

PN-ABM-132
T 5N 79073

FINAL REPORT

PRIVATE SECTOR DESCRIPTION

MANUAL FOR ACTION IN THE PRIVATE SECTOR (MAPS)

LESOTHO

November 1, 1989

Report by

LABAT-ANDERSON Incorporated

and

J. E. Austin Associates

for

**The A.I.D. Africa Bureau
Office of Market Development
and Investment (AFR/MDI)**

and

USAID/Lesotho

LAI
**LABAT-ANDERSON
INCORPORATED**

MAPS Phase II--Private Sector Description

1. Purpose and Objectives of the Description Phase

1.1 *The specific objectives of the descriptive phase of MAPS (Phase II) are to:*

- To quantify the private sector's importance in the Lesotho economy
- To provide a "map" of where the private sector is located in the economy (as opposed to parastatals)
- To assess the impact of the state-owned enterprises on the economy
- To identify dynamic areas in the private sector
- To generate benchmark data to measure change over time
- To provide information that could be useful to USAID officers in designing future programs and projects

1.2 *The description phase is organized around a series of key questions:*

- How important is the private sector in the economy?
- Where in the economy is the private sector located?
- What is the impact on the economy of state-owned enterprises?
- Who is the private sector?
- What have been the trends in the private sector--which sectors have been lagging and which have been leading sectors?

The sections in this report are grouped around the strategic questions listed above. Some of the information contained below has been taken from research conducted by MB Consulting of Maseru for USAID/Lesotho¹.

¹The full MB Consulting report is entitled "Descriptive Study on the Private Sector of Lesotho."

2. How Important Is the Private Sector In the Economy?

2.1 **Contribution to Employment:** In 1985, the private sector accounted for approximately 37 percent of formal sector employment in the country (which was estimated to be 62,870 persons, excluding the self-employed), while the central government accounted for 48 percent (including the armed forces). Employment in parastatals accounted for an estimated 15 percent of formal sector wage employment (Exhibit 1).

- However, the formal sector plays a limited role in the total employment picture in the country. The domestic wage (formal) sector employed only 10 percent of the total estimated available work force in the country. Almost one-fourth of Lesotho's available work force is employed in the Republic of South Africa (RSA--see Exhibit 2). The most recent labor force survey estimates that there were a total of approximately 450,000 self-employed persons in Lesotho in 1985.

2.2 **Contribution to GDP:** The private sector accounted for approximately 65 percent of GDP percent 1988. Parastatals accounted for about 20 percent and central government accounted for the remaining 15 percent (Exhibit 3).

- Direct GOL participation in the economy is substantial, as the government holds at least 50 percent of equity in more than a dozen enterprises operating in every sector of the economy (Exhibit 4).
- GOL participates in private sector economic activity primarily through the Lesotho National Development Corporation (LNDC). LNDC is a shareholder in most of the large formal sector commercial concerns. The corporation was established in 1967 to promote investments by means of equity participation, provision of long-term loans, training grants, industrial buildings, and various support services. It supports foreign investors by using an incentive system issued by the government consisting primarily of tax holidays and tax allowances. Annex 1 provides a list of the total LNDC investment by sector and company up to March 1989.
- GOL budget as a percentage of GDP has averaged about 25 percent, fluctuating between a high of 45 percent in 1987, to a low of 17 percent in 1986 (Exhibit 5). The high figure in 1987 is explained by the fact that beginning that year, Lesotho's government budget started to accommodate capital expenditures for the Highlands Water Project.

2.3 **Contribution to Investment:** The private sector in Lesotho has contributed on average nearly 50 percent to gross domestic investment in the country since 1981 (See Exhibit 6). Private investment has fluctuated from a high of 38 percent of GDP in 1982 to a low of 26 percent of GDP in 1983. Foreign savings contributed approximately 14 percent to gross domestic investment in 1986.

- The private sector contributed approximately two-thirds to total commercial bank deposits in 1989 (Exhibit 7). Private businesses received approximately three-fourths of all commercial bank loans and advancements (Exhibit 8).
- Most of the lending to private businesses was channeled to distributive and other services (e.g., in 1988 services received over 40 percent of all credit--see Exhibit 9).

- GOL relies heavily on the Central Bank for credit, especially for financing its deficits. In December 1988, it was estimated that the Central Bank provided approximately 55 percent of all credit to the government. The remaining 45 percent came primarily from the Lesotho Bank, a parastatal. The country has been relying increasingly on external credit on concessionary terms. Commercial (nonconcessionary) credit represented just 22 percent of total credit available from external sources in 1988. *Long-term official capital inflows, mainly concessionary loans from bilateral and multilateral sources, have become an important source of finance for Lesotho's increasingly large current account deficit. An estimated 80 percent of Lesotho's total public debt comes from concessional sources (Exhibit 10).*

2.4 **Contribution to Fiscal Revenue:** *Growth rates in personal and company taxes were negative over the mid-1980's (decreasing to 9 percent of total fiscal revenue over the 1984-86 period, from a high of 14 percent in 1983--Exhibit 11). Company taxes have on average represented less than 4 percent of fiscal revenue. Tax holiday incentives (awarded for up to 10 to 15 years) for the foreign-owned companies that qualify under the Pioneer Industries Encouragement Act, however, mean that the bulk of the company profits from the largest firms may be transferred abroad. Highly paid managerial staff in these companies, primarily expatriate, are often shielded from income tax as well. Moreover the earnings of the employed locals (primarily employed as unskilled or semiskilled labor) are often low, meaning low income tax yields. Sales taxes were introduced in 1982 and by 1988 contributed 21 percent to fiscal revenue (Exhibit 11).*

- *Lesotho remains extremely dependent on external sources of fiscal revenue (SACU receipts, in effect an excise tax), though this dependence has been reduced somewhat since the early 1980's (Exhibit 11). In 1978, SACU receipts represented almost 82 percent of fiscal revenue, but by 1988 they represented less than two-thirds (61 percent). SACU receipts are a source of income over which Lesotho has no direct control and which is received with a two-year lag.*

2.5 **Contribution to Foreign Exchange:** *The private sector contributed more than two-thirds of export revenues in 1987. The major earners of foreign exchange over the 1983 to 1987 period--manufactured goods (primarily textiles) and wool and mohair--are all produced primarily (if not entirely) by private companies (Exhibit 12). Most of the growth in exports over the 1980's also has come from the clothing and footwear subsectors, which are primarily in the hands of private entrepreneurs. In addition, miner remittances and SACU receipts, though not traditionally regarded as foreign exchange, do represent substantial capital inflows (see Exhibits 11 and 33). However, exports have remained fairly small, and in 1987 still represented less than 10 percent of GDP (Exhibit 13).*

- *Most of the textile companies rely heavily on imported inputs. The IMF estimates that 70 to 80 percent of raw materials for goods manufactured in Lesotho are imported. Hence their net contribution of many manufactured goods to foreign exchange is low.*

3. Where In the Economy Is the Private Sector Located?

3.1 Agriculture

- *In 1988, agricultural production contributed approximately 20 percent to the GDP (Exhibit 14). In 1986, agriculture (including the subsistence production activities) accounted for almost two-thirds of total employment (See Exhibit 2).*
- *On average, only 30 percent of the output from this sector is marketed and only 10 percent of the grain output is marketed. Since the contribution of subsistence farmers is difficult to estimate, this sector's importance to the economy tends to be understated.*
- *High-value crop production has normally been introduced and is produced by large-scale, government-sponsored projects, and not by individual farmer/entrepreneurs. The most prominent example of this is asparagus production for the state-owned cannery in Mazenod.*
- *Agriculture's contribution to GDP has declined in absolute terms, from a high of 24 percent in 1980 to 20 percent in 1988 (Exhibit 14).*
- *Livestock production accounts for about 44 percent of the agriculture GDP (Exhibit 15)². All of livestock production is in the hands of the private sector.*
- *Public sector contribution to agriculture GDP comes primarily in the marketing stage, though GOL also has made significant contributions to the development of high-value cash crops through a number of development projects (see point above). Co-op Lesotho, a parastatal, handles some 80 percent of all the marketed output of the five main crops. It is also responsible for selling agricultural inputs to farmers. Public sector contribution to the agriculture GDP is thus estimated to be approximately 5 percent. Private sector contribution to the agriculture GDP has been growing slightly since 1984 (Exhibit 16).*
- *Subsistence farming, cash cropping, and livestock are the most important sources of income for about a third (34 percent) of the Lesotho households (see Exhibit 17).*

3.2 Agroindustry

- *The agroprocessing sector³ represented approximately 80 percent of total manufacturing value added in 1988 and almost 10 percent to total GDP (Exhibits 14 and 19). Most formal sector employment is concentrated in the agroindustrial sector. Approximately 24 percent*

²Older estimates of the components of agriculture value added included some meat-processing activities under the livestock subsector. More recent estimates by the Bureau of Statistics (BOS) consider these activities to be part of manufacturing (since they are properly agroprocessing). This change in reporting explains why earlier estimates stated that livestock's contribution to agriculture GDP was over more than two-thirds.

³Agroprocessing as defined in this study includes food/beverages, textile/leather, wood/furniture, printing/publishing, and nonmetal products.

of paid employees in manufacturing work in the food and beverages industry. The textile/leather subsector contributed approximately 25 percent of manufacturing GDP and accounted for more than 70 percent of the 13 percent of the labor force in paid employment in manufacturing in 1988 (Exhibits 18 and 19).

- *Agroindustry is dominated by milling, brewery operations, fruit and vegetable canning, and butchery. Textile and leather operations have shown the fastest growth since 1980, with its value added growing at an average of more than 100 percent per year between 1984 and 1988, while that of the food and beverage sector grew at an average of 20 percent per year over the same time period.*
- *Public sector (parastatal) contribution to agroindustrial GDP in 1988 is estimated at 64 percent (Exhibit 20). Much of the growth in this sector has come from the parastatals, rather than from the smaller entrepreneurs. Lesotho Brewing Company has accounted for most of the growth in the beverage sector. Basotho Fruit and Vegetable Cannery accounts for all fruit and vegetable processing activity in the country.*
- *Privately held small-scale agroprocessing enterprises in the country have performed poorly. The contribution of small-scale establishments to manufacturing GDP has actually declined from 44 percent in 1980 to 16 percent of manufacturing GDP in 1988. Over the 1980 to 1988 period, the contribution of the butchery subsector (made up primarily of smaller establishments) to the agroindustrial GDP declined almost 40 percent, that of small local breweries declined almost 25 percent, and small-scale wool and mohair knitting activities remained stagnant (Exhibit 21).*
- *Thus, private sector contribution to the agroindustry GDP has been declining over time, from a high of 54 percent in 1984 to a low of 37 percent in 1988 (Exhibit 20).*

3.3 Manufacturing

- *Manufacturing activities (including agroprocessing) accounted for approximately 13 percent of the GDP, 13 percent of paid, and about 3 percent of total (including informal sector) in 1988. Its share of the GDP has almost doubled since 1980 (Exhibit 14).*
- *Manufacturing activity has become an increasingly important component of the GDP. While the GDP grew at an average of 7.5 percent between 1979 and 1985, the industrial (large-scale) manufacturing sector grew at an average of almost 25 percent (Exhibit 14).*
- *The industrial sector is dominated by private foreign firms. Foreign firms dominate the footwear, handicrafts, and textile industries.*
- *Public sector contribution to the manufacturing GDP is estimated to be approximately 60 percent (Exhibit 22). State participation is dominant in the chemicals subsector (Lesotho Pharmaceutical Corporation, which accounts for 100 percent of production in that sector). Nonmetal products is dominated by Loti Bricks, another parastatal.*
- *Small-scale, indigenous-owned companies, insofar as their activity is recorded in official statistics (the formal sector), have experienced no growth since the early 1980's (Exhibit 21).*

3.4 Services

- *In 1988, the services sector (including the government services) contributed approximately 67 percent to the GDP (Exhibit 14). Approximately 84 percent of the economically active population is employed in the services sector (Exhibit 18).*
- *Public sector contribution to the services GDP is estimated to be 40 percent (Exhibit 23).*
- *Wholesale/retail trade accounted for 14 percent of the services GDP, approximately 22 percent of (formal sector) employment in services. GOL participation in this sector includes the Trading Corporation of Lesotho, a wholly owned government enterprise. In addition, GOL through LNDC owns 50 percent of the equity in two major wholesale establishments, Cashbuild Lesotho and Metro Lesotho, as well as in a number of major retail enterprises (OK Bazaar, Frasers Cash and Carry, and Wanda--Exhibit 4). Informal sector activity in this area is said to be large, but there are no reliable figures with which to estimate its size.*
- *The construction and building industry accounted for 11 percent of formal sector employment in services (a total of 6,190 persons are estimated to be employed in this sector). Including the self-employed (informal sector) builders, the total work force in this sector was estimated to be 31,749. Until 1985, construction and building was one of the single largest sources of nonagriculture employment in the country, but its importance in the economy declined as the manufacturing and the agroprocessing sector gained in importance. In 1980 it contributed 13 percent to the GDP (compared to 11 percent in 1983), owing to the construction of several government and parastatal buildings. By the late 1980's, construction activity was once again booming, fueled by the Highlands Water Project. Though most of the construction for this project (dams and tunnels) had yet to begin in large scale, in 1989 there were a large number of roads, bridges, camp sites, and residential housing under construction as a result of the project. By 1988 the construction and building subsector once again accounted for 13 percent of the GDP. The construction sector is dominated by private firms.*
- *Public administration contributed approximately 20 percent to services GDP and 22 percent to formal sector employment.*
- *Parastatals are predominant in the communications, public utilities, and finance and insurance sectors, which together account for more than 50 percent of the services GDP. In addition, the Lesotho Bank and GOL own 49 percent of the shares in the two major vehicle repair and sales establishments, National Motors and Pioneer Motors.*
- *Finance, where the public sector accounts for the bulk of employment and value added, is dominated by the Lesotho Bank, which holds 50 percent of total deposits. About 52 percent of the total loan portfolio in the country was held by Lesotho Bank in 1987. The bank operates 6 branches and 20 service centers in the country. It is also represented in every town and village by the Central Post office, which handles simple deposit and withdrawal transactions on the bank's behalf. Other major parastatals in the finance sector include the Lesotho Agricultural Development Bank (LADB), which provides loans for large and medium scale agricultural projects and collects deposits in rural towns; the Lesotho National Development*

Corporation (LNDC); and the Basotho Enterprises Development Corporation, which provides similar services for smaller indigenous enterprises. The government also owns the Lesotho Livestock Insurance company and the National Insurance Company.

- In the road transport sector, the government owns the Lesotho National Bus Service. The military also operates road transport services at cheaper fares. GOL also dominates air transport through the Lesotho Airways Corporation.
- The tourist sector is dominated by private sector activity. The LNDC holds 20 percent of the equity in the Maseru Sun Cabanas. It also holds majority shares of a small tourist lodge.

4. What Is the Role of the Parastatals?

- 4.1 The GOL lists 18 enterprises (excluding those operating in the informal sector) as being wholly or majority owned. *Parastatals operate in almost all sectors of the economy.* In addition, GOL owns majority shares through LNDC or the Lesotho Bank in nine financial sector institutions. Exhibit 4 provides a list of the major parastatals.
- 4.2 Parastatal performance has been mixed. In some areas, GOL has undertaken action to improve this performance with some notable success. The Lesotho Flour Mills has earned the GOL dividends in 1984-85, 1985-86 and 1987-88 of more than 9 million maloti. In the case of Co-op Lesotho, which experienced losses throughout the early 1980's, GOL closed 20 of its 58 stores between 1984 and 1987, with the result that Co-op Lesotho is once again profitable. GOL is currently considering closing 12 more stores to bring the total in operation to 26, as well as streamlining the product line. Operations such as Loti Brick and Lesotho Brewing Company have been very profitable. The cannery has turned out poor performance primarily because of its difficulty obtaining sufficient produce to operate at capacity year round.
- However, GOL transfers to parastatals have been increasing (Exhibit 24). These transfers amounted to more than 3 percent of the GDP in 1989. Most of these transfers have gone to Lesotho Airways Corporation (LAC); in 1988 transfers to LAC accounted for more than three-fourths of GOL transfers to parastatals.
- 4.3 The LNDC has been able to finance from its own resources the funds necessary to cover operational expenses, thus eliminating its dependence on recurrent budget support from GOL. In addition, sources of funding for capital programs have also been diversified since the 1970's. The World Bank, the African Development Bank, the European Investment Bank, the British Government, and the German Government all provide funding to the LNDC.
- 4.4 BEDCO, on the other hand, has been a consistently poor performer. BEDCO, which provides premises and raw materials at prices below market rates as well as credit on concessionary terms, has seen its operations come to a virtual standstill, mostly due to poor repayment rates. It has operated at a loss since its formation. Losses have ranged between M1.1 million in 1981 to M370,000 in 1985. GOL subsidies to BEDCO have averaged M400,000 per year (Exhibit 25).

5. Who Is the Private Sector?

5.1 *There is considerable foreign equity ownership of firms, particularly the larger firms in the country.* Lesotho's industrial sector is dominated by foreign-owned enterprises. Out of a total of 22 manufacturing enterprises included in a survey in 1986, 17 were 100-percent foreign-owned; 1 60-percent, 1 50-percent, and another 49-percent. In many cases GOL owns considerable equity in these establishments. Only 2 of the 22 enterprises included in this survey were entirely locally owned.

- Most of the foreign enterprises are concentrated in the production of clothing, shoes and leather products.
- There is high turnover in foreign investment. The turnover in the steel and iron, electronics, and engineering subsectors has been extremely high. The lifespan of many of the foreign-owned enterprises in this sector has been less than 12 months. The tax holiday given to all foreign firms granted pioneer status was regarded by most foreign investors as the key factor in their decision to locate in Lesotho.
- Large RSA investment is concentrated in commerce and tourism (Sun International), but a number of smaller RSA firms as well as individuals also have invested in the country.
- In the last 5 years, textile/footwear has become the fastest growing area of foreign investment. While in 1980 the textile/leather sector contributed M1.5 million to GDP, that figure rose to M9.1 million in 1988. The majority of these industries are located in the industrial estate in Maputsoe. They use imported inputs almost exclusively.

5.2 Annex 2 provides a list of the major manufacturing establishments and indicates the type of ownership, including government shares and foreign capital invested. Annex 3 provides a list of the major exporters.

6. What Have Been the Trends In the Private Sector--Which Sectors Have Been Lagging and Which Have Been Leading?

6.1 *Economic growth rates have varied greatly over the last decade.*

- Lesotho's GDP and per capita GDP growth rates have generally shown positive growth in all but 2 of the last 7 years (Exhibit 26). Negative growth rates in the early and mid-1980's were the result of poor weather conditions. Positive growth rates for 1988 mark the fourth straight year of economic recovery in Lesotho since 1984.

6.2 *In agriculture, most of the growth since 1985 has come from crop production--see Exhibit 15). Most of the growth in livestock's contribution to the GDP since 1985 has come from wool and mohair production (Exhibit 27).*

- Virtually all of the increase in crop production stemmed from higher yields, as opposed to increased area planted or harvested, further indicating the beneficial impact of weather, as well as the introduction of improved management techniques.
- The share of wool and mohair production in the livestock GDP has grown from less than 20 percent in 1980 to more than 26 percent in 1988 (Exhibit 27). The decline in meat production is probably related to the decline in livestock population caused by severe snowstorms in the 1987 period.

6.3 *However, agriculture's share of the GDP has declined; most of the growth in the GDP has come from private enterprises in the manufacturing, and particularly from the agroindustrial sector (Exhibit 14).*

- Though the services sector still accounted for more than two-thirds of the GDP in 1988 (see Exhibit 14) and 64 percent of all private sector activity in 1988 (see Exhibit 28), manufacturing's share of the GDP increased from 7 percent in 1980 to over 13 percent in 1988. Agriculture's share of GDP declined from 24 percent in 1980 to 20 percent in 1988 (Exhibit 14).
- Textile/footwear investments (cut/sew), mainly made by foreign firms, have contributed most to the growth in the manufacturing sector. Between 1980 and 1988 the manufacturing GDP grew at an average rate of 15 percent per year. In the same time period, the food and beverage sector grew at about 20 percent per year and the textile and leather subsector (made up of private enterprises only) grew at close to 100 percent per year (Exhibit 19).
- The manufacturing sector is still a relatively small part of the economy (Exhibits 14 and 28). Moreover, few linkages have been established between larger manufacturing (particularly textile/leather producing) firms and the local economy. Manufacturing firms continue to rely almost exclusively on imported inputs (recently, the IMF estimated that 70 to 80 percent of raw materials used in manufacturing were imported).
- Small-scale manufacturing and agroindustrial firms have experienced no growth since the early 1980's (Exhibit 21). While large-scale manufacturing grew at a rate close to 120 percent between 1980 and 1988, small-scale firms in the same sector of activity experienced zero or negative growth.

- 6.4 *The local private sector wage economy has not been able to absorb a rapidly increasing labor force.*
- Only 10 percent of the economically active population in 1985 was employed in the domestic formal sector (Exhibit 2), and only 13 percent of that 10 percent is employed in manufacturing and agroindustry (Exhibit 18).
 - Lesotho has a population growth rate of 2.7 percent per year, and approximately 20,000 new entrants into the labor force each year. It is estimated that formal sector employment will grow at less than 2 percent per year. There are predictions that migrant employment will slow down and decrease over the next decade (Exhibit 29).
 - Most of the labor employed by new firms investing in Lesotho has been unskilled or semi-skilled. Foreign companies continue to rely on expatriates for most of the skilled positions.
- 6.5 *As a result, new entrants will have to be absorbed by an increasingly active informal and rural-based productive sector (Exhibit 29).*
- 6.6 *Though exports have grown by more than 33 percent per year since 1983, Lesotho's balance of trade has continued to be negative (Exhibit 30).*
- In 1980, exports represented approximately 16 percent of the GDP (Exhibits 13 and 30); in contrast exports represented approximately 50 percent of GDP in Swaziland in 1980. In 1987, exports represented only 14 percent of the GDP (compared to 75 percent of GDP in Swaziland that year).
 - Lesotho's imports have consistently been about 10 times greater than its exports (Exhibit 30) and amount to almost 60 percent of GNP and more than 100 percent of the GDP. Its trade deficits and dependence will be exacerbated by the Highlands Water Project, which will require an increasing amount of imported goods, particularly imported machinery.
- 6.7 *Dependency on the RSA has increased.*
- The RSA has provided about 95 percent of Lesotho's imports since independence.
 - The proportion of exports going to the RSA has increased from 34.5 percent in 1979 to 88.2 percent in 1985. The next most important trading partner remains the EEC (Exhibit 31). In 1987, the EEC accounted for 10 percent of agricultural exports (exclusively fruits and vegetables), 39 percent of agroindustrial exports (97 percent of which was comprised of processed fruits and vegetables), and 11 percent of manufactured exports (more than 95 percent of which was clothing). Seventy-five percent of exports to countries other than the RSA consisted principally of clothing and textile goods.
- 6.8 *Lesotho's exports have become increasingly diversified.*
- Until 1982 Lesotho's export trade was dominated by mineral products (mainly diamonds). With the closure of the main diamond mine in 1982, agriculture's share of export trade increased from 22 percent of total exports in 1980 to 38 percent in 1986 (though this percentage went down to 24 percent in 1987). Since 1985, manufacturing exports have grown the fastest. The main growth in

exports has come from private firms in the agro-industrial and manufacturing sector (particularly textile/leather--Exhibit 12).

6.9 *Private sector participation in the economy has decreased in the last 5 years. While the private sector contributed approximately 70 percent to the GDP in 1984, its contribution had declined to 65 percent in 1988 (Exhibit 32). Most private sector growth came from manufacturing.*

- Though the largest area of private sector growth has been the textile/leather subsector, this agroindustrial subsector still contributed less than 40 percent to the manufacturing GDP in 1988 (Exhibit 22). Much manufacturing and agroindustrial activity continues to be dominated by large-scale parastatal production. For example, more than 90 percent of the value added from the food and beverage subsector, which represented approximately 50 percent of the manufacturing GDP in 1988, came from parastatals. Only an estimated 6 percent of private sector GDP in 1988 came from agroindustries and manufacturing (Exhibit 28).
- The private sector share of the services GDP decreased from 69 percent in 1984 to 61 percent in 1988 (Exhibit 23). Growth in public administration has been low (5 percent per year since 1984), while growth in the post and telecommunications sector (dominated by parastatals) has been more than 40 percent per year. The finance and insurance sector (also dominated by parastatals) also has shown high growth since 1984 (15 percent per year).
- The private sector's share of the agriculture GDP has increased from approximately 91 percent in 1984 to 94 percent in 1988 (Exhibit 16).

6.10 *The private sector appears to be far more productive than the public sector.*

- In 1987, private firms in Lesotho accounted for 37 percent of formal sector employment and 65 percent of the GDP, while parastatals accounted for 15 percent of employment and only 20 percent of the GDP (Exhibits 1 and 3).

6.11 *GOL expenditures have been fluctuating (Exhibit 5) but recurrent expenditures have risen more than 50 percent since 1985.*

- GOL transfers (both current and capital) to parastatals also increased fivefold between 1983 and 1988 (Exhibit 24).

6.12 *Miner remittances could be a considerable resource for business investment.*

- It is estimated that 35 percent of households in Lesotho rely on miner cash remittances as their main source of income (Exhibit 17) and miner remittances are almost as large as Lesotho's GDP (Exhibit 33). In addition, an estimated 67 percent of rural households in Lesotho have direct access to miner remittances.
- Miner remittances have played a key role financing the country's current account deficit. However, a substantial portion of miner income is deposited in the RSA. Though part of miner's wages is administered through the Miner's Deferred Pay Fund scheme (where 60 percent of the cash earnings are deposited into special accounts in the Lesotho Bank), most miners prefer to maintain current accounts in South Africa. The Lesotho Bank reports that on average miners leave their funds for less than 2 months in the bank, and even miners who

receive their payments from the bank upon returning home withdraw these funds as soon as they arrive and deposit them back in a higher yielding South African bank account.

- Very little is known about where miner income is invested, but there are some data to suggest that most is being used on consumption. The Bureau of Statistics in Lesotho estimated, based on 1986 data, that miners import M100 million worth of goods every year, representing 14 percent of the total value of imports. Research into the uses of these remittances and the effect of this source of income on productive activity in the countryside is desirable.

6.13 *Though there has been a rise in bank liquidity, most of the domestic credit available in the country has been channeled into nonproductive activities, such as consumption and distributive services and to finance increasing GOL deficit.*

- Manufacturing activities have received on average less than 10 percent of credit, though their share has been growing (Exhibit 9).
- These lending patterns exacerbate balance of payments problems because consumption and services rely heavily on imports.
- Recently, under the Structural Adjustment Facility agreement with Lesotho, the IMF imposed domestic credit ceilings.
- There are also indications that banks in Lesotho are investing excess liquidity in RSA banks, where they can obtain higher interest rates.

Annex 1

LNDC-Assisted Companies as of March 1989

Table 1

Name of Company	Investment (in million maloti)	Employment
Textiles		
Lesotho Textiles	1.19	300
Poltex	2.00	500
Tenleader	1.27	95
Moriya Textiles	1.10	157
Basotho Jeans	2.50	312
Jeantex	2.50	450
Lesotho Haps	4.00	800
Maseru Clothing	1.20	425
Mustang Shoes	2.40	270
Lesotho Umbrella	1.20	280
Shoecomp	0.79	280
Focus Clothing	1.80	300
Gallant Clothing	0.97	500
Lesotho Knitwear	0.60	204
		closed down
Lintex	0.43	45
Natural Shoes	0.90	303
Bright Garments	0.57	450
Bana Clothing	0.48	124
		closed down
Tempo Shoes	3.20	100
Lesotho Clothing	2.30	570
Pal Products	0.70	86
Lesotho Hinebo	2.75	600
Galberk	0.40	143
Lesotho Fly Tyres	0.30	150
CGM Industrial	2.20	150
Subtotal	38.76	8,294
Engineering		
Loti Brick	2.40	210
Sandstone	1.17	66
Lesotho Reinforcing	1.40	75
Reinforcing & Design	0.65	30
Lesotho Wire	0.09	23
Kiota Electronics	1.10	20
Lesotho Sandstone Company	1.22	8
Subtotal	8.03	472
Agroindustries Health Care and Chemicals		
Maluti Mountain Brewery	1.80	239
Lesotho Flour Mills	2.50	300
Lesotho Milling Company	1.20	269
Basotho Cannery	2.30	239
Gatti ice Cream	0.65	100
Astoria Bakery	0.47	100
Kolonyama Candles	0.43	340
Parthenon Paints	0.35	4
Lesotho Pharmaceutical Corporation	0.72	130

Table 1 (continued)

Name of Company	Investment (in million maloti)	Employment
Lesotho Bakery	4.70	63
Edible Oils	7.00	
Subtotal	22.12	1,784
Services		
National Motors	0.20	61
Security Lesotho	0.83	230
Cashbuild	1.70	46
Metro	0.70	269
O.K. Bazaars	1.20	81
Pioneer Motors	0.74	55
Clifford trading		43
Maputsoe Motors	0.50	18
Thaba Tseka Wholesale	0.41	32
Mokhotlong Wholesale	0.48	32
Maluti Marketing Company		226
LNDC Shopping Centre		170
Maseru Sun Cabanas		163
Hata Butle Shopping Centre	0.42	
Subtotal	7.24	1,446
Grand Total	76.15	11,996

Source: LNDC

Annex 2

Major Manufacturing Establishments

Table 2

No.	Name of the Company	Employees	Status
ISIC Group 31			
1	Abubaker Pepackers (PTY) Ltd	12	
2	Astoria Bakery	135	
3	Basotho Fruit and Vegetable Cannery	73	
4	D.S. Bakery	57	
5	D.S. Meat Exchange	8	
6	Dear Enterprises	15	
7	Deniacos Bakery	10	
8	Kane Food	30	
9	LES. Split Peas and Beans	25	
10	Lesotho Bakery	95	
11	Lesotho Brewing Company	465	
12	Lesotho Dairy Products	30	
13	Lesotho Milling Company	200	
14	Roller Mills	137	
Number of enterprises in group 31: 14			
Employment in group 31: 1,292			
ISIC Group 32			
15	Bana Clothing (PTY) Ltd	83	
16	Basotho Jeans (PTY) Ltd	200	
17	Bright Garments (PTY) Ltd	181	
18	C.G.M. Industries (PTY) Ltd	220	
19	Fobane Weavers (PTY) Ltd	112	
20	Focus Clothing (PTY) Ltd		
21	Gallant Clothing	304	
22	Helang Basali Crafts	100	
23	Kabi Leather Products (PTY) Ltd	20	
24	Lesotho Clothing Industries	359	
25	Lesotho Hilton Weavers (PTY) Ltd		New
26	Lesotho Hinebo Textiles	600	New
27	Lesotho Mohair Cottage	15	
28	Lesotho Textiles	164	
29	Lintex (PTY) Ltd		
30	Clothing Manufacturers (PTY)	250	
31	Morija Textiles (PTY) Ltd	165	
32	Moteng Weavers	63	
33	Mustang Shoe Company	400	
34	Natural Shoe Company (PTY) Ltd	149	
35	Pal Products (TY) Ltd	73	
36	Poltex Garments (PTY) Ltd	450	
37	Seok HWA	38	New
38	Shoe Company Industries (PTY) Ltd	128	
39	Sky Clothing	106	New
40	Tempo Shoe Company	225	New
41	Tenleader Textile Lesotho (PTY) Ltd	100	
42	Thorkild Handweaving	15	
43	Wing on Garments	212	New
Number of enterprises in group 32: 29			
Employment in group 32: 4732			

Table 2 (continued)

No.	Name of the Company	Employees	Status
ISIC Group 33			
44	Caledon Pine	50	
45	K.E. Joosub	30	
46	Lesotho Doors and Joinery	30	
47	Lesotho Furniture Manufactures	20	
48	Ndaba Furniture Works (PTY) Ltd	10	
49	Shelter Development	36	New
Number of enterprises in group 33: 6			
Employment in group 33: 176			
ISIC Group 34			
50	Epic Printers	33	
51	Lesotho Paper and Packaging		New
Number of enterprises in group 34: 6			
Employment in group 34: 176			
ISIC Group 35			
52	Dorcor Paints		New
53	Kolonyama Candle Co. (PTY) Ltd	39	
54	Kuena Products	22	
55	Lesotho Oil and CKE Mills	150	
56	Lesotho Oil Mills and Soap	50	
57	Lesotho Pharmaceuticals Co.	133	
58	Pump and Plastic	11	New
59	Parthenon Paints (Lesotho) (PTY) Ltd		
60	Universal Plastics	40	
61	Yung Sheng Enterprises	40	
Number of enterprises in group 35: 10			
Employment in group 35: 445			
ISIC Group 36			
62	Italesotho		
63	Kolonyana Pottery		
64	Lesotho Block and Paving	50	
65	Liahelo Cement Products (PTY) Ltd		
66	Loti Brick (PTY) Ltd	130	
67	Mkhubu Brickworks	10	
68	Matau Brick Making	20	
69	Quthing Block and Paving	10	
Number of enterprises in group 36: 8			
Employment in group 36: 220			
ISIC Group 38			
70	ACLEC Engineering	18	
71	Dorcor Industries (PTY) Ltd	40	
72	Elentima		New
73	Kiota Electronics	200	New

Table 2 (continued)

No.	Name of the Company	Employees	Status
ISIC Group 38 (continued)			
74	Les. Reinforcing Design Supply	126	
75	Lesotho Reinforcing (Pty) Ltd	46	
76	Lesotho Steel Products (Pty) Ltd	63	
77	Lesotho Wire Industries	200	
78	Lites (PTY) Ltd		
79	Metal and Steel Tubing Products		
80	Michael Steel Engineering	50	
81	Sotho Development	200	New
82	Universal Industries Co. (PTY) Ltd	16	
Number of enterprises in group 38: 13			
Employment in group 38: 959			
ISIC Group 39			
83	Chung HWA Trading & Enterprise	45	
84	LES. Umbrella Manufacturers (PTY) Ltd	294	
85	Lesotho Broom Manufacturers (PTY) Ltd	40	
86	Lesotho Fly Tyres Guild (PTY) Ltd	150	New
87	O.R.S. Fashions (LESOTHO) (PTY) Ltd		
88	Royal Crown Jewellers (PTY) Ltd		
89	Sun Gold	10	New
90	Umbrella Manufactures (PTY) Ltd		New
Number of enterprises in group 39: 8			
Employment in group 39: 539			
Total number of enterprises: 90			
Total number of employment: 8,396			

Annex 3
List of Lesotho Exporters

List of Lesotho's Exporters

A. Manufacturing Companies

1. Afro Hair and Cosmetics (Pty) Ltd.
Maseru

Products: Fine hair care products and cosmetics
2. Bana Clothing Co. (Pty) Ltd.
Maseru

Products: Girls' apparel, boys' Bermuda shorts
3. Basotho Fruit and Vegetable Cannery (Pty) Ltd.
Masianokeng

Products: Canned asparagus, baked beans, and yellow cling peaches
4. Basotho Jeans (Pty) Ltd
Maseru

Products: Denim skirts and jeans
5. Basotho Tanning Co. (Pty) Ltd.
Maseru

Products: Hides and skins, round rugs, and wall hangings
6. Chung Hwa Trading and Enterprise Co.
Maseru

Products: Tiger eye beads
7. Fobane Weavers
Maseru

Products: Wool and mohair tapestries
8. Focus Clothing
Lesotho

Products: Children's garments
9. Foli Enterprises (Pty) Ltd
Maseru

Products: Lounge suits and furniture made of either genuine leather or synthetic materials
10. Frasers Manufacturing (Lesotho) Ltd.
Maseru
11. Gallant Clothing Co. (Pty) Ltd.
Maputsoe

Products: Ladies' and children's clothing

12. Golden Textile Co.
Maseru

Products: Jersey and garments
13. Helang Basali (Pty) Ltd.
Maseru

Products: Tapestries
14. Jeantex (Pty) Ltd.
Maseru

Products: Denim jeans, jackets, and shorts
15. Kabi Leather Products (Pty) Ltd.
Maseru

Products: "Pugs" shoes, sheepskin slippers, leather jackets, and other leather products
16. Kolonyama Candle Co. (Pty) Ltd.
Maseru

Products: Candles
17. Kolonyama Pottery (Pty) Ltd.
Teyateyaneng

Products: Handmade stoneware pottery
18. Lesotho Craft Centre
Leribe

Products: Handwoven mohair products
19. Lesotho Brushware
Maseru

Products: Brooms
20. Lesotho Clothing Industries (Pty) Ltd.
Leribe

Products: Shorts, pants, and Walkshorts casual clothing
21. Lesotho Cooperative Handicrafts Ltd.
Maseru

Products: Grass basketry, beadwork, and various hand-crafted items
22. Lesotho Electronics Development Corporation
Maseru

Products: Electronic goods

23. Lesotho Furniture Manufacturers (Pty) Ltd.
Maseru

Products: Furniture
24. Lesotho Handknits
Maseru

Products: Woollen sweaters, scarves, mittens, hats, and mohair garments
25. Lesotho Haps Development Co. (Pty) Ltd.
Maseru

Products: Men's, ladies', and children's garments
26. Lesotho Knitwear (Pty) Ltd
Maseru

Products: Woollen weaters
27. Lesotho Pharmaceutical Corporation
Mafeteng

Products: Pharmaceutical tablets, capsules, syrups, mixtures, ointments, creams, and personal care products
28. Lesotho Steel products (Pty)
Maseru

Products: Agricultural implements
29. Lesotho Umbrella Manufactures (Pty) Ltd.
Maseru

Products: Umbrellas
30. Lintex (Pty) Ltd.
Maseru

Products: Bed and table linen, curtains, and related products
31. Domolux Lites (Pty) Ltd.
Maputsoe

Products: Electric light fittings and components
32. Loti Bricks (Pty) Ltd.
Maseru

Products: Clay bricks

33. Maseru Clothing Manufacturers (Pty) Ltd.
Maseru
- Products: Sportswear
- Mazenod Institute
Mazenod
- Products: Books and newspapers.
34. Mopo enterprises
Maseru
- Products: T-shirts, men's underwear, casual pants, and shirts
35. Morija Printing Works
Morija
- Products: Books, periodicals, and jobbings
36. Moteng weavers (Pty) Ltd.
Maseru
- Products: Wool and mohair tapestries
37. Mustang Shoes (Pty) Ltd.
Maputsoe
- Products: Footwear
38. Natural Shoe Co, (Pty) Ltd.
Maseru
- Products: Footwear
39. PAL Products (Pty) Ltd.
Maseru
- Products: Genuine patch leather handbags, sheepskin car seat covers, and footwear
40. Peacock Garment Co.
Maseru
- Products: School and institutional uniforms and ladies' and children's garments
41. Poltex Garment (Pty) Ltd.
Maputsoe
- Products: Men's and ladies' jeans and jackets.
42. Rose Leather Works
Maseru
- Products: Leather sandals, belts, handbags, and pouches

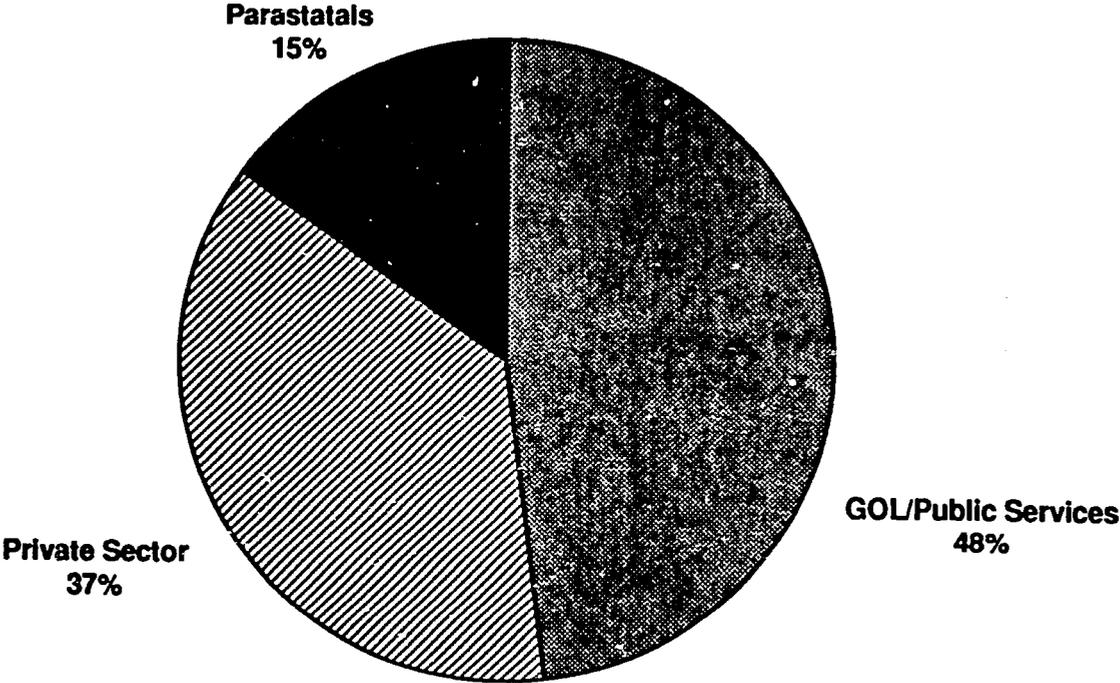
43. Royal Crown Jewellers (Pty) Ltd.
Maseru
Products: Jewelry
44. Thorkild Handweaving (Pty) Ltd.
Maseru
Product: Pure new wool tapestries, ties, placemats,
table runners, and wall hangings
45. Tranalquip (Lesotho) (Pty) Ltd.
Maputsoe
Products: Eyeballs, expansion units, and assembly of
insulators
46. Steelquip (Pty) Ltd.
Maseru
Products: Agriculture implements
47. Seeta Design (Pty) Ltd.
Maseru
Product: Jewelry
48. Selkol (Pty) Ltd.
Maseru
Products: Wardrobes, beds, and mattresses
49. Setsoto design (Pty) Ltd.
Teyateyaneng
Products: Pure mohair tapestries
50. Shoecomp Industries (Pty) Ltd.
Maseru
Products: Ladies' and men's shoes, including shoe
components

B. Trading Companies

51. Global Marketing Corporation
Maseru
Products: General merchandise
52. Kehren International Trading

Exhibits

Exhibit 1
Share of Private Sector in Employment



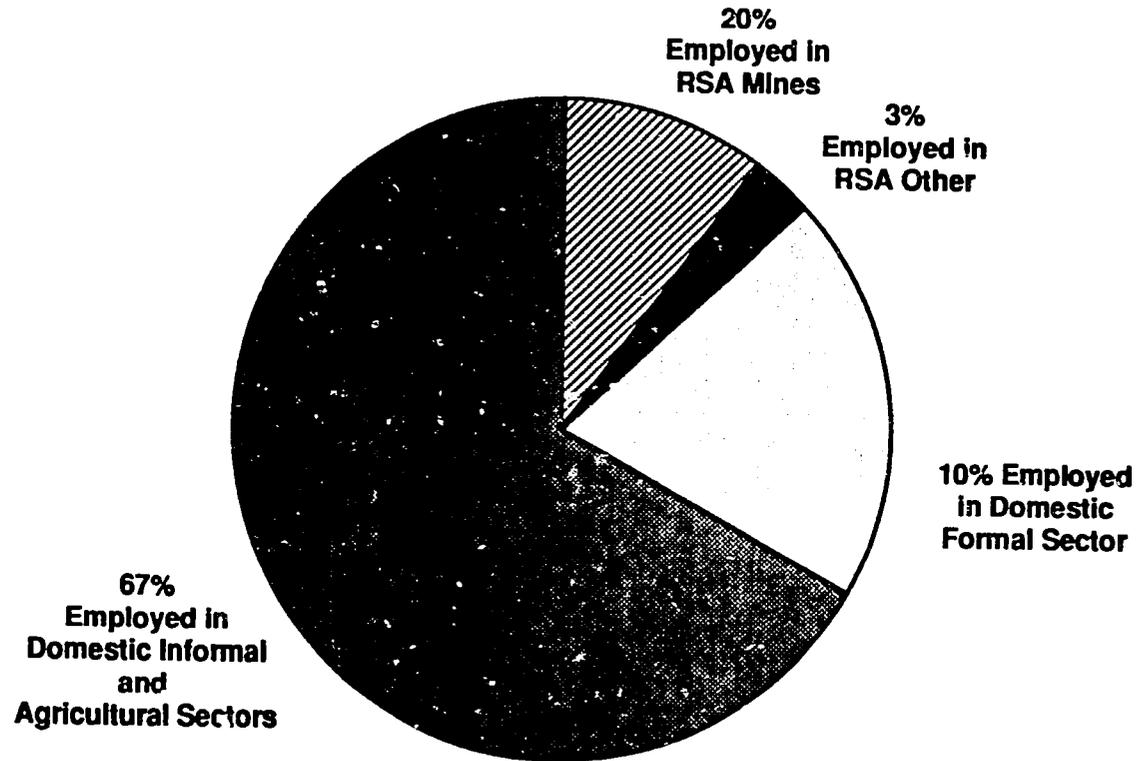
Formal Sector Employment (1985): 62,870

Source: Estimates by consultant, based on Bureau of Statistics data

Exh-1

28

**Exhibit 2
Distribution of Total Population Employed
1986**

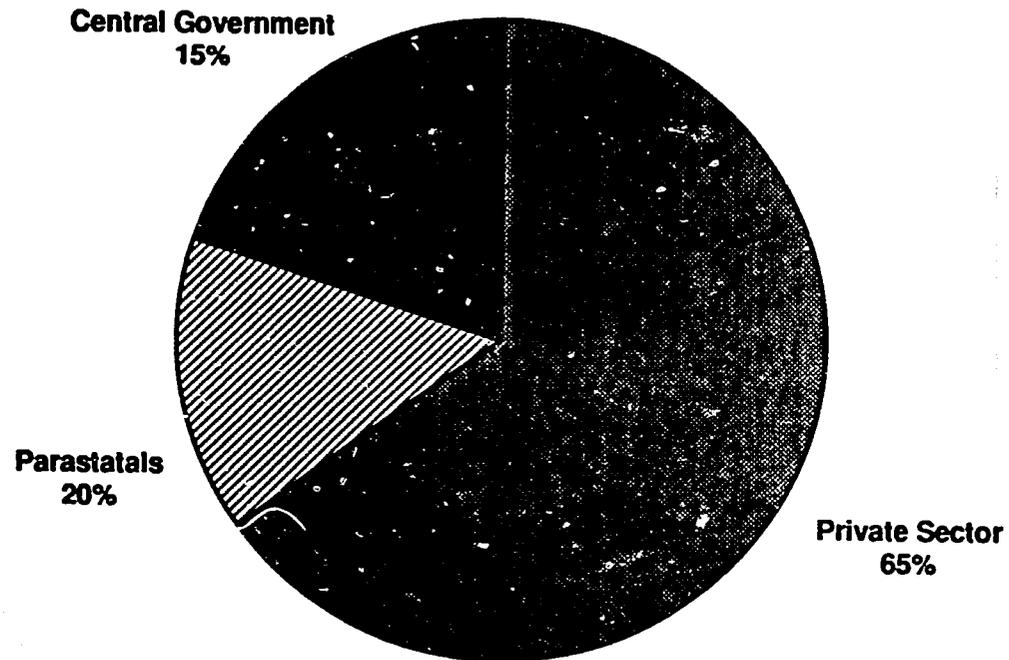


Total Available Labor Force: 672,000

Source: Bureau of Statistics, 1986 Census

28

**Exhibit 3
Contribution of Private Sector to GDP**



GDP 1988 (Current Prices): M970 million

Source: Estimates by consultant, based on Bureau of Statistics data

Exh-3

22

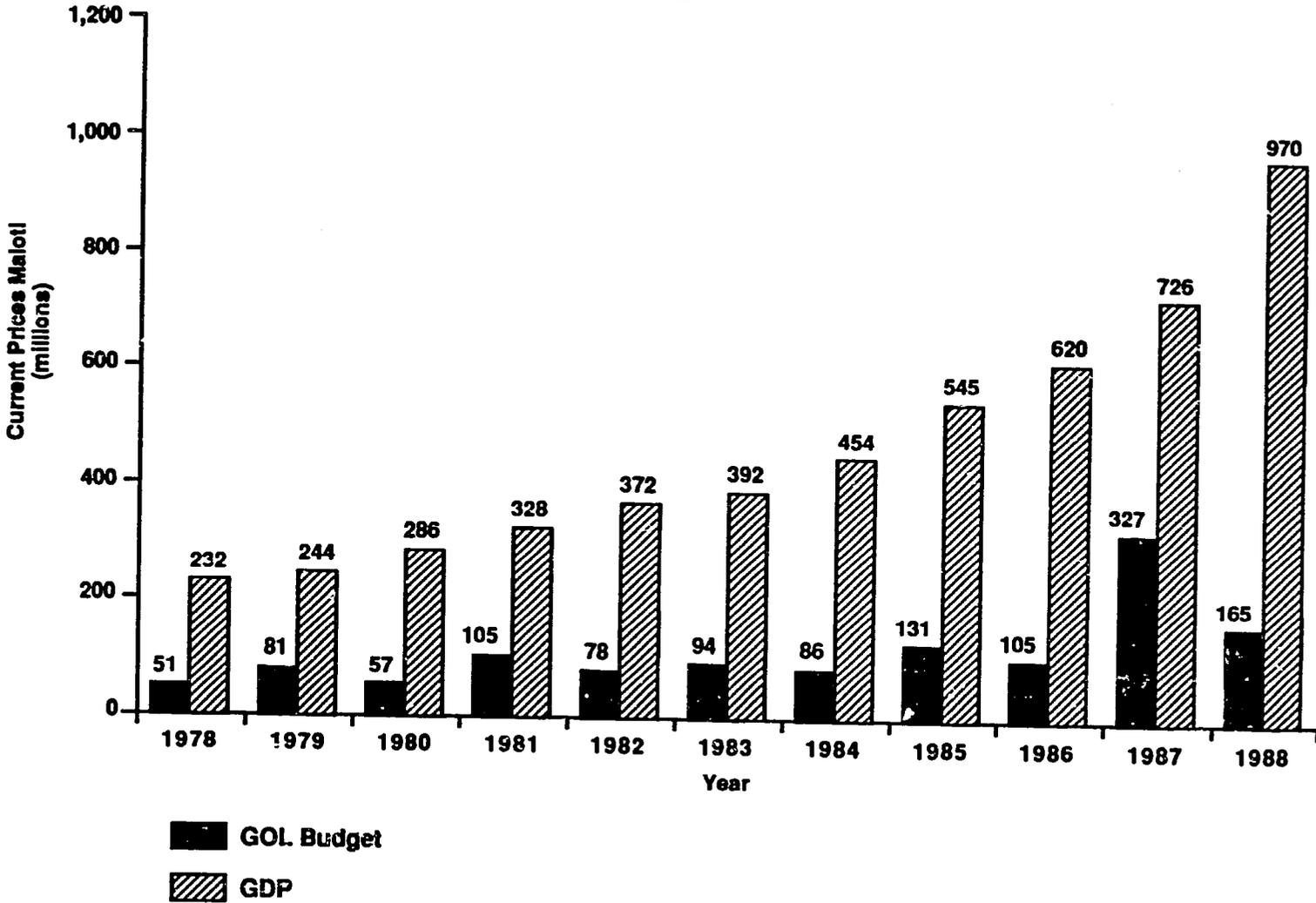
Exhibit 4
GOL Ownership of Firms Operating in Lesotho
1988

Sector	Name	Equity Shares – GOL (%)
Finance/Insurance	Mine and Kingsway	51 LNDC, LB
	Central Bank	100
	Lesotho Agricultural Development Bank	100
	Lesotho Bank	100
	Lesotho Building Finance Corp.	100
	Lesotho National Development Corp.	100
	Basotho Enterprise Development Corp.	100
	National Insurance Company	LNDC, LB
	Lesotho Bank HP Finance	100
	Lesotho Investment Holding	
Public Utilities	Lesotho Electricity Corp.	100
	Lesotho Telecommunications Corp.	100
Commerce/Trade	Trading Corporation of Lesotho	100
	Co-op Lesotho	100
	Clifford Trading (retail)	100 LNDC
	Cashbuld Lesotho (wholesale)	50 LNDC
	Metro Lesotho (wholesale)	50 LNDC
	OK Bazaar (retail)	50 LNDC
	Frasers Cash and Carry (retail, wholesale)	50 LNDC
	Wanda Frasers Furniture (retail)	50 LNDC
	Fairways	50 LNDC
	Smart Centre	50 LNDC
Transport	Lesotho National Bus Service	
	Lesotho Airways Corp.	
Other Services	National Motors (car sales, garage)	51 LNDC 49 LB
	Pioneer Motors (car sales, garage)	51 LNDC 49 LB
	Security Lesotho (security services)	100 LNDC
	Lesotho Housing Corp.	
Manufacturing	Basotho Fruit and Vegetable Cannery	100 LNDC
	Lesotho Brewing Company	51 LNDC
	Lotl Brick	100 LNDC
	PAL Products	85 LNDC
	Lesotho Pharmaceutical Corp.	100
	Parthenon Paint	20 LNDC
	Lesotho Milling	
	Basotho Enterprise Development Corp.	
	Lesotho Flour Mills	
National Abattoir and Feedlot Complex		

Exh-4

-31-

**Exhibit 5
GOL Budget Relative to GDP**

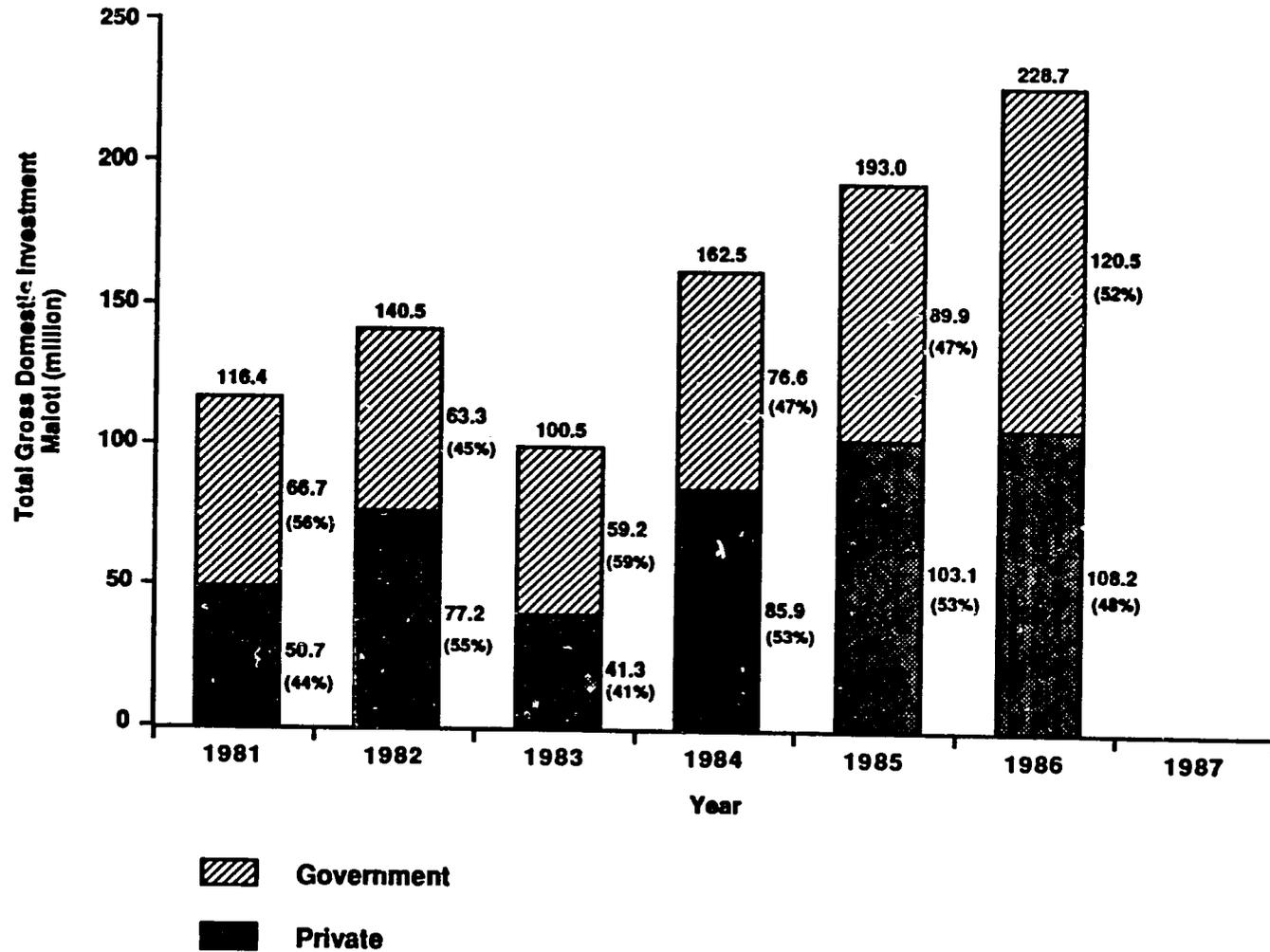


Source: Central Bank of Lesotho

Exh-5

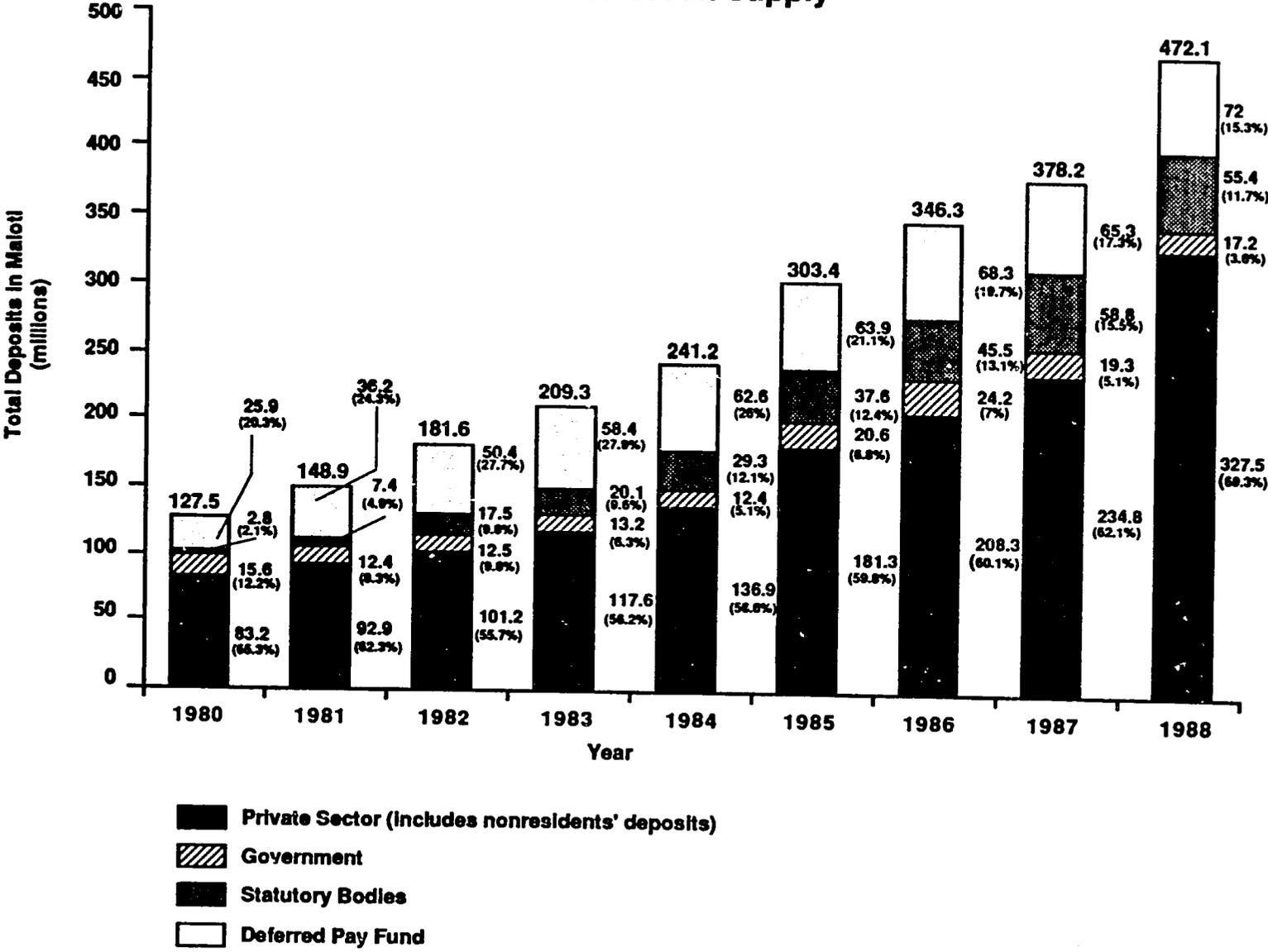
Handwritten mark

Exhibit 6 Capital Movements



Source: Central Bank of Lesotho, Annual Report 1986

Exhibit 7 Contribution of Private Sector to Credit Supply

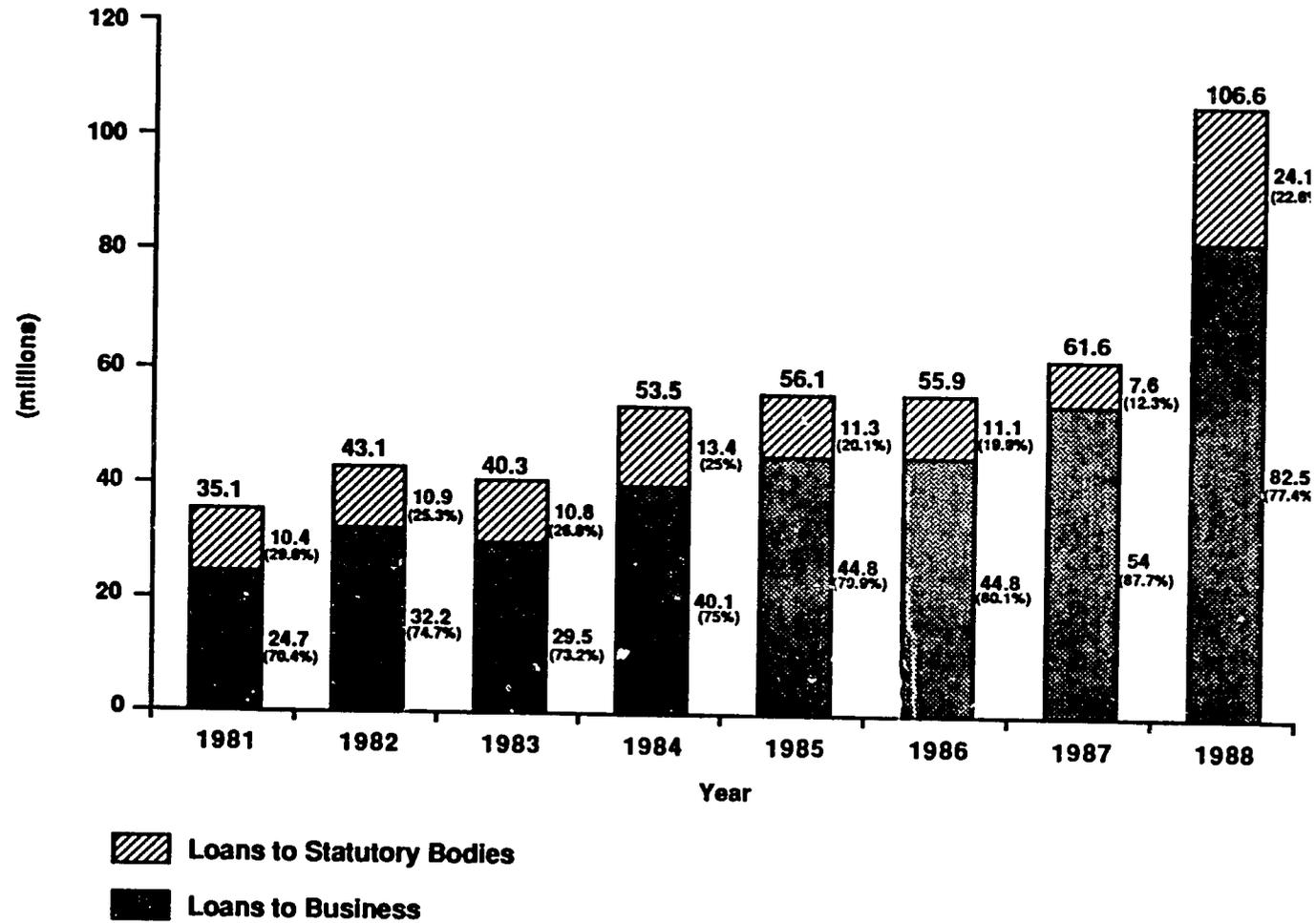


Source: Central Bank of Lesotho 1989

Exh-7

24

Exhibit 8 Commercial Banks' Loans and Advances to Business Enterprises

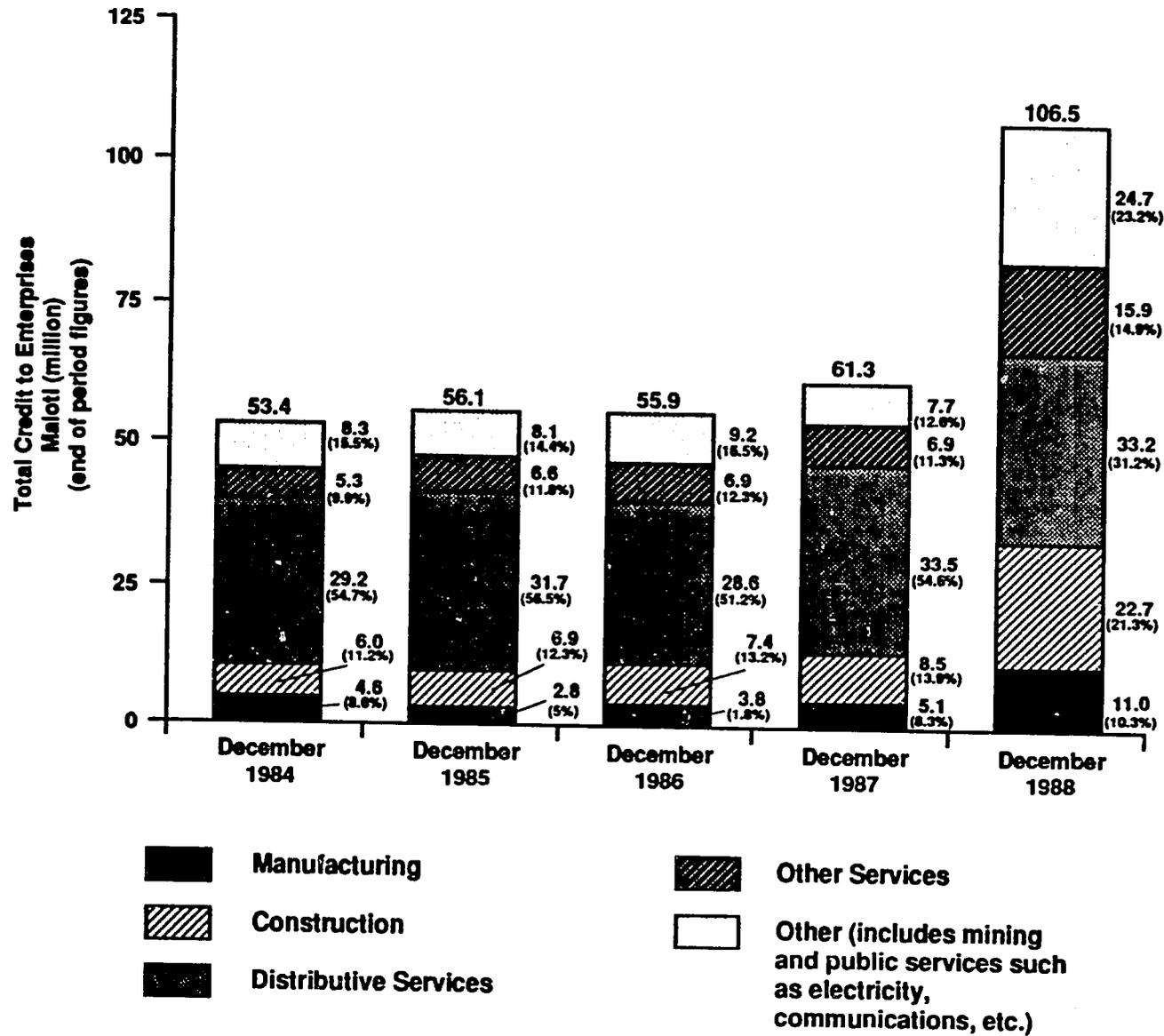


Source: Central Bank of Lesotho 1988

Exh-8

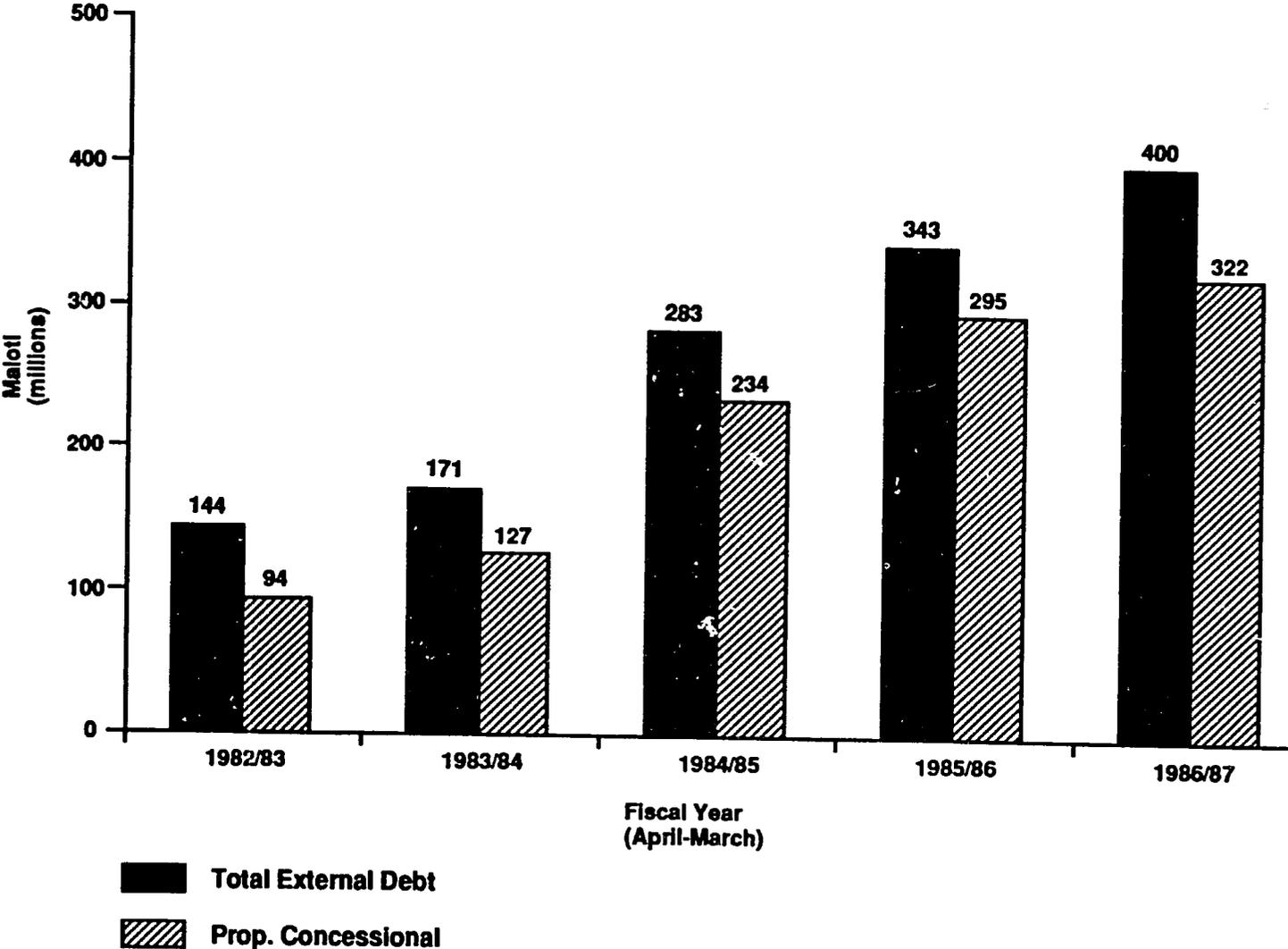
37

Exhibit 9 Sectoral Distribution of Credit to Enterprises



Source: Central Bank of Lesotho, Quarterly Review, December 1988

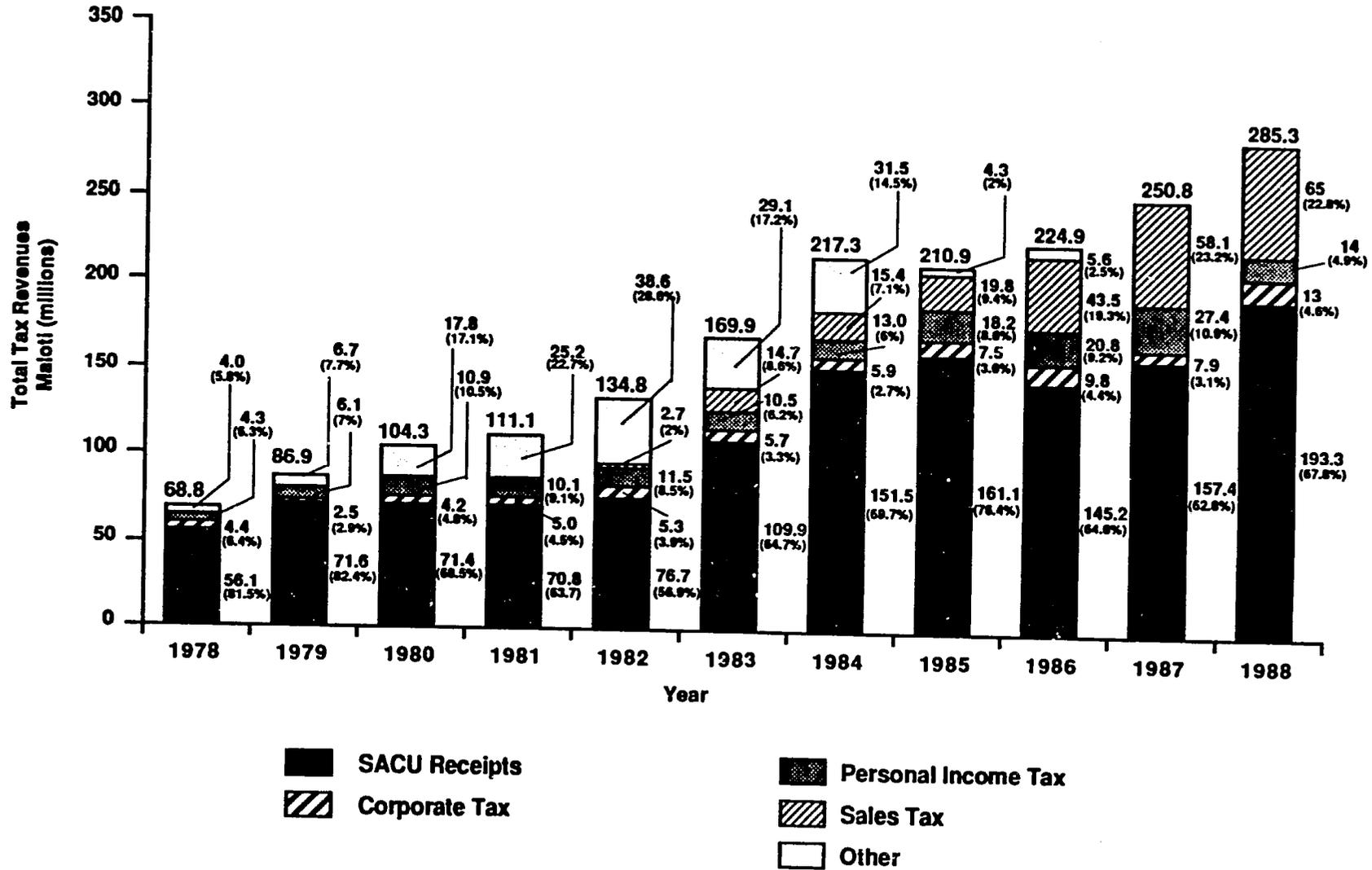
**Exhibit 10
Outstanding External Debt**



Source: Unpublished IMF estimates

Exh-10

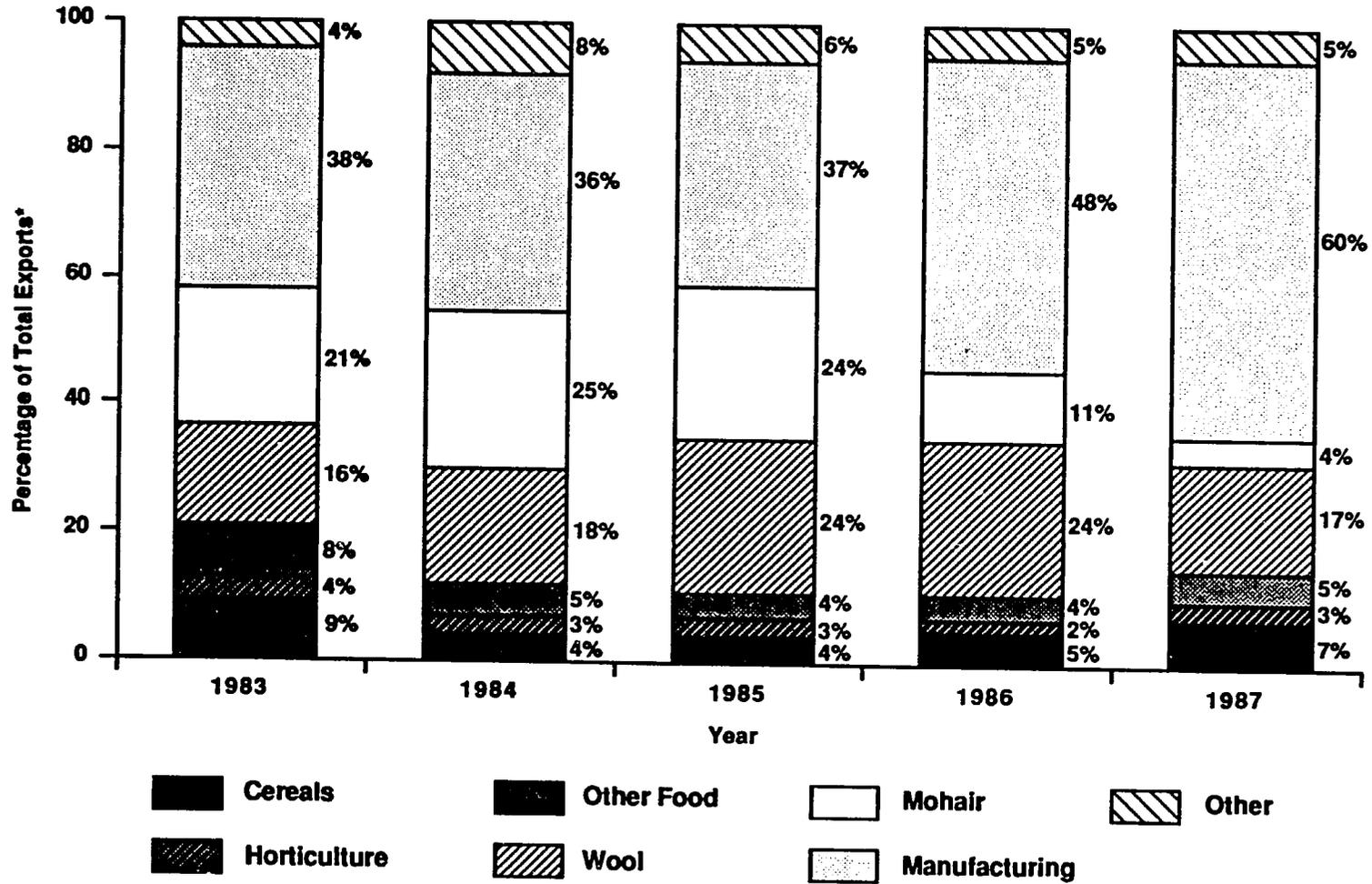
Exhibit 11 Sources of Fiscal Revenue



Source: Bureau of Statistics and Ministry of Finance

afu

Exhibit 12 Composition of Exports

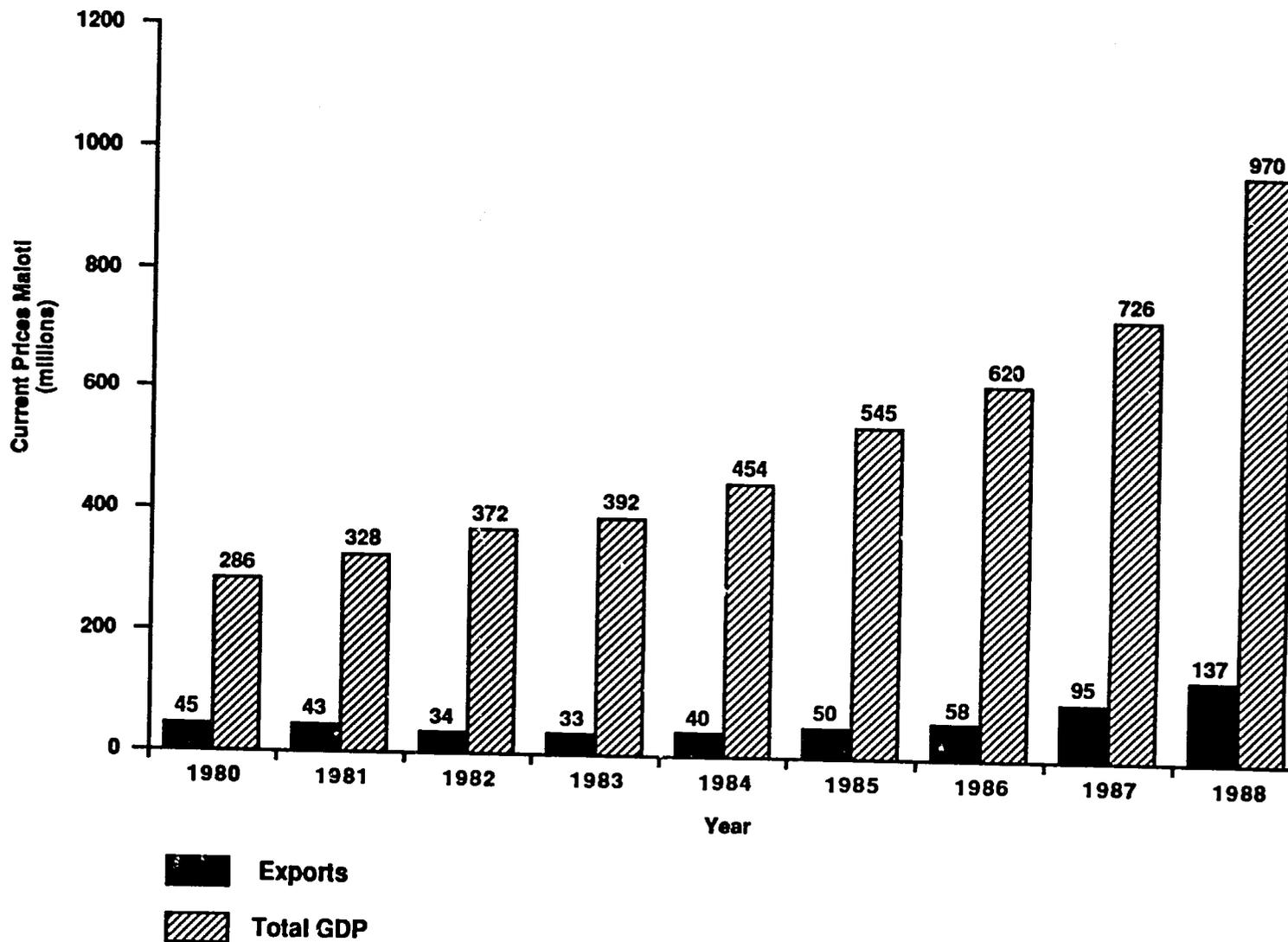


Source: Bureau of Statistics

*Numbers may not add up to 100% because of rounding.

29

Exhibit 13
Value of Exports Relative to GDP

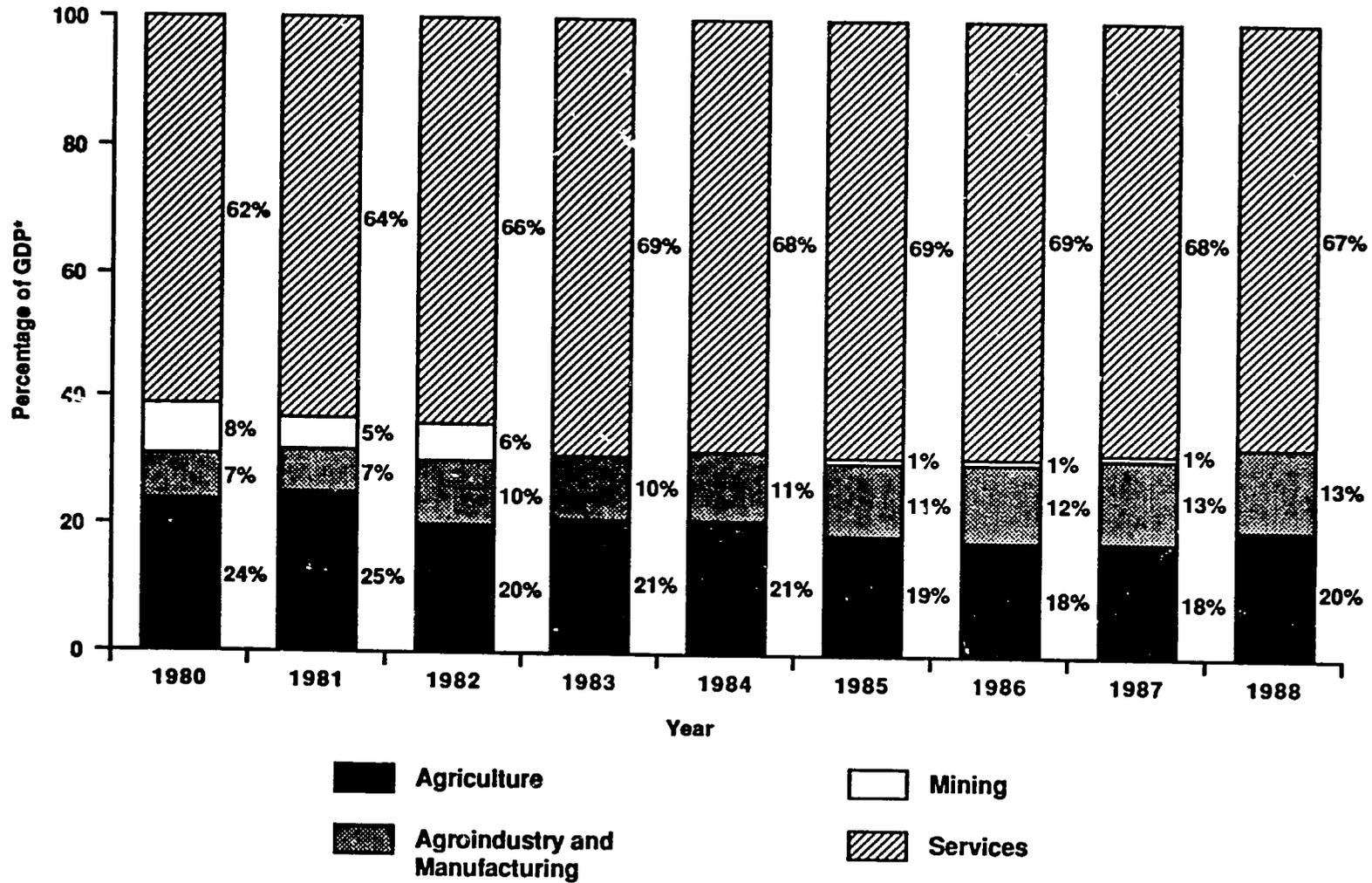


Source: Bureau of Statistics

Exh-13

20

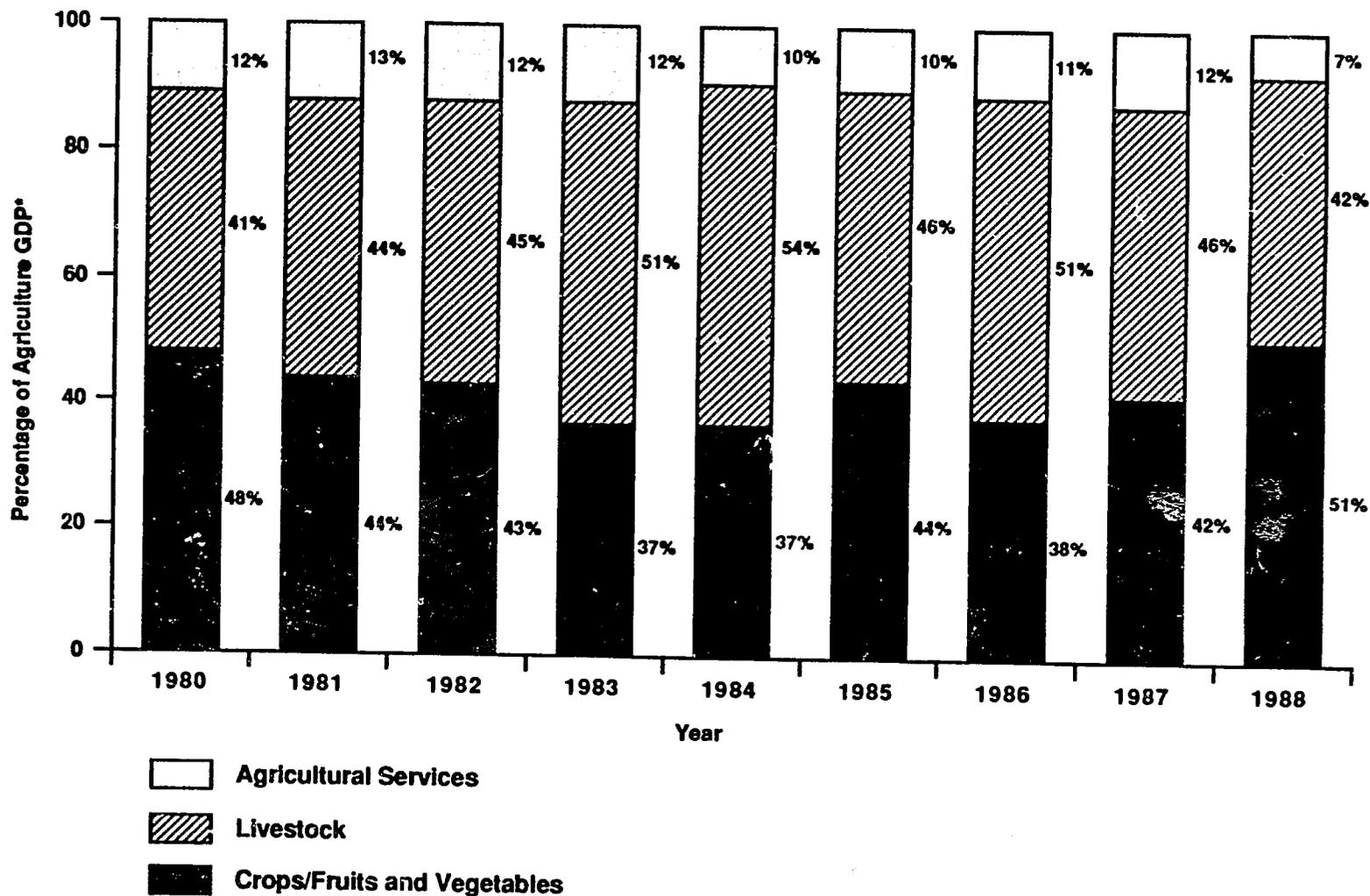
Exhibit 14 Sectoral Contribution to GDP



Source: Bureau of Statistics

*Numbers may not add up because of rounding

**Exhibit 15
Components of Agriculture GDP**



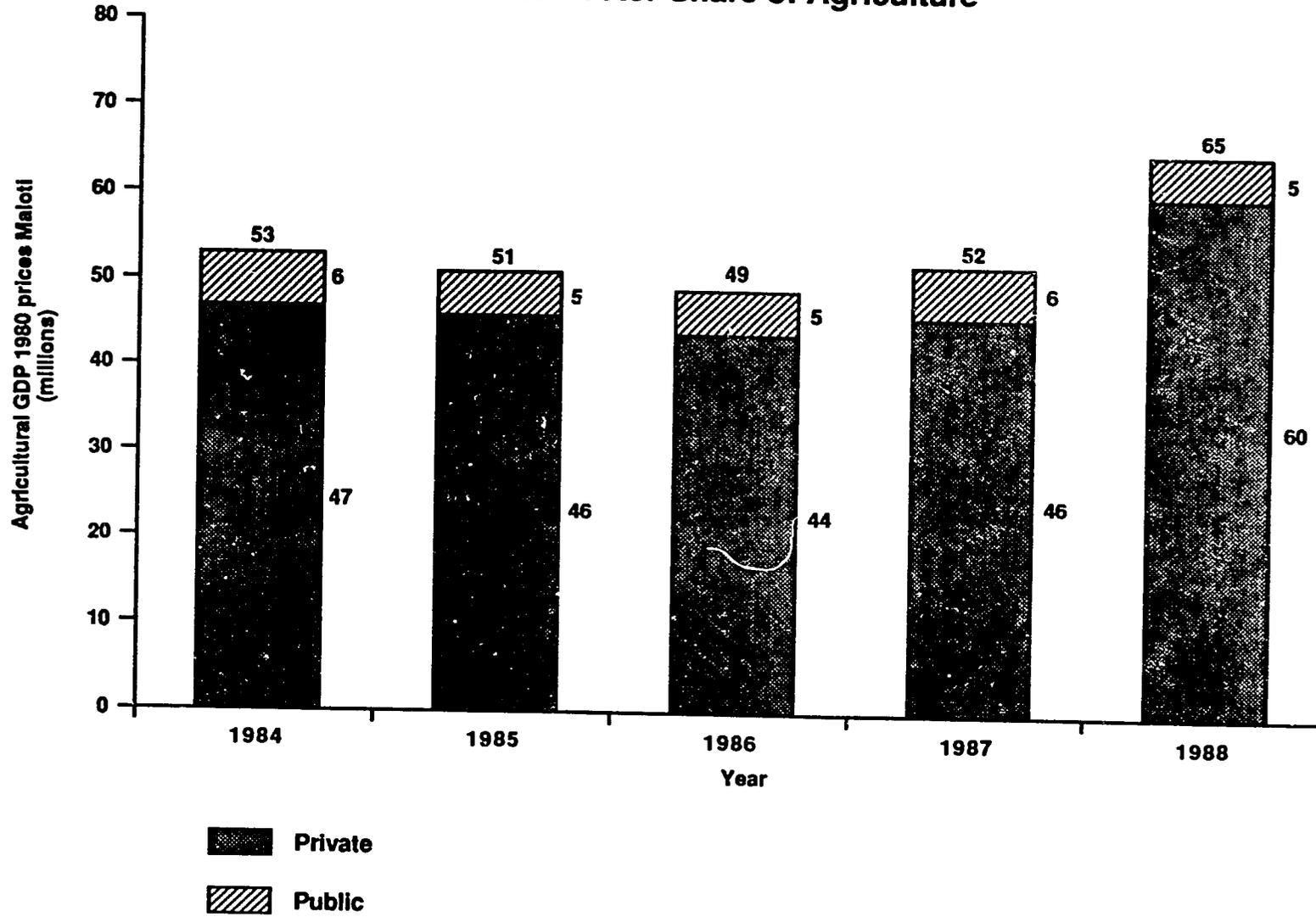
Source: Bureau of Statistics

*Numbers may not add up to 100% because of rounding

Exh-15

52

**Exhibit 16
Private Sector Share of Agriculture**

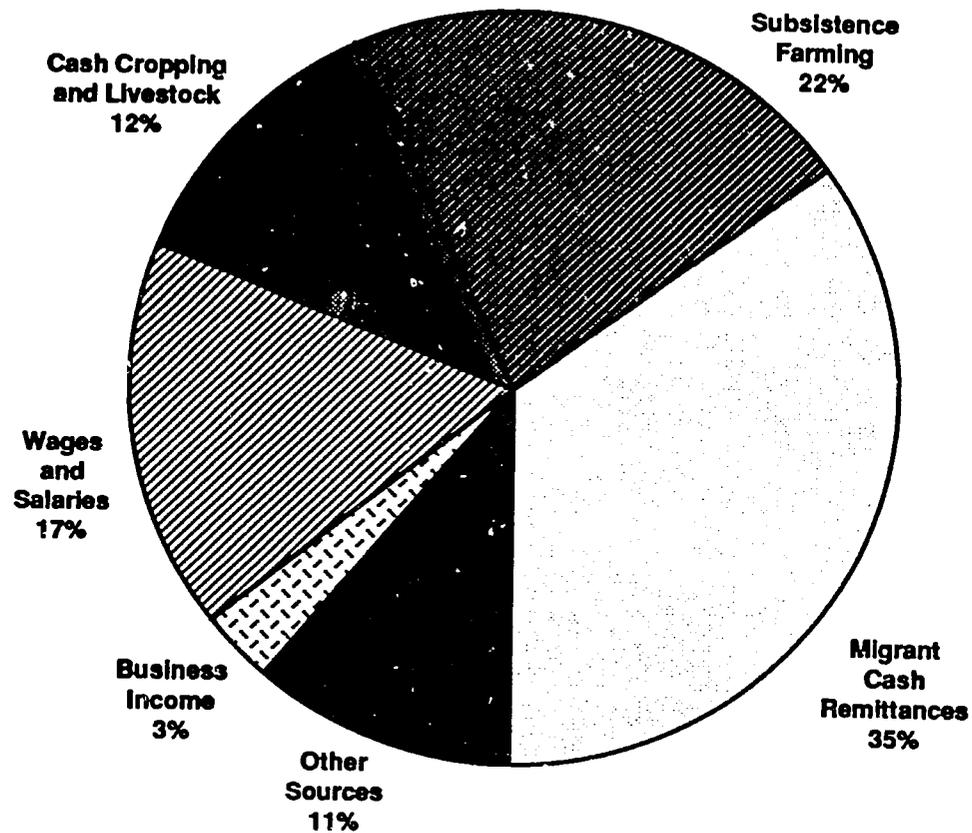


Estimates based on Central Bank of Lesotho data

Exh-16

SP

Exhibit 17
Main Sources of Household Income in Lesotho
(1985/86)



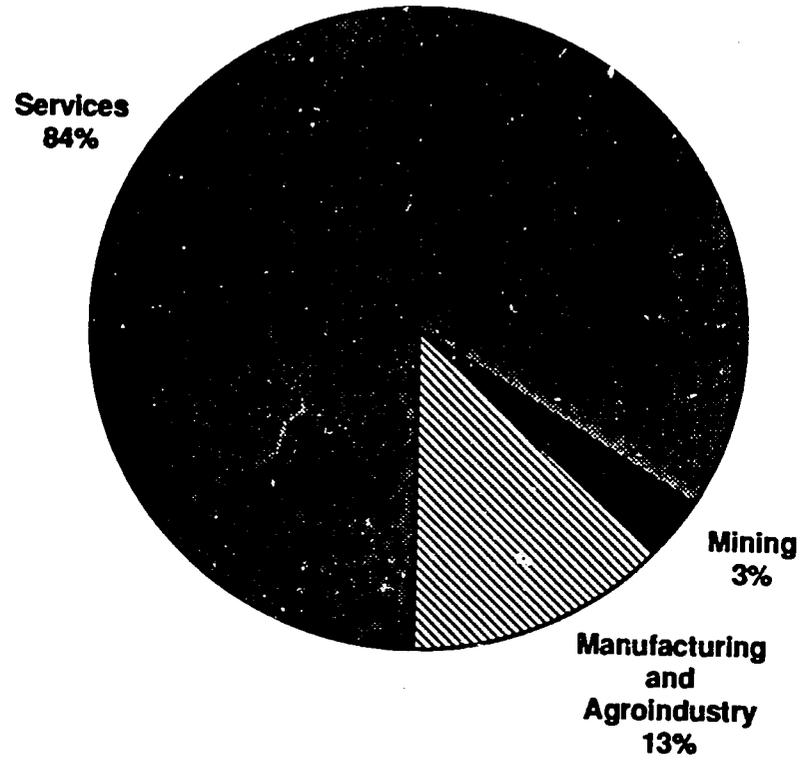
**Percentage of Households Surveyed for Which
Each Activity is the Main Source of Income**

Source: Bureau of Statistics, Labor Force Survey 1985/86

Exh-17

1986

Exhibit 18
Composition of Employment in Formal Sector

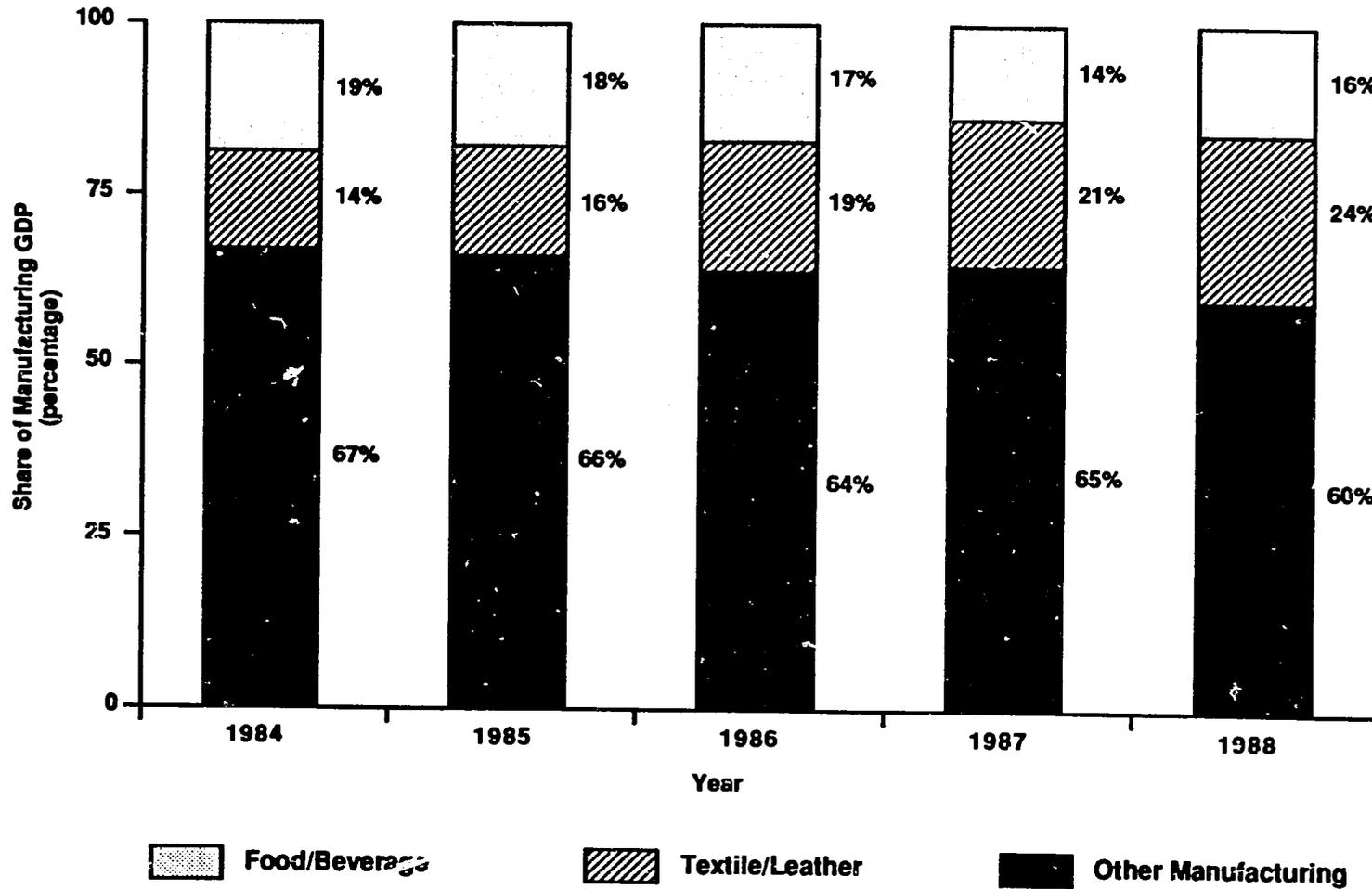


Total Employed in 1985: 62,870

Source: National Manpower Development Survey Projections for 1985 on the basis of 1980 dates; World Bank Estimates

Exh-18

Exhibit 19 Textile/Leather and Food/Beverage Growth

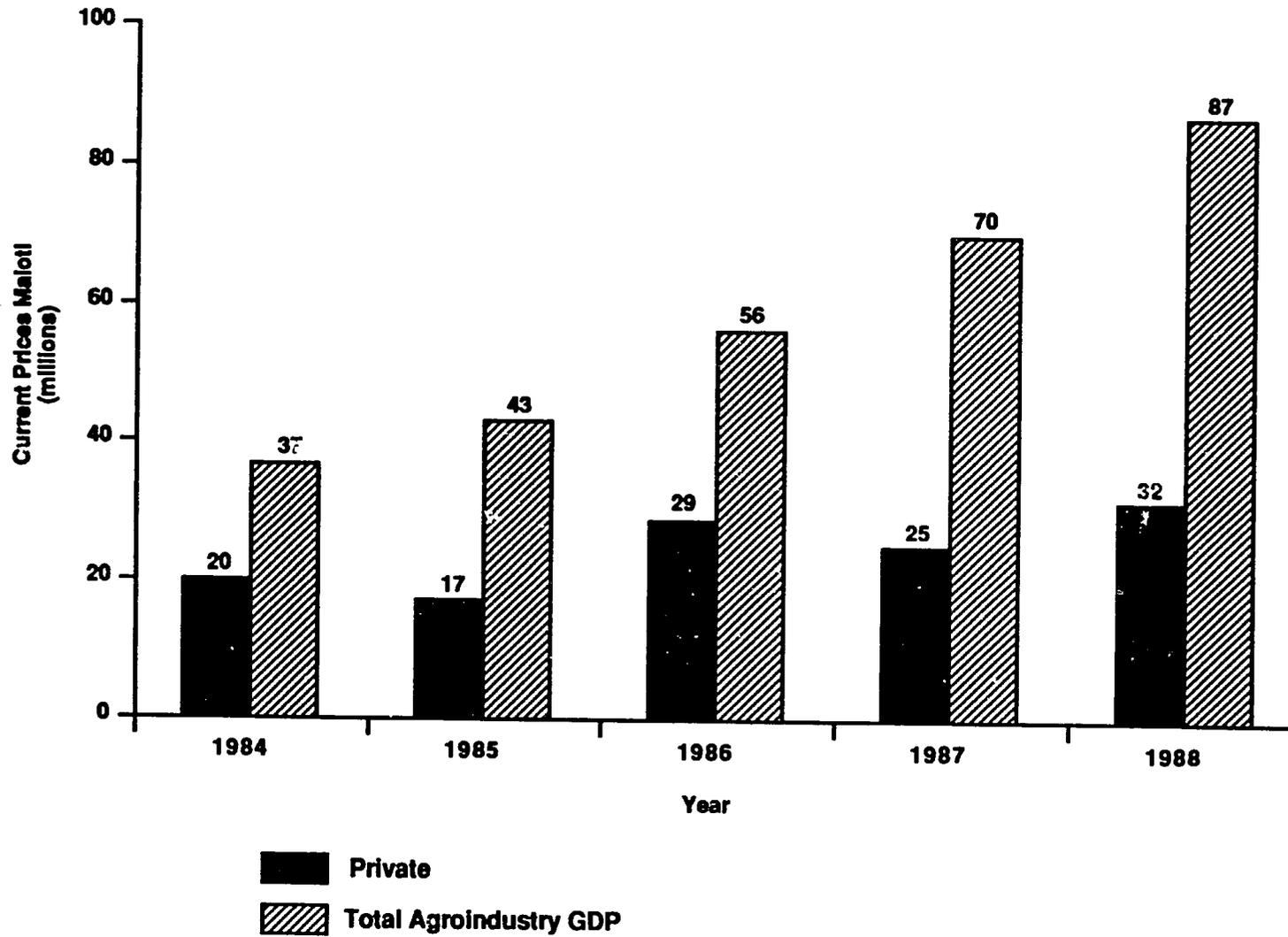


Estimates based on Central Bank of Lesotho

Exh-19

46.

Exhibit 20
Private Sector Share of Agroindustry

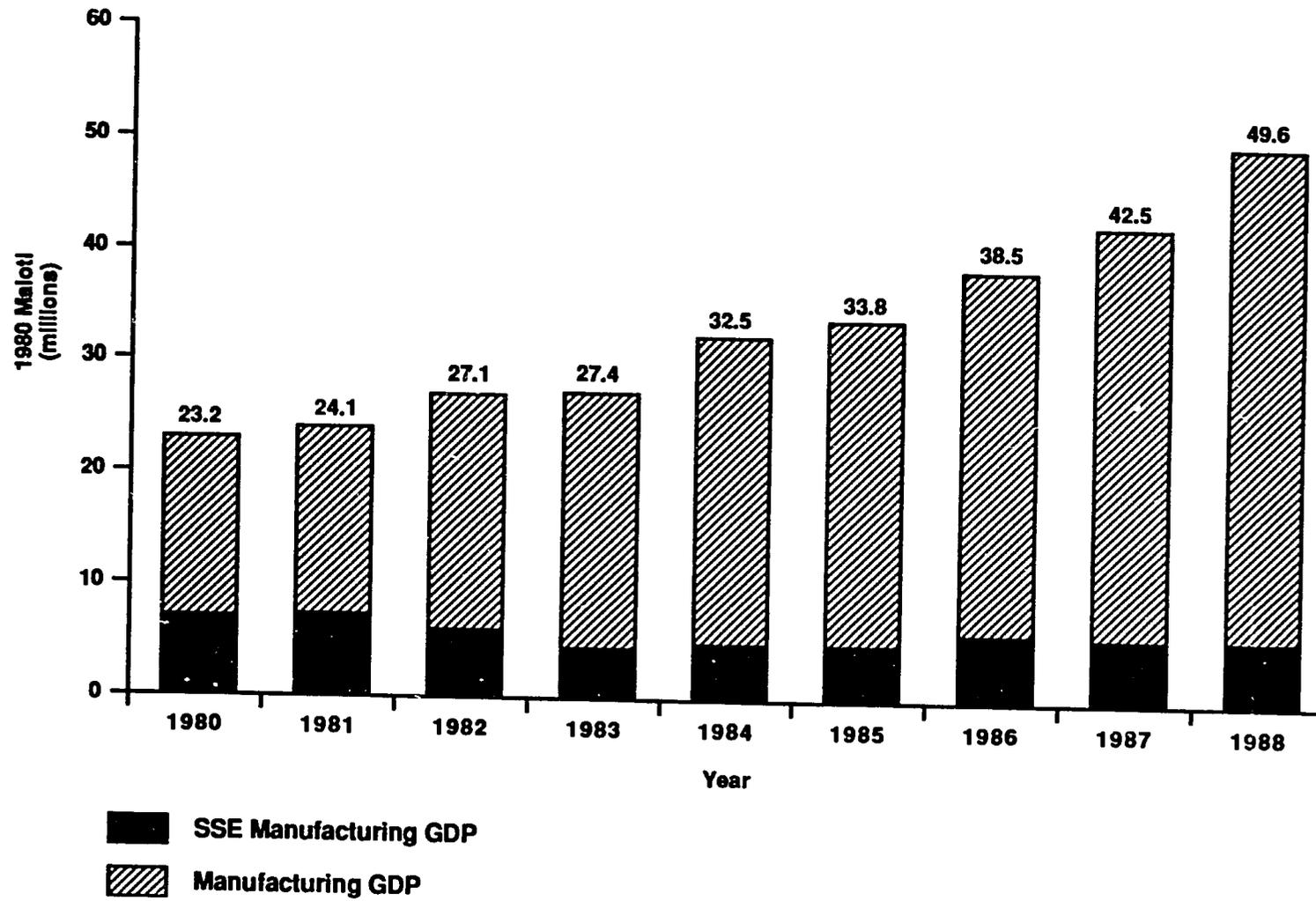


Estimates based on Central Bank of Lesotho data

Exh-20

28

Exhibit 21
Value of Small Scale Manufacturing
Compared to Total Manufacturing GDP

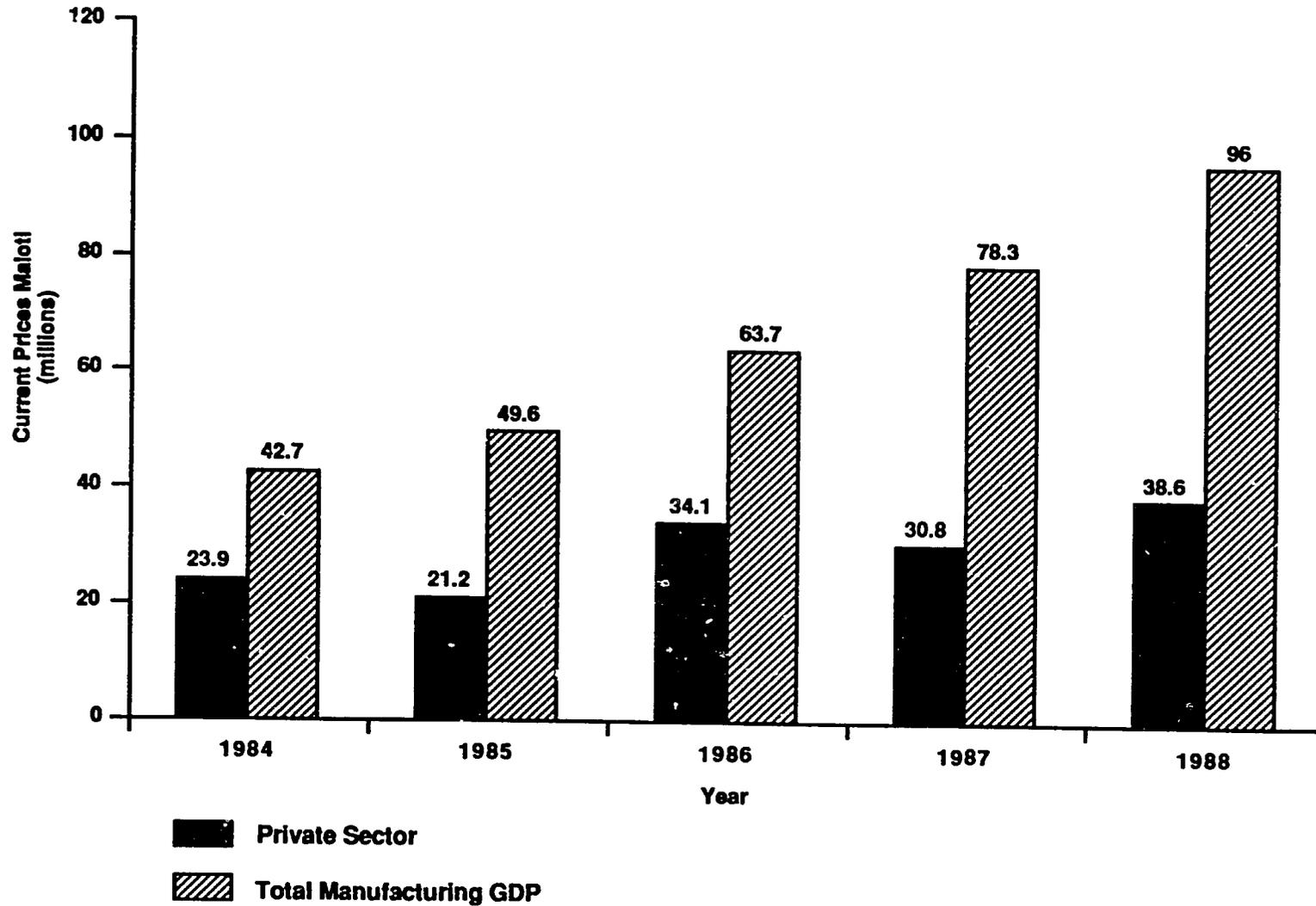


Source: Bureau of Statistics

Exh-21

SP

Exhibit 22
Private Sector Share of Manufacturing GDP

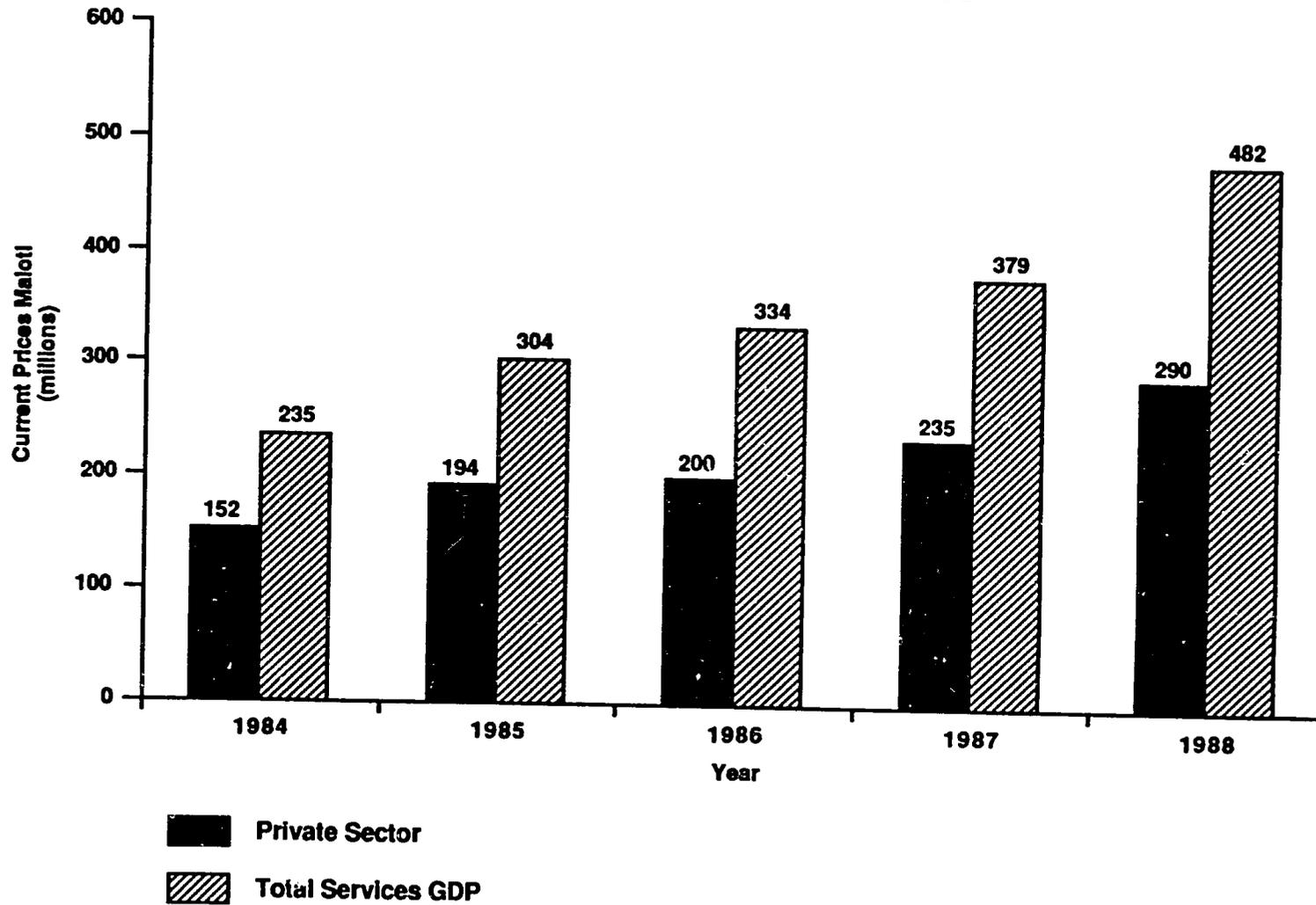


Exh-22

Estimates based on Central Bank of Lesotho data

SP

**Exhibit 23
Private Sector Share of Services**

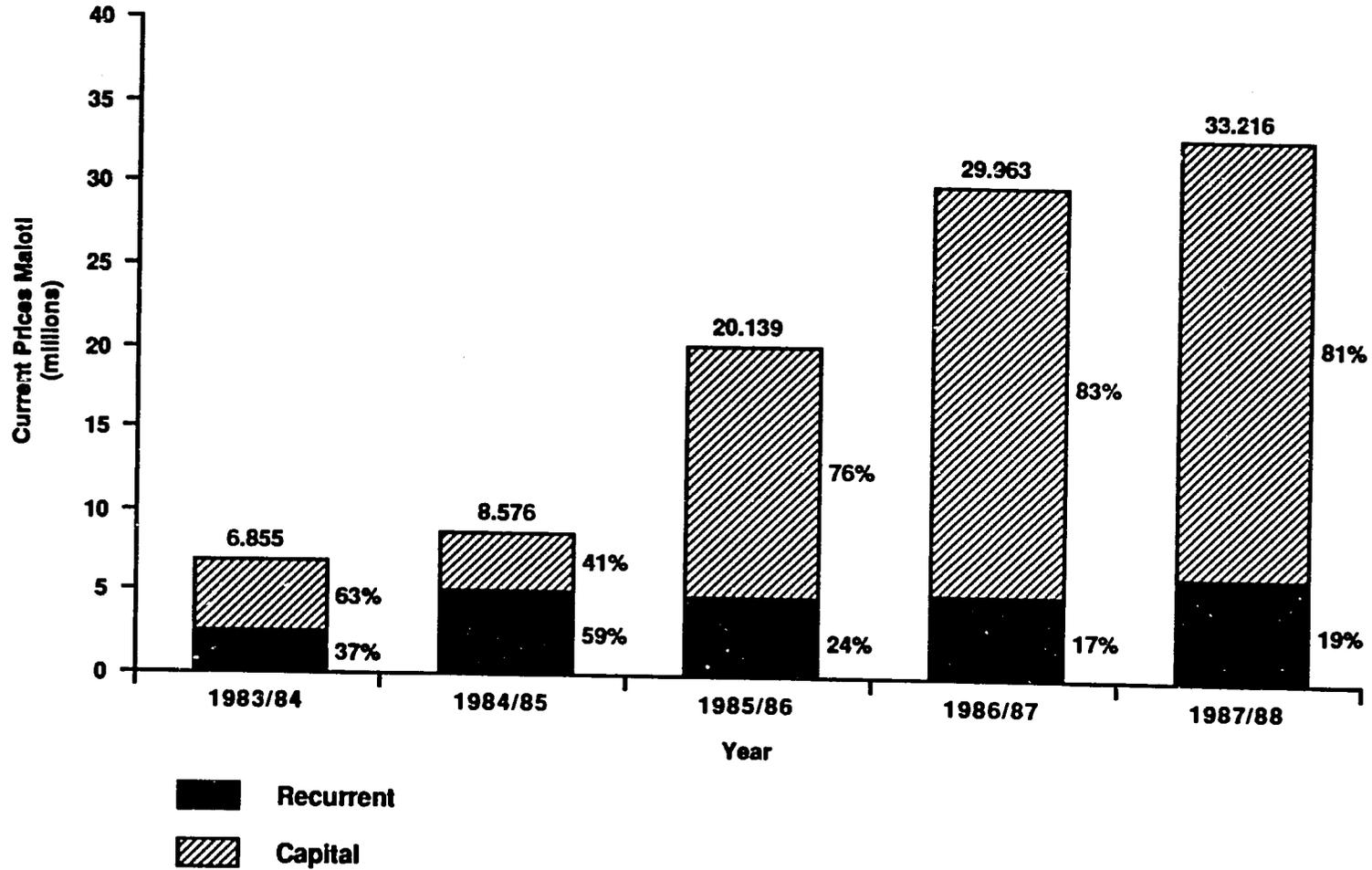


Estimates based on Central Bank of Lesotho data

Exh-23

50

Exhibit 24 GOL Transfers to Parastatals

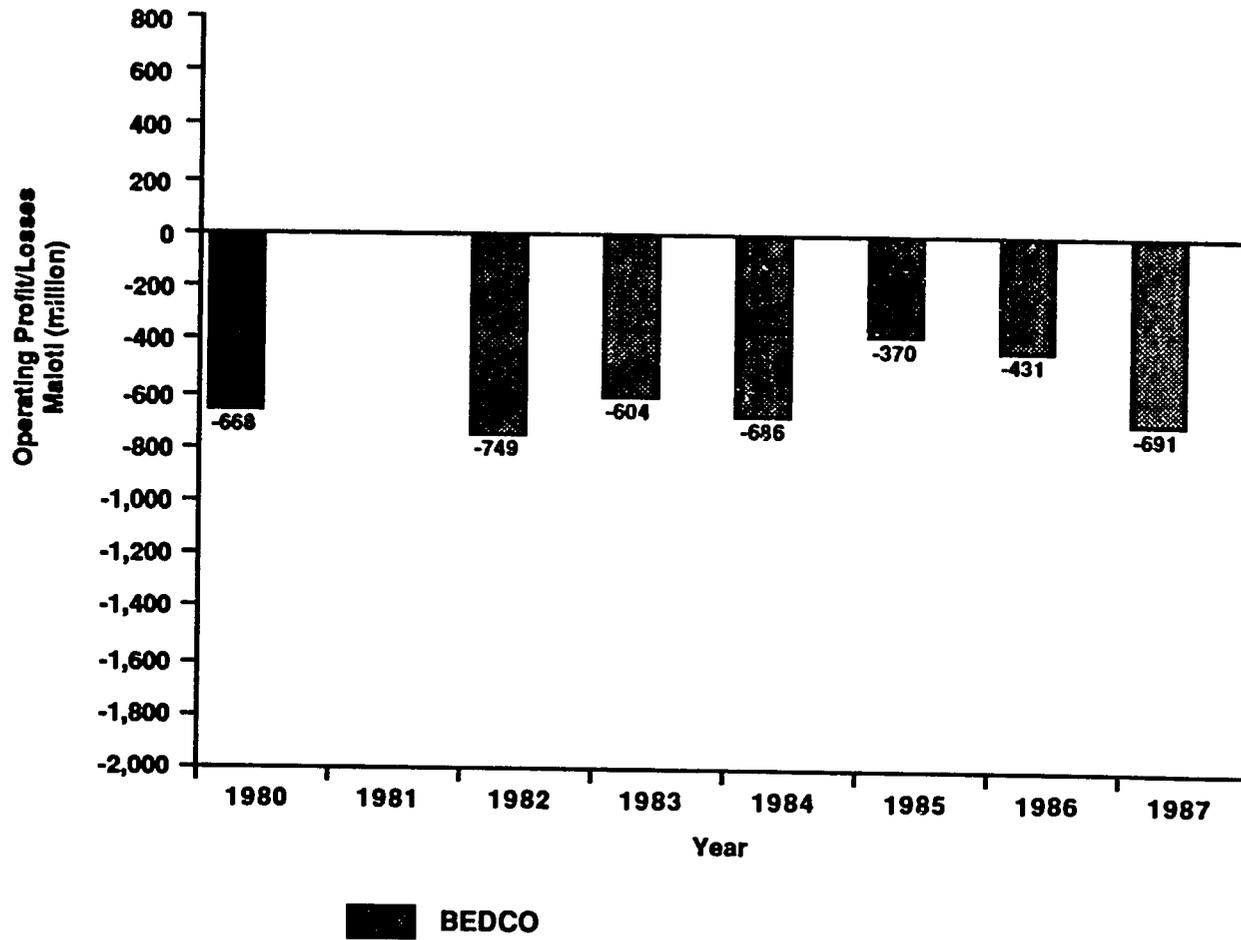


Source: Central Bank of Lesotho

Exh-24

51'

Exhibit 25
Profit/Losses for Selected Parastatals: BEDCO

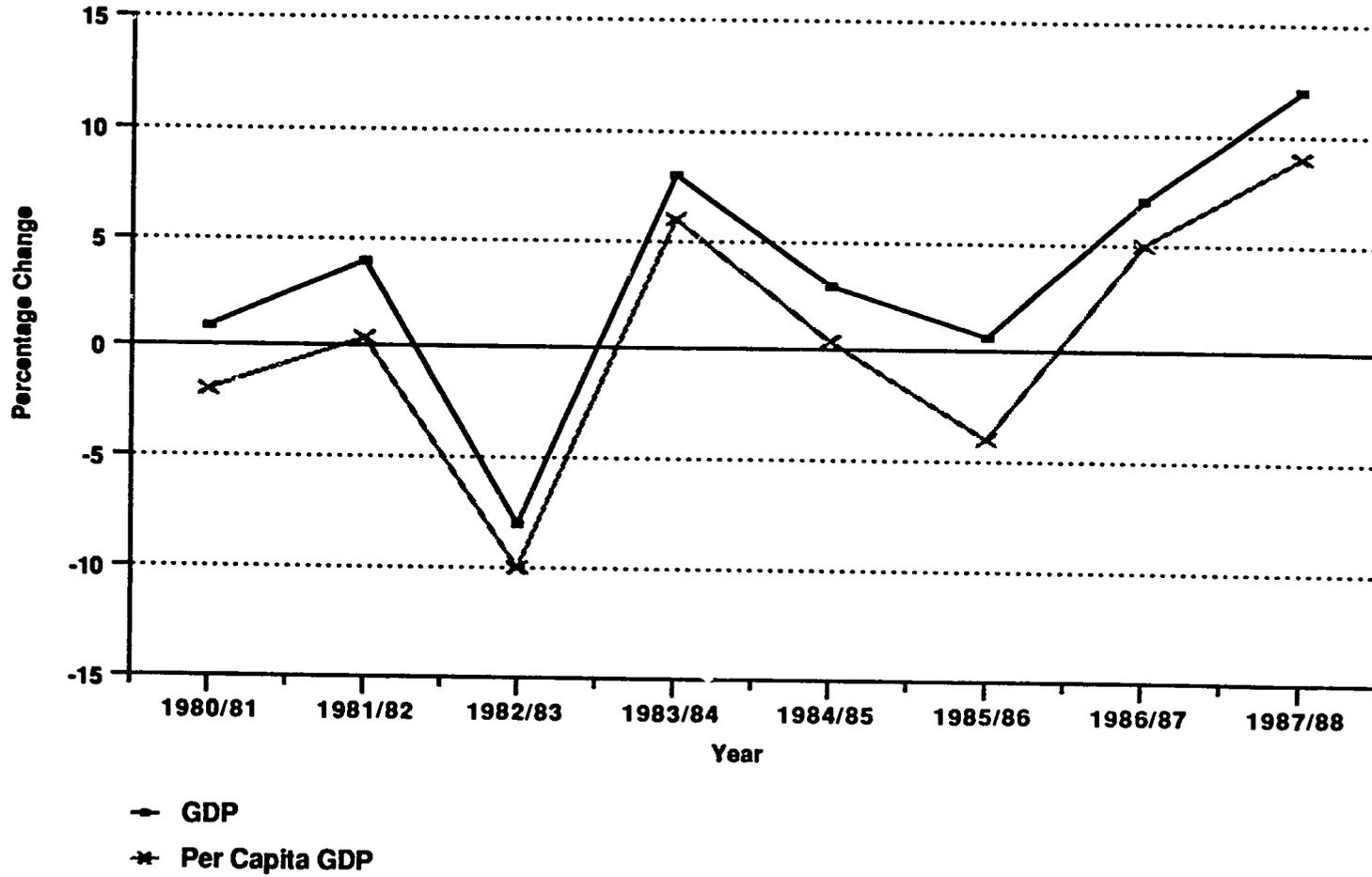


Source: Central Bank, MB Consulting

Exh-25

50

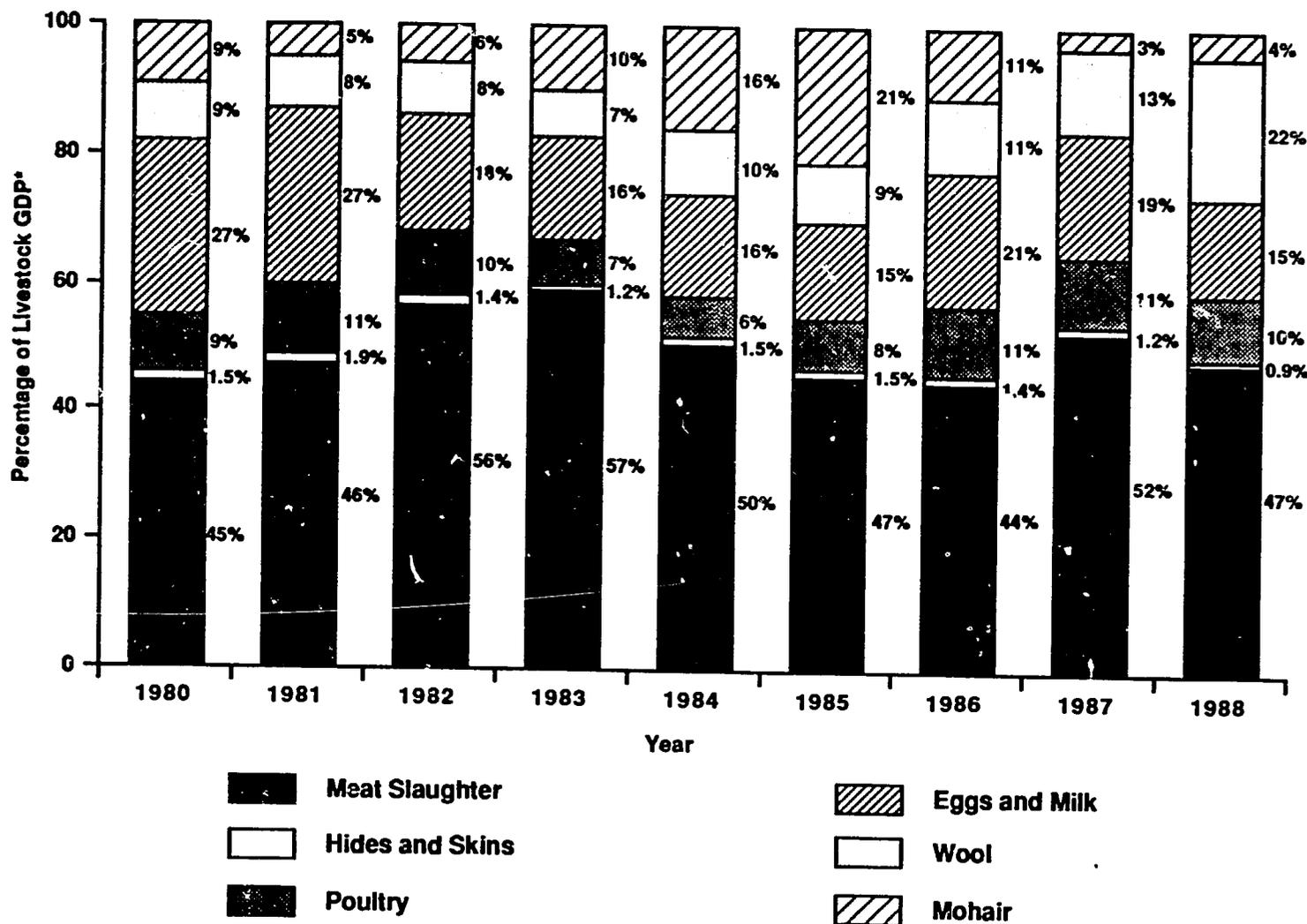
Exhibit 26 GDP and Per Capita GDP



Source: Bureau of Statistics

Exh-26

Exhibit 27 Components of Livestock Value Added



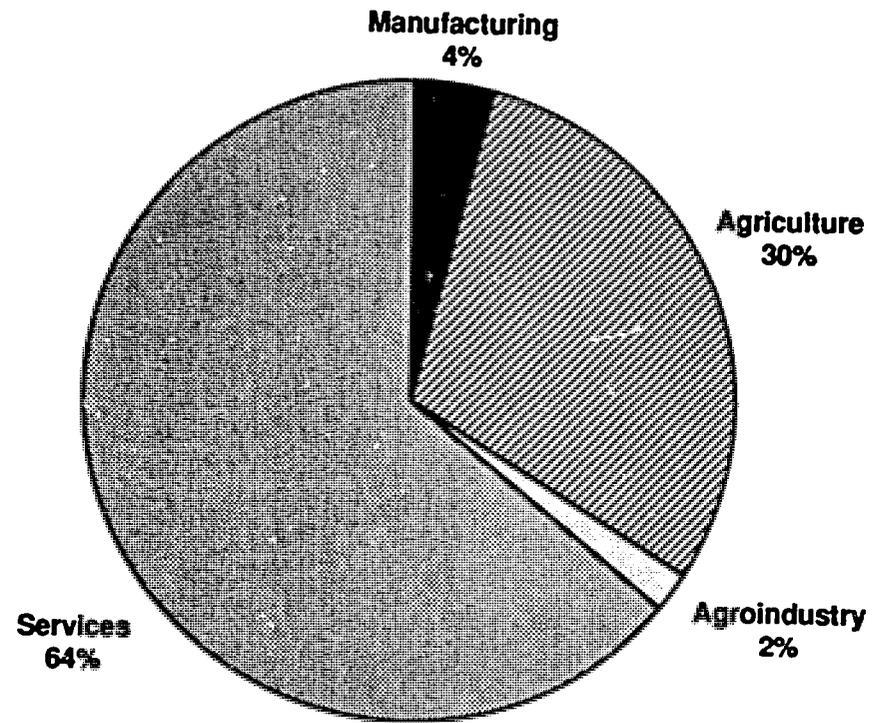
Source: Bureau of Statistics

*Numbers may not add up to 100% because of rounding

Exh-27

5-14

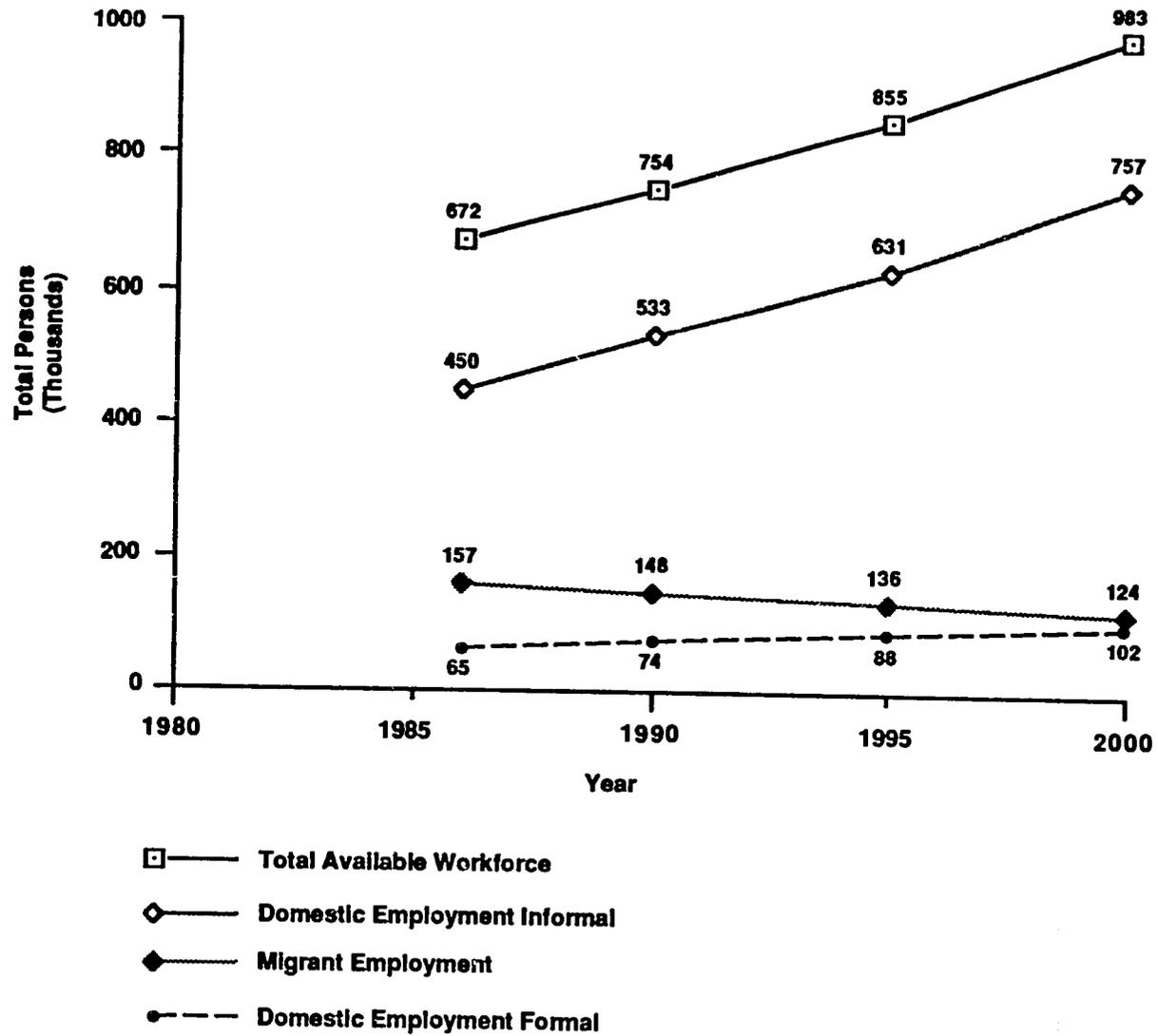
Exhibit 28
Distribution of Private Sector Activity



Private Sector GDP 1988: M194 mn (1980 Maloti)

Source: Estimates by consultant

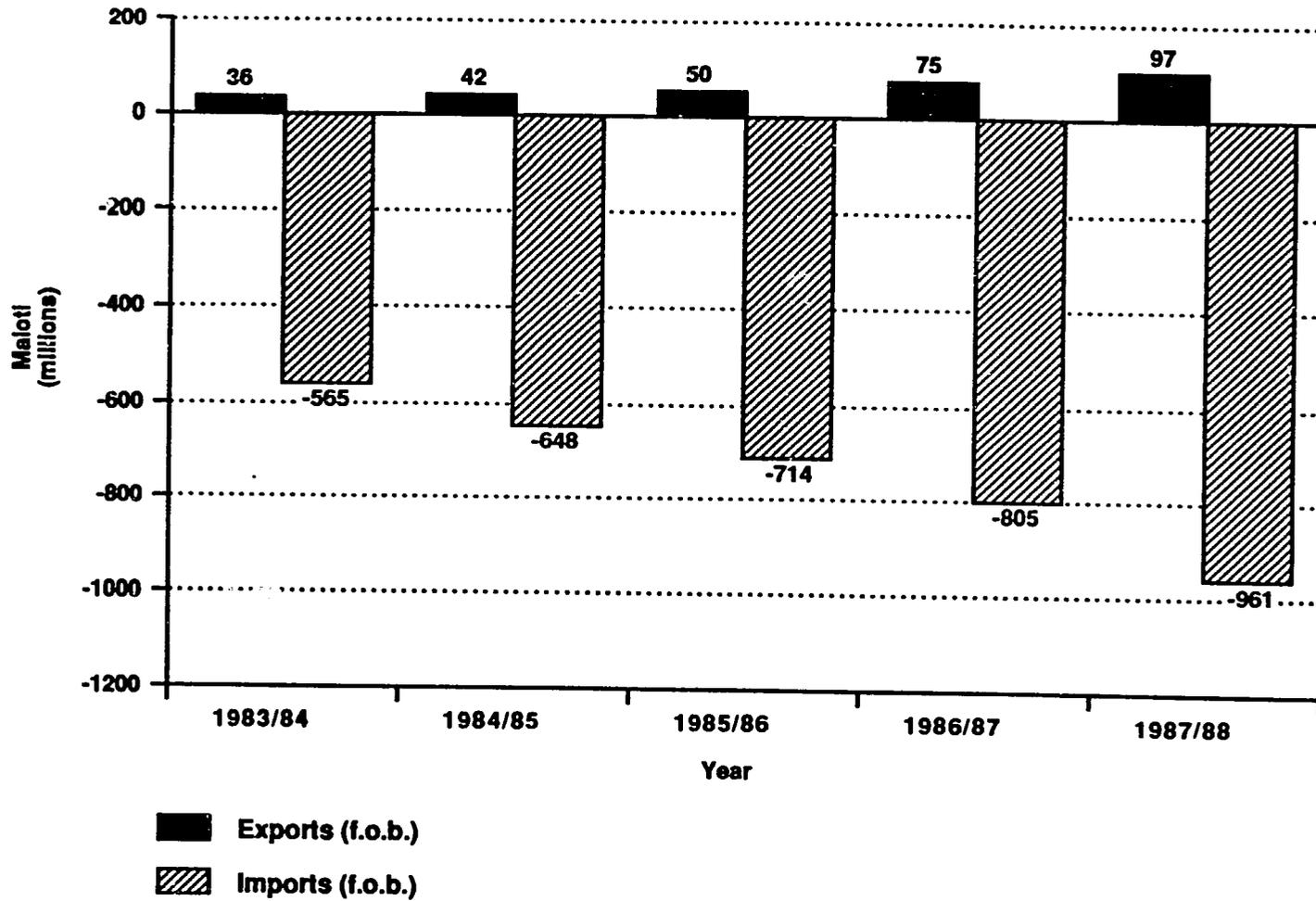
Exhibit 29 Migrant Labor and Total Employment in Lesotho



Source: Labor Force Survey, Bureau of Statistics

-56-

Exhibit 30 Trade Deficit

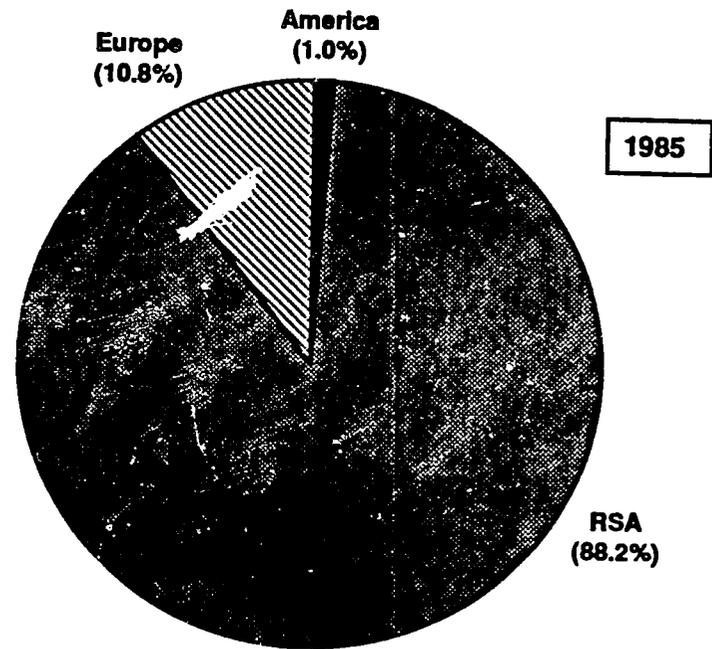
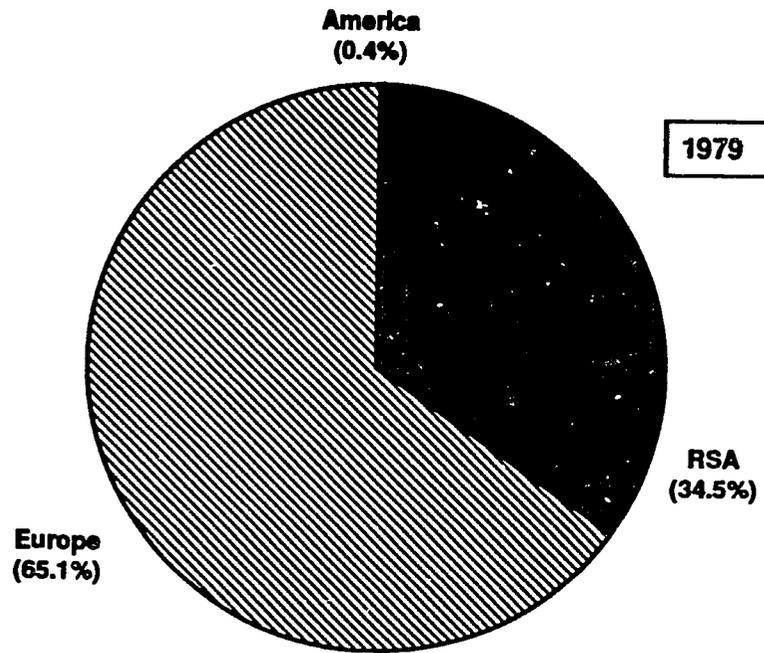


Source: Central Bank of Lesotho

Exh-30

91

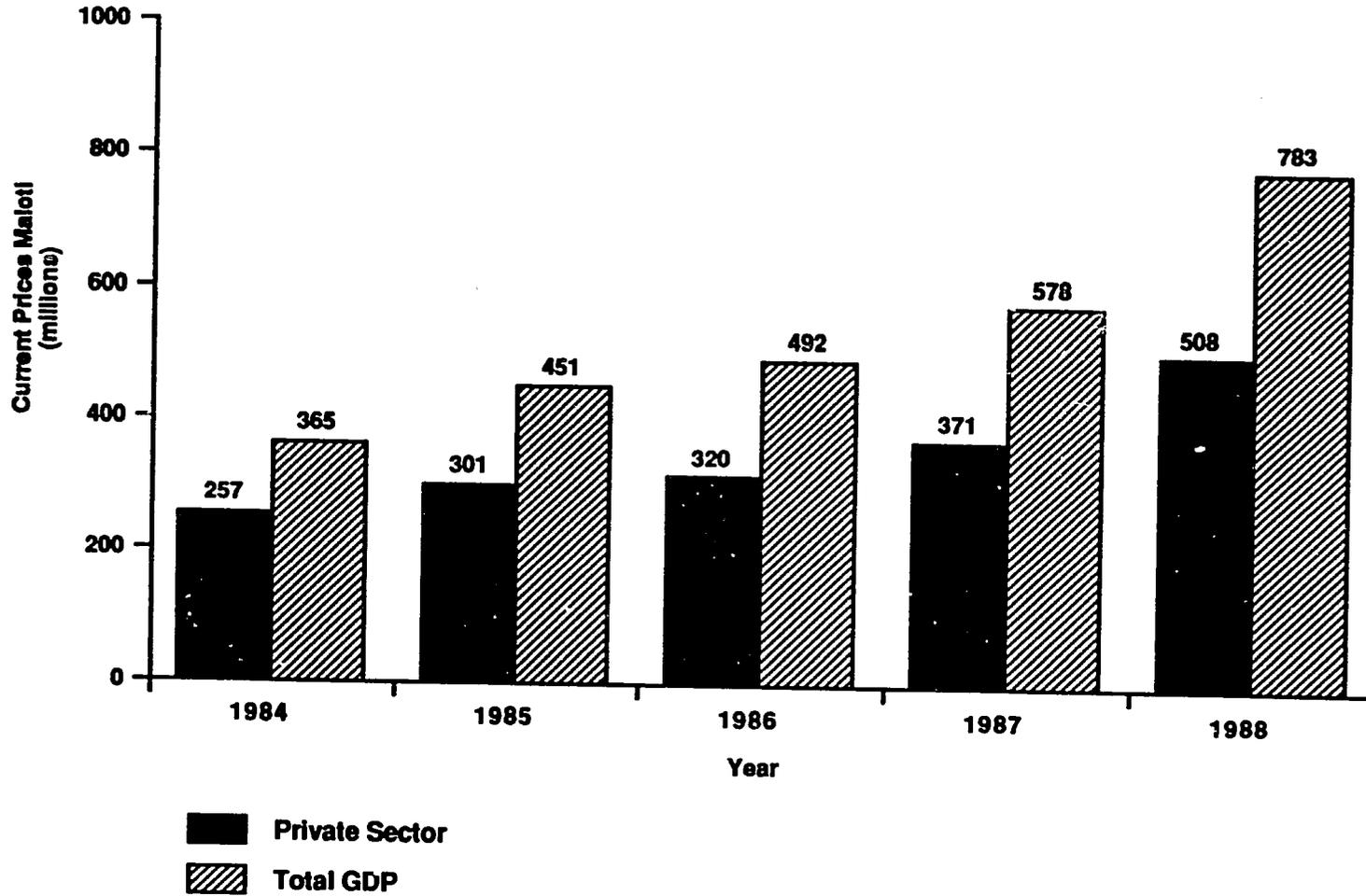
**Exhibit 31
Direction of Exports**



Exh-31

SP

**Exhibit 32
Private Sector Relative to Total GDP**

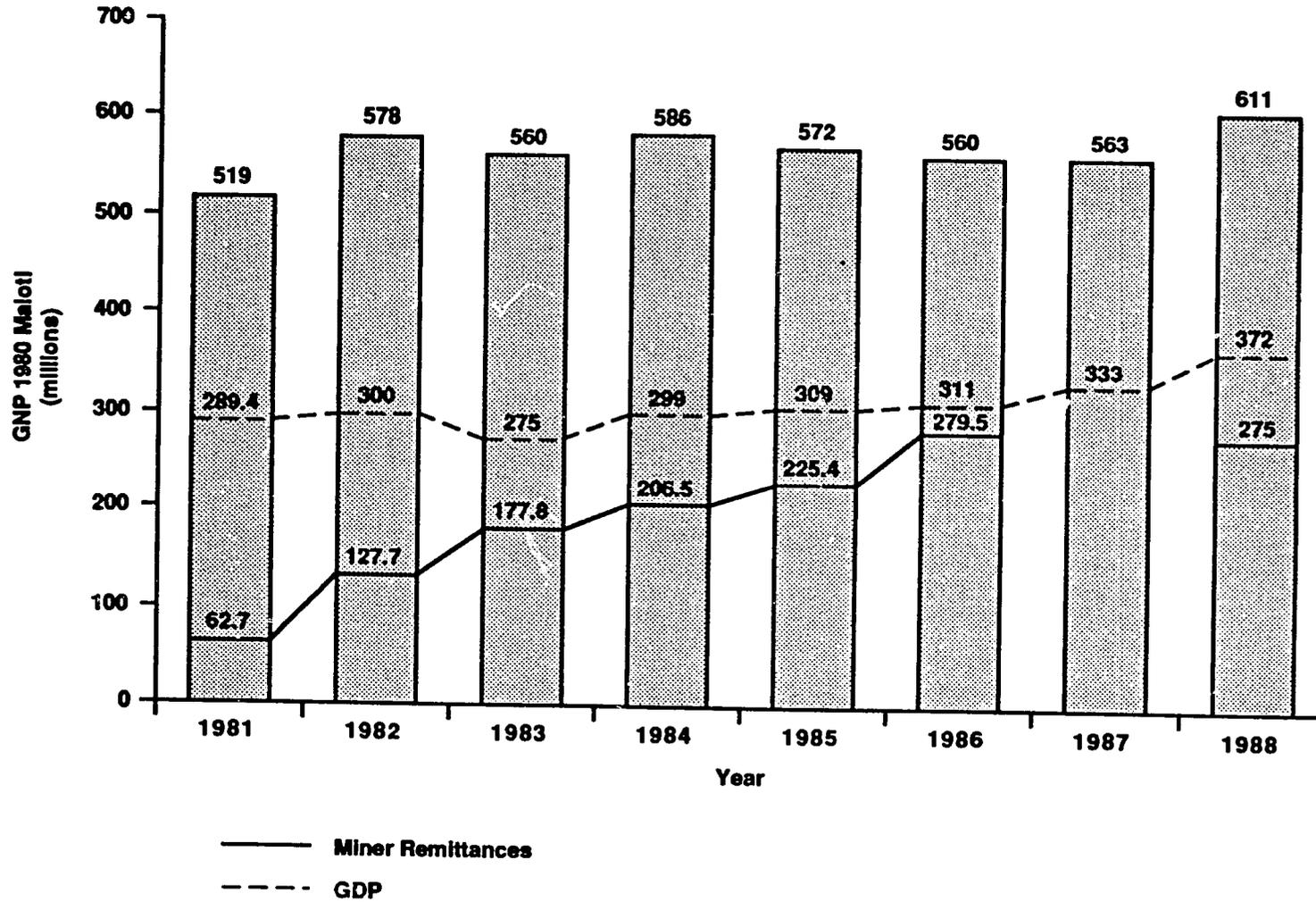


Estimates based on Central Bank of Lesotho data

Exh-32

59

**Exhibit 33
Miner Remittances in Relation to GNP and GDP**



Exh-33

89