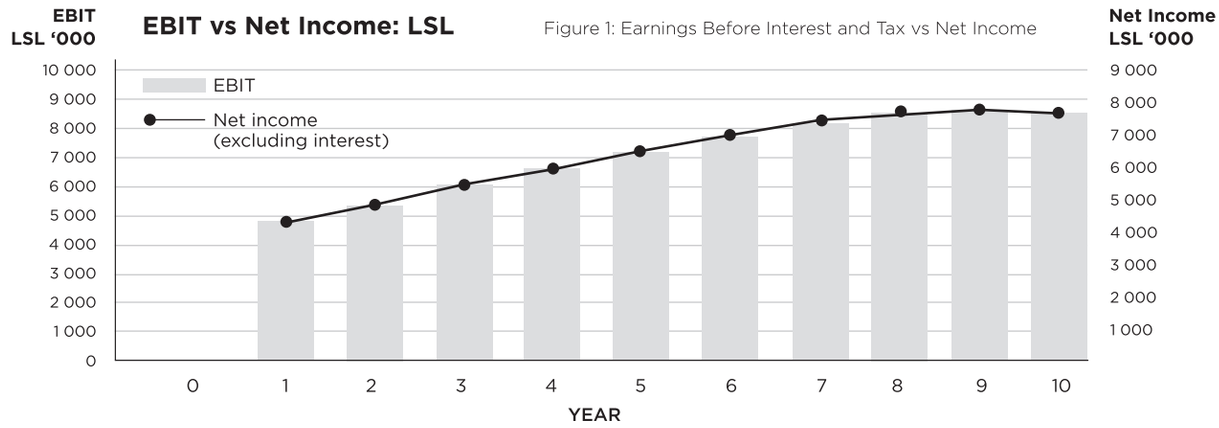

Figure 1: Earnings Before Interest and Tax vs Net Income

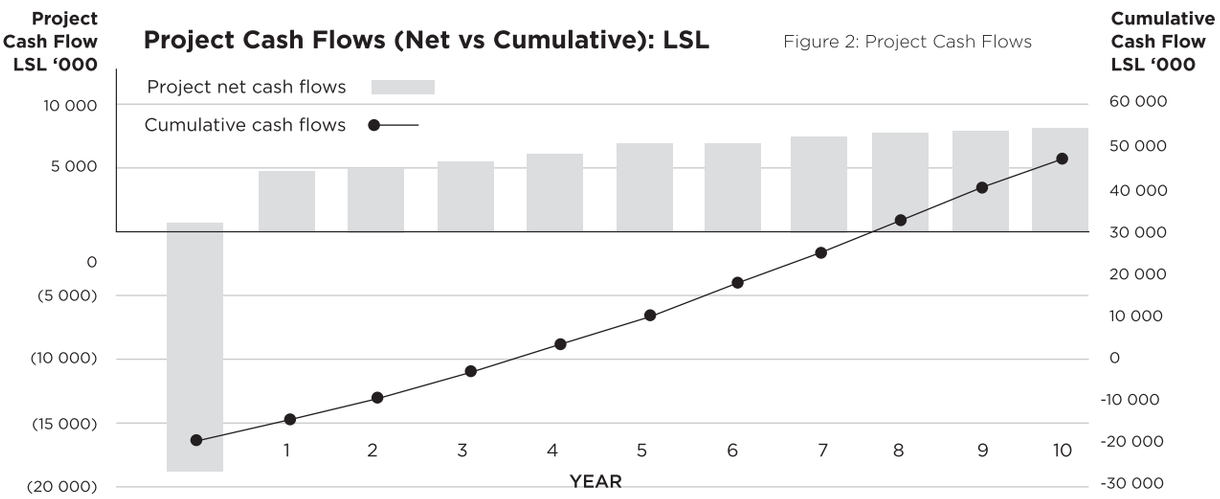

Figure 2: Project Cash Flows

The projected future cash flows generated by the enterprise are discounted at a rate of 10%. The outcome of the discounted cash flow analysis is summarized in Table 1.

Table 1: Investment Indicators

Net present value (NPV)	**LSL 20.3m**
Discounted payback period	**4.84 years**
Internal rate of return (IRR)	**28.93%**
Profitability index (PI)	**2**

Deciduous Fruits

Financial Analysis

The positive NPV at a discount rate of 10% corresponds to an IRR of 28.93%, highlighting the financial viability of the Deciduous Fruits investment opportunity.

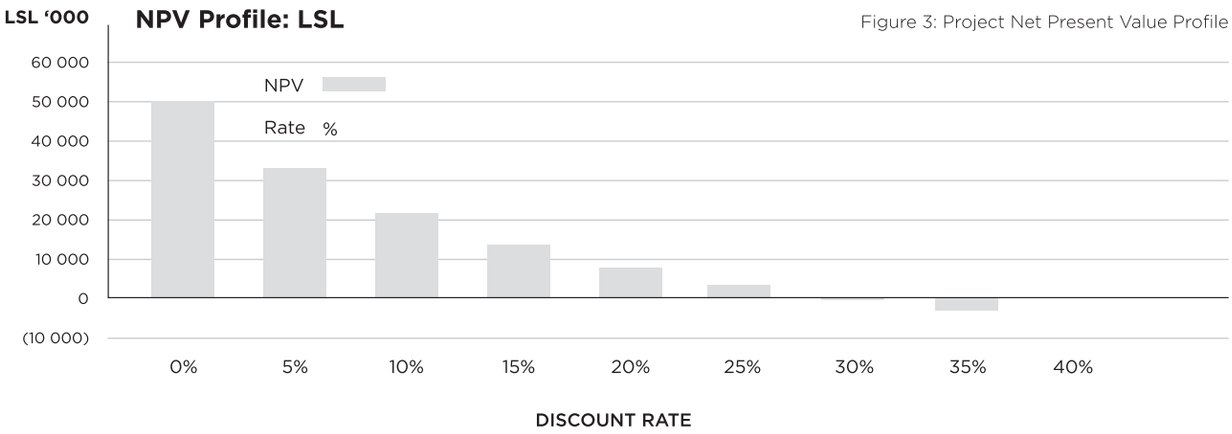

Figure 3: Project Net Present Value Profile

Operational fruit farm in Mahobong, Lesotho.

Bringing in the harvest!

NOTE

The financial analysis of the Deciduous Fruits investment opportunity is computed over a ten-year period. Revenue and expenditure projections are in line with industry growth prospects and market potential and have been informed by and benchmarked against industry standards and norms. In addition, assumptions relating to inflation; depreciation and salvage value; and company tax have been worked out based on the existing laws and directives of the country. The figures above are based on research and market intelligence reports and represent high level estimates as of March 2021 and are not derived from a full feasibility study. Potential investors are advised to perform their own due diligence about the investment climate in Lesotho.

For more information please contact:

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