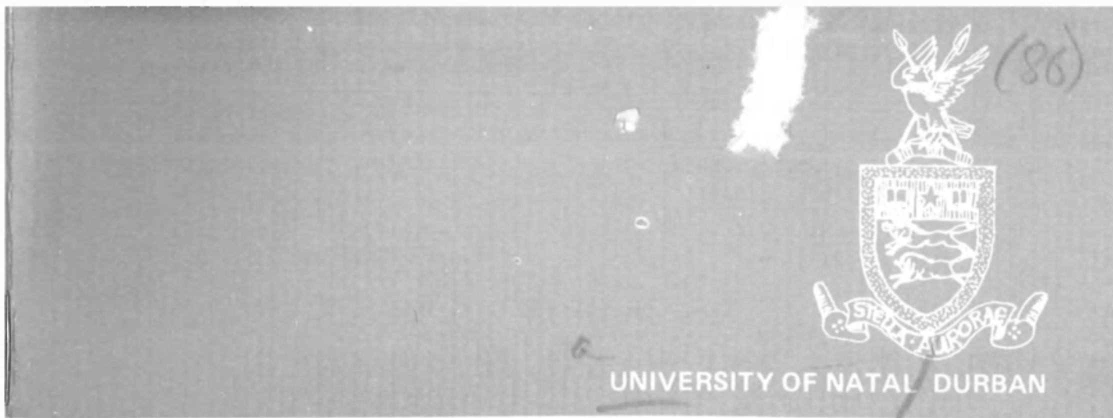

WHAT A WASTE OF MANNA : AID, INDUSTRY AND THE PUBLIC ACCOUNTS OF LESOTHO.

Paul Wellings

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ACCOUNTS OF LESOTHO

by

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ABSTRACT. *Lesotho finances its development effort almost entirely through the commitment of international aid. The major share of this revenue accrues directly or indirectly to the South African economy. Whilst it is inevitable that South Africa will benefit from the disbursement of international funds to an open, dependent and neighbouring economy, the Lesotho government does little to regulate the leakage of this and domestic capital to the Republic and increase its local retention, assimilation, investment and circulation. In fact, various aspects of government administration and policy tend to aggravate the problem of capital leakage, namely; the inefficiency of, and corruption within, public financial control; the reversal in development strategy from a rural/agricultural to a modern sector option; and the consignment of industrial development to foreign, mainly South African and South African based, capital. This paper attempts to demonstrate how these factors contribute to and exacerbate the process of capital drainage.*

INTRODUCTION

There can be few countries with poorer prospects than Lesotho for the development of a viable domestic economy. The country has almost no industry and few resources (Wallman, 1972; World Bank, 1975) and the national economy is therefore based upon a subsistence mode of herding and cultivation (Ntsane and Eckert, 1978; Sterkenberg, 1980; Turner, 1978) which, in turn, rests upon a notoriously fragile ecology (Schmitz, 1983)[1]. GNP per capita was estimated at only R238 in 1977/78 (GOL, 1980, 10) and several studies conducted in

both urban (Marries and van der Wiel, 1975; Metcalf, 1981; Wellings, 1983a) and rural locations (Murray, 1981) suggest a deterioration rather than an improvement in poverty levels.

Whilst international aid has become increasingly important to Lesotho's development effort, the country survives only through its participation in the Southern African regional economy. This dependence has become more and not less firmly entrenched since Lesotho won independence from Britain in October 1966. Lesotho's trade deficit increased from R75.1m in 1974/75 to R189.9m in 1977/78 (GOL, 1980, 16) and the percentage of imports covered by exports dropped from 11.5% to 6% (GOL, 1980, 13). This deficit (1977/78) was financed chiefly by migrant labour remittances (62%), Customs Union receipts (17%), international aid (13%) and tourism (4,8%) (GOL, 1980, 13).

It has been argued by several writers that much of Lesotho's present and continuing underdevelopment may be attributed to the function it has assumed in the regional economy (Crush, 1982; Murray 1980a; Leys 1979). Historically, Lesotho was absorbed within the arena of white capital, initially as an exporter of grain but subsequently as a supplier of cheap migrant labour. This, it is alleged, led directly to the underdevelopment of peasant production. (Kimble, 1978).

The current dependence upon, and the debilitating effect of, labour migration on Lesotho has been the subject of several

critical studies (Elkan, 1980; Leys, 1979; van der Wiel, 1977). The impact upon rural production has been disastrous (Kimble,1978; Murray, 1980b, 1981); some 70% of rural household income is now obtained from migrant remittances. Labour migration has also been responsible for the breakdown of traditional social relations (Gay, 1980a;1980b; Gordon, 1981), the acceleration of rural-urban migration (Jilbert, 1977; Piek, 1971; Wilkinson, 1983) and the consequent expansion of unplanned peri-urban settlements (Wellings, 1983a).

Lesotho's dependence on migrant remittances is so deep that any substantial decline in their value will have very serious repercussions on the economy. And, there are definite signs that South Africa will not continue to absorb Basotho labour at the present rate. Four factors have contributed to this. In recent years, the South African state has been intent on 'internalising' its migrant labour force for political reasons (Taylor, 1982) although this has so far had most impact upon Mozambique and Zimbabwe. Secondly, rising unemployment in South Africa has reduced the demand for imported labour. Thirdly, the capitalisation of South African productive capacity which took place in the 1970's has led to a declining demand for labour. And finally, South African policies have had the effect of concentrating Basotho migrants into the mining sector where they are more vulnerable to changes in general economic conditions and to the rising capital: labour ratios in that industry. The level of Basotho migration has remained more or less steady for several years. Eckert (1983, 253), in fact, estimates an average annual

rate of decline of 3.5% between 1980 and 2000. Whether this actually happens remains to be seen but the static level of migration has already led to a drop in the real value of remittances. Between 1974/75 and 1975/76, migrant remittances to Lesotho increased in real value by 34%, but fell by 7% between 1977/78 and 1978/79 (GOL, 1980, 18-19). Besides the direct loss of income to receiver households, this affects government revenue via the Customs Union. Migrant earnings are the major determinant of the propensity to import from the Republic and hence Customs Union receipts. In 1977/78, 50,9% of Customs Union revenue derived from imports purchased by migrants and their families. But, by 1979/80, this contribution had fallen to 40,4% (GOL, 1980, 63).

Customs Union revenue, the second major parameter of Lesotho's dependence, derives from purchases of foreign (mainly South African) goods and services, and is collected into a common pool administered by the Republic and redistributed to members (Botswana, Lesotho, Swaziland and South Africa constitute the membership of SACU) with a two year time-lag in accordance with a complicated and structurally unstable formula.

Lesotho has consistently attempted to negotiate a larger proportional allocation and more favourable contractual terms from SACU but although academic commentators are divided on the issue (Collings, 1978; Ettinger, 1973; Mosley, 1978; Robson, 1978, Hudson, 1981), there would seem to be few ways in which Lesotho could be substantially better off outside the Custom's Union (Cobbe, 1980). However, the

major argument against membership is that it discourages import substitution. Indeed, it has been estimated that the decline in the real value of migrant remittances and the increase of local production of items normally imported from the Republic will result in a 10% reduction of the value of Lesotho's Customs Union receipts between 1980 and 1985 (GOL, 1980, 21).

The third major aspect of Lesotho's dependence is its reliance upon trade with the Republic. Only 28% of Lesotho's exports find their way out of South Africa (GOL, 1980, 26) and almost 90% of Lesotho's imports come from the Republic (GOL, 1980, 14).

Moreover, all international imports pass through South African hands. Lesotho became acutely conscious of this aspect of dependence during the Transkei 'emergency' of 1976 and during 1983 when the borders were subjected to more stringent controls.

Lesotho's severely limited resource base, its fragile agricultural economy and its chronic dependence upon South Africa constitute the three major obstacles to genuine, equitable and sustainable national development. Whilst it is obvious that Lesotho can never be entirely independent of its neighbour, the reduction of this dependence has become the central theme of development policy (GOL, 1970; 1975; 1980; ILO, 1979; World Bank, 1975), and hence the major objective of international aid donors (Curry, 1980; Jones, 1977; Singh, 1982).

Since independence Lesotho has been remarkably successful in attracting disbursements of international aid. Up to 1966, Britain was almost the only donor, donating R8.6m in that year mostly in the form of a subsidy to government revenue. In 1980/81, however, R56.4m was committed to Lesotho in grant form, R20.0m in

technical assistance, and a further R20.4m in commercial and soft term loans, a total of R96.8m divided among 24 major donors (Wellings, 1982, 268-70).[2] Lesotho's dependence upon foreign aid for its development programme is illustrated by the fact that the government contributed only 17.6% of National Development Expenditure in 1980/81. Whilst this proportion has increased from 12.5% in the period 1965/66 to 1971/72 (Jones, 1977, 179-80), the absolute shortfall in local participation has risen alarmingly; from R18.8m in 1974/75 to R105.84m in 1980/81 (Wellings, 1982, 270).

Whilst this form of dependence is generally disturbing, Lesotho is not confronted by many of the problems commonly associated with it. Many of the traditional arguments against aid - the creation of indebtedness, the tying of expenditure, and the manipulation of economic policy with reference to the interests of international capital - cannot be sustained in this particular case. Not only does Lesotho receive a relatively disproportionate volume of aid per capita but most of it is disbursed on unusually generous terms. In comparison with other African countries, interest rates are low, maturities and grant element high, debt service and debt outstanding insignificant, and the government appears capable of manipulating the donors with considerable success (Wellings, 1982, 273-274). For example, Britain is committing R10.7m to Lesotho in the period 1982/83 *all* on grant terms, Lesotho being the only recipient of British aid to secure an increase in the real value of allocations over 1981/82.[3]

But whilst the official objective of aid is to reduce Lesotho's dependence, its effect has been to increase it through the 'leakage' of foreign funds to the South African economy. It has been estimated that between 60% and 80% of externally derived funds are rerouted to South Africa via Lesotho recipients. The diverse channels through which aid filters over the border have been documented in an earlier paper (Wellings, 1982) so it is only necessary to briefly review the situation here.

Unrestricted aid donations, for example, are treated in the same way as government revenue and are used openly to make direct purchases of South African goods and services. Tied aid is a little different, coming in a package containing various regulations and restrictions on use. Normal practice is that purchases must be made in the donor country but under certain circumstances this regulation may be waived to allow 'local or third-country' purchases. In the case of Lesotho, the waiver system is commonly employed and subject to abuse.

Capital may also drain to South Africa indirectly through the local economy via purchases from South African companies operating in Lesotho, purchases from Sesotho companies which import their stock from the Republic, the submission of contract tenders from government departments, parastatals and individual projects to South African companies or to Sesotho businesses which subcontract to firms in the Republic. In addition, only a very small percentage of expatriate and Sesotho salaries, funded by technical assistance, accrues to the domestic economy since most of it is used to import South

African goods and services. In the absence of detailed accounts of expenditure, it is impossible to be precise as to the magnitude of capital drainage. However, taking both government revenue and international donations into consideration, one estimate of the leakage on public contracts is R200m p.a. Private purchases must be added to this figure.

The scale of capital drainage may be further illustrated by the following figures from the Roads Department in the Lesotho Ministry of Works.[4] For the financial year 1982/83, expenditure was in the region of R30.5m, of which 39% was provided by the Lesotho government and the remainder by eight international donors. Expenditure is divided into four major categories; hire of plant (R15.25m), hire of transport (R6.10m), materials (R6.10m), and labour (R3.05m). South African contractors claim *at least* 40% of plant charges and 75% of vehicle sales and hire charges. In addition, practically all materials, even if they are purchased within Lesotho, come from South Africa. Thus R16.8m (55% of total expenditure) finds its way to South Africa. However, the feeling is that this is a conservative figure given the liberal application of the waiver system, because overseas delivery delays enforce subcontracting to South African companies and because all maintenance is carried out by South African operators whatever the make of plant or vehicle.

The importance of capital leakage is also evident in border towns such as Ladybrand, Ficksburg and Matatiele. In 1978, for example,

Ficksburg, with a trade turnover of R13m p.a and a growth rate of 25% p.a., was seriously described as a "boom town".[5] The cause of this was an increase in border traffic and in the purchasing power of Basotho shoppers and of government departments. The former was largely an outcome of wage increases in the mines but the latter was chiefly a product of aid inflows.

Similarly, Matatiele relies mostly upon private shoppers travelling from southern Lesotho and, during the Transkei 'emergency' of 1976, this trade dried up almost completely. In that year, the Qacha's Nek and Ramatseliso gates bordering on Transkei were closed and Basotho, who customarily shopped in Matatiele, were faced either with an illegal trek over the mountains or a tedious journey to the remote and inaccessible gate at Ongeluksnek adding at least a day to the journey. But although the border is still officially shut, by 1977 the flow of shoppers was almost back to normal.[6]

The drainage of capital to South Africa has provoked concern but not effective action on the part of the Lesotho government. In December 1978, L. Makhaloa, warned that "... we have been aware for some time that South Africa is enjoying most of the benefits of foreign aid as supplied to Lesotho by the international community".[7] Several controls were suggested; restrictions on funds spent in South Africa, import embargoes, and the introduction of local currency. But whilst the second and third of these

measures have been implemented their impact is minimal. Embargoes cover only a few products to protect local monopolies, border controls are haphazard, and Maluti currency is readily acceptable in South African border towns while Rands are easily available inside Lesotho.

Moreover, as will be shown later, the process of capital leakage is *exacerbated* by five factors; inefficient management of the public accounts and disorganised financial control in individual projects; corruption in the bureaucracy which in some instances involves collusion with South African business to defraud the donors and the government; a tendency within government to embark on expensive political projects of dubious developmental value often operating in isolation of and in opposition to those funded externally; the shift towards a more capital-intensive and urban-biased development strategy, and the move towards active encouragement of South African investment in Lesotho. The purpose of the present paper is to examine these factors in greater depth.

FINANCIAL CONTROL AND CAPITAL LEAKAGE

In common with many developing countries (Beenstock, 1979; Gould, 1980; Hyden, 1983; Tordoff, 1981; Wade, 1982), development administration in Lesotho is chronically inefficient. However, it was not until the publication of the *Report of the Auditor-General*

(Tarr, 1982) that this inefficiency was documented in any detail and its effect upon capital leakage was described. This extraordinary document - withdrawn from circulation by the government soon after publication - throws light on many of the mechanisms bleeding capital from Lesotho's economy. As such it merits close attention but since a substantial review of its contents is available elsewhere (Wellings, 1983b), only the major themes will be developed here.

The function of an audit - in this case of the public accounts from March 1975 to March 1978 - is to ascertain whether all public monies are fully accounted for and that the procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue. Thus, it would normally amount to little more than a certificate. Instead, Tarr fills 118 pages commenting at length on irregularities in financial control; errors and omissions in the monitoring of transactions; the absence of documents supporting these transactions; the chaotic storage of records and source documents; and disparities between the statement data and Treasury statistics. In Tarr's words, ' ... it proved impossible to express an opinion on the fairness or reasonableness of the state of financial affairs in the Government of Lesotho'[8], and consequently he ' ... decided not to provide the usual commentary on the budgetary out-turn for the three financial years'[9] but proceeds to catalogue a *selection* of incidences demonstrative of the laxity of local financial control. Indeed, the more than three year delay in presentation of the audit is indicative of the bureau-

cratic inefficiency he describes. Moreover, it is apparent that the inadequacies indentified in this report's predecessor (Molapo, 1978) have not improved but considerably deteriorated.

Where there are restrictions upon the expenditure of aid, the key to the process of leakage is the waiver principle. Whilst there are established procedures for the submission and approval of these waiver applications, the system's efficacy hinges crucially upon donor scrutiny of *certificates of origin*, and this, Tarr alleges, is where it breaks down. Theoretically, donors reserve the right to check on the origin, purpose and invoice of any purchase, analyse the accounts and evaluate the progress of those projects they are funding. This is a relatively easy matter in the case of directly funded aid, where the accounts are retained by the donor and the expatriates assigned to the project concerned, but, as Tarr shows, it proves impossible to accurately monitor funds as they pass "through-the-budget", in other words, through the local bureaucracy. So, even if donors were to refuse waiver applications or impose certain restrictions on local and third-country purchasing, they are not in a position to enforce decisions by detecting irregularities[10]. Donors may have to be content with signed statements of origin unsupported by documentary evidence. And, in any case, there are diverse means of circumventing these regulations. For instance, it is apparently a relatively uncomplicated matter to forge certificates of origin, and it is also possible to satisfy the letter, if not the spirit, of the legislation by contracting to South African or Lesotho based *representatives or subsidiaries* of companies operating in donor countries (Wellings, 1982, 287).

There would appear to be similar problems in respect of Tender Board regulations. Theoretically, all substantial public contracts should be submitted to this Board for consideration. Its purpose is to ensure healthy competition for these contracts, that bids are fair, and that approval is given to the cheapest and, where possible, to local Sesotho operations. When donors fund through-the-budget they have to assume, then, that Tender Board procedures will be followed correctly. However, Tarr shows in example after example that the Tender Board is being consistently ignored.

'In the period under review', Tarr writes, 'ministries and departments continued to disregard Tender Board procedures relating to procurement of supplies and the awarding of construction contracts. In these cases, no action was taken against the responsible officers and retrospective approvals were invariably given to condone these irregularities. It is to be noted that the absence of competitive tendering without the approval of the Minister of Finance can lead to all sorts of undesirable consequences'.[11] One such consequence is the acceptance of wildly inflated bids;[12] another, the approval of non-competitive tenders for unspecified reasons. An interesting case here was centred upon a road project for which several construction companies competed in November 1977. The locally-based consulting engineers, in consultation with the Ministry of Works, agreed that the lowest quotation, of just over R5.0m, was fair and this recommendation was accepted by the Tender Board in May 1978. However, 'upon investigation', the Board rescinded its original decision on account of

alleged 'irregularities' and resolved to award the contract to the next lowest bidder. But, in June 1978, Works was instructed by the Ministry of Finance to re-award the contract to the third lowest. Although this decision resulted in an additional cost of over R1.3m for apparently no additional value, the reasons for it have remained mysterious.[13]

Yet another irregularity is the approval of Tender Board waivers by unauthorised persons or in retrospect without obvious cause. Several examples cited by Tarr[14] show just how relaxed this important control has become. The situation is such that payments can be made to any company or person without consultation with the Treasury or Finance. In March 1977, for example, the Ministry of Agriculture presented vouchers totalling R268 300 for payment of goods purchased without Tender Board authority or waiver notification.[15] One consequence of this irregularity could be over-payment on contracts, and another frivolous expenditure.

Opportunities for fraud are also abundant. Auditory procedures are so slack that public servants could find it relatively easy to award themselves and/or partners contracts either directly through companies they own or have an interest in, or indirectly via fictitious companies which front for genuine operations. In the case of the latter, the bogus contractor subcontracts to and buys supplies from a legitimate company but inflates invoices to the government department or project concerned. In 1977, for example, an evaluation of the construction operations of one Ministerial Division concluded that R16 000 of the

R30 000 disbursed to the contractor represented an overcharge. The audit investigation which followed discovered that one of the Division's engineers had been submitting the contracts to an unspecified company and then inflating the charges. Such was the disregard for even the most basic accounting procedures at the Division, that this officer was able to prevent the origin of the invoices, and hence the identity of the 'real' contractor, being traced beyond his desk.[16]

As the report continues, Tarr makes it clear that the Tender Board, albeit an important mechanism, is only *one* of a series of financial controls in Lesotho which function improperly if they function at all. In 1979, an investigation into overexpenditure by the Maseru Township Office revealed that numerous fictitious disbursements totalling over R115 000 had been made between April 1978 and August 1979. This had been made possible, claimed Tarr, by ' ... absolute laxity and absence of internal control systems within the Ministry of Interior as well as the Treasury.'[17] The Court Judgement which followed spoke of 'disorder,' 'deplorable disregard for financial regulations,' and the 'complete breakdown of financial discipline and control.'[18] On the evidence of further examples quoted by Tarr, there can be little doubt that this state of affairs is ubiquitous within government.

It is also clear that South African companies must benefit enormously from inefficient financial control in Lesotho. A specific example may be drawn from Tarr's examination of the government's 'summer

and winter cropping programme.' The programme, which commenced tentatively in 1976, was intended to develop 41 000 acres of good arable land. The local farmers, on receipt of a subsidy, were required to vacate their land while the work, largely commercially oriented, was done by agricultural contractors from the Orange Free State.

The statement of accounts reflected an astonishing loss of nearly 26% of the original capital (R1.3m) excluding interest on the loans. Tarr's audit also disclosed that the standard of administrative, financial and accounting control was hopelessly ineffective. Tender Board regulations were flagrantly violated, asset registers were 'lost' and basic books of account ineffectually maintained. Numerous cases of fraud were detected; payment vouchers were duplicated and re-used, private contractors obtained government fuel free of charge, and disbursements to contractors referred to fictitious acreages of ploughed and planted land. With respect to this last point, Tarr makes reference to one South African contractor, which according to payments made, had ploughed 27 641 acres and planted 24 214 acres. Tarr discovered that the *actual* acreage ploughed was 9 416 and that only 7 609 acres had been planted. It was calculated that, as a result, the company had been overpaid by R205 000.[19]

Money was also lost through misunderstanding the plan of operations. Under the sharecropping agreement with the government, farmers had to acknowledge the debt of R12 per acre in respect of fractional cost of the scheme. There was no evidence, however, that contracts had

been signed and the debts recovered. Similarly, although farmers were obliged to provide manual labour the programme was charged with large labour costs[20] and the government also awarded compensation for hail damage even though this was outside the terms of the original agreement and no insurance policy was taken to cover it.[21]

Weakness in the management structure was not the only problem, however. From the point of view of viability, the programme was fundamentally misconceived. The risks involved were simply shunted from the farmer to the government. Apart from making land available the farmer's participation in the scheme was practically nil but, at the time of harvest, he was provided with 50% of the returns. The project is therefore a heavily subsidised one which appears to benefit only a number of selected farmers and the South African contractors (the participating farmers christened the programme 'Ahlama U Je' - Manna has dropped from heaven). It has therefore been suggested that it may have more to do with securing political support than with the development of a viable and independent agricultural sector.

The donors are not without blame of course. Some of the problems Tarr minutes are attributable to the recent escalation in aid commitments. As the money poured in the government over-programmed and a considerable proportion of it remained unspent. The donors reacted by stretching the spending period and the government relaxed its own financial regulations to enhance ministerial spending capacities. Inevitably, this well intended authorisation was used imprudently

and incautiously and the result was absolute chaos. Expenditures were incurred on projects which had no financial provision or were far in excess of provided funds, and, in some cases, they were charged both to the project votes and to advance accounts leading to overdraft interest charges for which the government was liable. One example relates to the construction of the Hilton Hotel in 1977/78; whilst the voted provision was R3.0m, the expenditure charged to this vote was R612 000 and that charged to the advance account R3.549m, creating a budgetary deficit of R1.16m.[22]

According to Tarr, then, the last decade in Lesotho has witnessed a progressive deterioration in financial management and administration. Extensive financial discipline has led to disregard of regulations and instructions and has culminated in the breakdown of accounting controls that has reached catastrophic dimensions in recent years. Inbuilt safeguards against financial irregularities have been vitiated and, through default and delay in the processing of public accounts, this has presented opportunities for the perpetration of peculation and fraud. The donors, it seems, do not fully appreciate that once they relax or dispense with the draconian restrictions normally applicable to tied aid, they release funds into a system incapable of handling them in accordance with their objectives. And, by channeling the monies through-the-budget, they transfer administration of the funds to the local bureaucracy. If the government's own audit Division is unable to discover where the money is going to, then it is unlikely that the donors will be more successful. Some, Tarr alleges, simply vanishes, buried in forgotten accounts or

misposted to non-existent votes; rather more is wasted on frivolous expenditures or lost on overcharges, and a considerable proportion is being creamed off via fraudulent claims on public monies and through collusion with contractors and suppliers. Thus, it is quite clear that local administration of the public accounts does very little to regulate the drainage of international capital to South African business, and in fact tends to aggravate the process by providing an ideal climate for corruption and exploitation, obscured by bureaucratic incompetence and negligence and unhindered by the rigorous implementation of the most basic accounting controls and checks.

INDUSTRY, FOREIGN INVESTMENT AND CAPITAL LEAKAGE

Eighty-five per cent of the population of Lesotho is rural-based and heavily dependent upon subsistence cultivation and herding. Accordingly, both the First (1970/71-1974/75; GOL, 1970, 24) and Second (1975/76-1979/80; GOL, 1975, 24) five year development plans emphasised development in this sector of the economy. In addition, most academic reports have favoured a policy of agricultural development complemented by the introduction of light agriculturally-focused industry (Robson, 1967; Wallman, 1972; Ward, 1967; Winai-Ström, 1978) and the improvement of infrastructural facilities followed by the establishment of import-substituting industrial production (Gray, Robertson and Walton, 1980). However, it is apparent that both donor and governmental commitment to rural development is declining steadily (Wellings, 1982, 277-283).

For instance, agriculture consumed 44.2% of development expenditure in 1974/75 but only 8.4% in 1979/80 (GOL, 1975, 36; GOL, 1980, 28, 37). The rundown in the externally funded rural development effort, in response to the conspicuous failure of the area-based projects of the early 1970s, is not being compensated by any real increase in the domestic contribution which is being increasingly directed towards economic infrastructural development. This reversal in policy appears to have come about during the second plan period. Agriculture and economic infrastructure claimed 32.6% and 18.1% respectively of the *original* planned public investment between 1975 and 1980, but the *revised* figures, calculated retrospectively, were 20.7% and 29.1% (GOL, 1980, 28).

The government now considers the creation of a viable independent agricultural base an 'unrealistic objective,' and is 'anxious to move away from the simplistic concept of self-sufficiency ' (GOL, 1980, 49). Although the government continues to make appropriately reassuring noises confirming its concern for the rural populace, rural development policy is now a confused pot-pourri of conflicting programmes comprising Food Aid, the low capital-intensity Basotho Agricultural Services Project and subsidisation schemes. Examining the most recent Capital Accounts, it is evident that the government has abandoned its once cherished vision of an autonomous self-sustaining agricultural sector and is re-orienting investment, both locally and extraneously derived, towards capital-intensive, usually urban, projects where the returns are more visible and immediate

but which aggravate the import component of technology, materials, personnel and contractors.

The major concern at present appears to be the provision of employment opportunities in the modern sector. It is estimated that there are 20 000 new entrants to the labour force every year in Lesotho (Montsi, 1982, 6) and, given that the modern sector presently accommodates only 40 000 Basotho, 56.2% of whom are engaged in non-productive activities (GOL, 1980, 84) and that the number of labour migrants, totalling about 155 000 (GOL, 1980, 11) is likely to decline in the immediate future, (GOL, 1980; Taylor, 1982), their assimilation into this sector is obviously problematic. But while this proposition is exceedingly ambitious, the answer is thought to lie with foreign, particularly South African, private investment; investment, that is, into industrial expansion. 'At present,' one official report asserts, 'Lesotho cannot provide enough employment opportunities for all its people. The Government decided some time ago that the best method of solving this problem was to encourage the development of private enterprise both local and foreign. Local enterprise will not, at this stage of development, be sufficient to provide the required number of jobs. Hence strong reliance is being placed on foreign investment.'[23] Some academic observers also see advantages in a policy of increased economic co-operation with the Republic particularly in the realm of industrial production (Adams, 1978; Gurr, 1977; Selwyn, 1972; 1975), the justification being that it is easier to import capital than to generate it domestically and that it will only become possible to reduce dependence once the industrial base is firmly established.

The Lesotho National Development Corporation (LNDC) was created in 1967 in order to, 'initiate, promote and facilitate the development of manufacturing, processing and mining industries and commerce in a manner calculated to raise the level of income and employment in Lesotho' (Moahloli, 1982, 2). In the period immediately following its establishment, LNDC undertook the initial roles of entrepreneur and investor and in 1975 the Basotho Enterprise Development Corporation (BEDCO) was launched to identify, support and stimulate local business. In 1978, however, BEDCO was hived off and re-organised as an autonomous parastatal. Although the activities of LNDC continue to impact upon those of BEDCO - by creating markets and providing a training envıronment - in recent years, its major strategem has been to attract *foreign* investment through promotion programmes and concessions on the establishment of plant in Lesotho. This policy has been primarily aimed at South Africa since:

> ... it is on our doorstep and ... has many aggressive entrepreneurs who are eager to tackle the world markets. Many overseas companies are already operating in this market. It makes sense to approach the parent companies through their subsidiaries in the region. The economic and financial arrangements existing between Lesotho and South Africa make it worthwhile for South African companies to set up operations in Lesotho. LNDC has been very successful in this market - most companies which have responded positively to our call have come from this area (Montsi, 1982, 6)

Originally it was the purpose of LNDC to invest its own capital in private enterprise commencing business in Lesotho, thereby retaining a measure of control at the management level. However, LNDC no longer seeks, 'equity participation in new ventures unless

it is absolutely necessary' (Montsi, 1982, 6). This is in recognition of the scarcity of financial and trained manpower resources available to the Corporation and the tendency for businessmen to prefer maintaining equity investment within their own shareholding structures. LNDC will now invest in equity only in certain circumstances, usually upon invitation and normally contributing no more than 25% of the total. Hence, the Corporation does not demand local participation in company shareholding. In pursuing this policy, LNDC has recently disposed of several subsidiaries. By 1981, seven companies had been sold to private interests (Montsi, 1982, 7).

Thus, since 1978 LNDC has concentrated more effort upon securing foreign investment in local industry from South Africa (and to some degree from Europe and Taiwan), and less upon the stimulation of Sesotho enterprise. There are three components to its promotion programme; the provision of a 'project service' to approved industries, the provision of concessions vis-a-vis financial transactions and transfers, and advantages in terms of accessibility to markets outside Lesotho.

Included in LNDC's inducement package, under the Pioneer Industries Encouragement Act of 1967, are: a tax holiday up to six years (or tax allowances), training grants up to 75% for approved programmes, loans and loan guarantees from international "Line of Credit" sources such as EIB and the World Bank; custom-built factories on a variety of industrial sites; equity participation if required; industrial

estate layout and maintenance; administrative assistance apropos permits, plans, labour recruitment and project appraisal; and the assignment of a supervisory project officer. In place of the tax holiday, companies may apply for other allowances namely; 145%, 75% and 45% grants towards machinery and equipment, factory buildings, and employees dwellings respectively. In addition, these companies may qualify for a 15% p.a. electricity rebate, a 110% annual contribution to the cost of training, a 10% annual wage subsidy over five years, and free water and sewerage on site, and transportation within the Southern African Customs Union (SACU).[24]

Lesotho also allows unimpeded repatriation of capital, profits and interest, and places no restrictions upon inward transfers of equity and capital. In addition, as a member of the Rand Monetary Area (RMA), until recently Lesotho was able to offer entrepreneurs the use of the 'financial rand' investment mechanism. Lesotho has also secured double taxation agreements with South Africa, UK and West Germany.

In terms of markets, Lesotho offers investors an opportunity to penetrate markets normally hostile to South African based producers. This is perhaps its biggest selling-point to investors. As E.R. Sekhonyana, then Minister of Planning, Employment and Economic Affairs remarked in 1982: 'Our forte lies in the acceptability of our products internationally, in most cases on concessionary terms.'[25] Or, as Scott Moahloli (1982, 8-9) of LNDC put it to an audience of foreign businessmen:

Some of you may be seeking ways of entering the lucrative markets of the EEC but may be worried about import duties or possible rejection on political grounds. For similar reasons, you may be put off attempting to tackle the rapidly-growing markets in the black African countries. Non-South African companies among you may be wary of investing in the Republic because of possible political repurcussions back home. If you think like this, may I suggest that you owe it to your company and to your shareholders to at least consider the possiblity of solving all these problems by starting a manufacturing unit in Lesotho.

The single most important market accessible from Lesotho is South Africa and its neighbouring states. As a member of SACU, Lesotho-based industries qualify for duty-free entry into South Africa and other member countries, a factor that will interest multinationals hesitant to open or further operations in South Africa for political reasons, or relatively foot-loose South African companies interested in a "free-lunch" of concessions. Lesotho is also a signatory to the Yaounde I, II and Lôme I and II trade conventions granting it the facility to export commodities to the EEC at zero or much reduced rates of duty (Rajana, 1982). This concession applies both to goods wholly produced in Lesotho and to goods comprising an import content provided that they have been "satisfactorily transformed."[20] Interestingly, a product need only have 25% "value-added" in Lesotho to qualify for a Lesotho certificate of origin which means that goods produced in South Africa and "finished-off" in Lesotho can be exported preferentially to EEC markets. Although the quantities qualifying for this treatment are limited by quotas, ceilings and maximum-country amounts, under the Lômé II (1983-85) agreements, the Generalised System of Preference (GSP) has been altered to introduce a system of differentiation in the allocation

of benefits. This individualisation of preferential shares has given less competitive exporters like Lesotho greater security in the European market.

The Commonwealth and European countries outside the EEC also operate GSP schemes in favour of Lesotho. Japan and certain Eastern European countries grant preferential entry at a variety of levels for listed agricultural products and most industrial products are accorded either duty-free entry or entry at 50% the normal Most Favoured Nation (MFN) rate. In addition, the USA provides duty-free benefits for all listed items and lifts quota restrictions on certain products. Lesotho also advertises its accessibility to the black African market on concessionary terms as an inducement to foreign, particularly South African, investment. Lesotho is a member of the Southern African Development Co-ordination Conference (SADCC) and the Preferential Trade Area (PTA) and has signed trade agreements with Zambia, Zimbabwe and Mozambique providing reciprocal MFN discounts for the signatories' exports. Ironically, South African or South African based companies, by locating a subsidiary in Lesotho, can take advantage of markets organised with the intention of reducing the Republic's economic power in the region.

LNDC regards its industrial policy as the only solution to the development problems facing the country. Results so far have been described as 'promising;' in 1981, twenty two projects with 1 400 job opportunities were approved by LNDC (Montsi, 1982, 6). Although this adds only 8% to the level of industrial employment in the country

and remains a long way from absorbing the 20 000 entrants to the labour force in that year, LNDC is optimistic for the future. Lesotho is, it claims, 'regionally competitive' in the attraction of foreign investment, and it is this investment which will eventually manufacture an independent industrial base for the country.

LNDC policy, however, is not without criticism. At a general level, some would find it distressing to witness Lesotho employing its favoured market status (which it received in response to its dependence upon South Africa and its position as a "front-line" state) as an advertisement to South African and South African based companies specifically and purposefully denied such concessions. As Lothar Zimmer, (1982, 10) advisor of planning aid co-ordination in Lesotho remarked:

> I wish to draw particular attention to those foreign companies in South Africa who are under increasing political pressure because of their engagement there. To dwell in Lesotho within few kilometres of South Africa is politically expedient at low cost. While one may say this is hypocritical because mainly South African inputs will be used anyway and the market is primarily in South Africa, I view this from a pragmatical (sic) standpoint: jobs and income are created in Lesotho - dogmas have never been able to feed people.

The question that arises is will the international community be prepared to condone this situation indefinitely? Clearly, the objective of the Lomé Convention as it applies to Lesotho is to encourage Sesotho and not South African capital.

Secondly, it is disturbing that LNDC imposes no legislation to prevent foreign companies taking advantage of inducements and concessions purely for short-term gain. If foreign companies repatriate their profits annually and their capital upon the expiration of LNDC support, as they are entitled to do, then the benefits accruing from that investment may in fact be negative in balance. The employment and income generated will be temporary and the LNDC package will effectively represent a subsidisation of foreign industry. Whether foreign investors regard their Sesotho ventures as permanent or temporary concerns remains to be seen.

Thirdly, one must question the wisdom of consigning the major responsibility for industrial development to foreign companies. The level of foreign ownership in Lesotho's industrial sector is already high and growing (see Table 1; results of a survey of sixty one companies currently operating in Lesotho), the greatest share being taken by South African companies (see Table 2). Since Sesotho companies tend to be more labour intensive than foreign companies, the foreign ownership of *industrial capital* is likely to be more in the region of 50%. Moreover, in terms of joint ownership, examining the twenty five companies LNDC is associated with, around 50% of them are foreign controlled in respect of equity holdings (see Table 3) and, given LNDC's shortage of skilled manpower at the board level, *de facto* foreign control is likely to operate even where LNDC is the majority shareholder. LNDC policy to the effect that local shareholding is not an obligatory condition for foreign investment contributes to

this situation. One effect of this is that Lesotho's power to shape industrial development policy is limited. Moreover, the development of Sesotho entrepreneurial talent seems to have been passed over. The emphasis has been placed on employment at the cost of advancement to professional and managerial levels. BEDCO appears now to be peripheral rather than central to industrial policy.

TABLE 1

Companies Operating in Lesotho : Level of Foreign Ownership

	No.	% of total	Employ-ment	% of total	Average No. of employees per company
Lesotho owned	25	41.0	1 051	20.3	42
Lesotho/Foreign owned	23	37.7	2 982	57.5	129.7
Foreign owned	13	21.3	1 149	22.2	88.4

Sources: LNDC., 1982: *Investment Guide to Lesotho: 1981*, Maseru, pp. 19-20, and LNDC., 1982: *Annual Report 1981*, Maseru, pp. 12-13.

Fourthly, very few of the foreign companies locating in Lesotho are developing linkages with the rural economy via the input of

TABLE 2

Companies Operating in Lesotho: Nationality of Owners

Foreign ownership

	No.	Employment
South Africa	4	134
South Africa/UK	2	330
South Africa/West Germany	1	280
South Africa/Netherlands	1	100
UK	1	100
Netherlands	1	45
USA/Zimbabwe	1	120
Taiwan	1	20
Denmark	1	20
Total	13	1 149

Lesotho/Foreign ownership

	No.	Employment
With South Africa	19	2 342
With Taiwan	2	420
With Netherlands	1	20
With Netherlands/CDC	1	200
Total	23	2 982

Sources: LNDC.,1982: *Investment Guide to Lesotho: 1981*, Maseru pp. 19-20, and LNDC., 1982: *Annual Report, 1981*, Maseru, pp. 12-13

technology and expertise into production and marketing. Only the mohair weaving industry has benefited from foreign capital and technology. The benefits of industrial development are therefore confined to the country's urban areas. In would appear that the Lesotho government regards unemployment as an urban problem which cannot be solved solely through rural development.

TABLE 3

LNDC's Equity holdings in Subsidiary and Associated Companies

	No. Companies	Employment
100% equity held	5	301
76-99% equity held	1	86
51-75% equity held	7	625
50% equity held	5	436
25-49% equity held	5	556
Less than 25% equity held	2	106
Total	25	2 110

Source: LNDC., 1982: *Annual Report 1981*, Maseru, pp. 12-13

Fifthly, although LNDC is primarily interested in attracting companies that will manufacture products which are cheaper than South African imports and more suitable for the local market, very few of those that have invested in Lesotho are of this type.[27] Although Table 4 shows that perhaps 50% of the sixty one surveyed companies depend on

a local market, most of these are commercial concerns or involved in construction, services and the sale of technical expertise.

LNDC has had considerable success in attracting South African commercial capital but one of the most significant effects of the establishment of further distribution outlets in Lesotho is the acceleration of capital leakage through the improvement of accessibility to South African goods. OK Bazaars and Metro Holdings are two notable South African companies expanding these kind of enterprises in Lesotho with LNDC assistance. Metro Lesotho, for example, has done exceptionally well from its outlets in this country. Commencing business in 1978 with one Cash and Carry in Maseru, the company now has six distributors in the major population centres and has increased sales and profits before tax on average 57% p.a and 100.6% p.a respectively (Lipchin, 1982, 4-6).

TABLE 4

Companies Operating in Lesotho: Markets

	No.	% of total	Employment	% of total
Lesotho only	34	55.7	1 876	36.2
Lesotho/Foreign	18	29.5	1 361	26.3
Foreign only	9	14.8	1 945	37.5

Sources: LNDC., 1982: *Investment Guide to Lesotho: 1981*, Maseru, pp. 19-20, and LNDC., *Annual Report 1981*, Maseru, pp. 12-13.

The other kind of "local market" is that created by international aid through its deployment in development projects and through the creation of income in the modern sector. Urban services, water storage and supply, transport network development and construction, currently top priority in both domestic and donor expenditure, have generated a large market for a myriad of South African owned and South African based companies particularly in building and freight haulage. Some of the biggest companies to have located subsidiaries (and to benefit from LNDC assistance) in Lesotho operate in these sectors. Taiwan Construction (two thirds Taiwanese owned), Lesotho International Construction Company (40% owned by Wimpy International), Tranalquip (Dutch owned) and Hungerford-Schroeder (South African owned) are examples of companies engaged in building and engineering. Freightpak International and International Freight and Travel Services (both South African owned) comprise the major bulk distributors. In addition, several types of companies servicing the construction and engineering industries have established offices in the country. There are now a considerable number and diversity of South African owned garages offering vehicle and plant maintenance in Maseru and other centres, notably Maputsoe; no less than six foreign engineering consultancies, six (four foreign) architectural practices, and three foreign quantity surveying partnerships.[28]

We have noted, then, that Lesotho has moved towards a modern sector development option. Given the conspicuous failure of the area-based rural development programmes in the early and mid 1970's this is

not altogether surprising. It is too early to assess the results of this strategem but it is clear that industrial development will have to be remarkably rapid if Lesotho is only to break even. Since modern sector development of this type is doing very little about rural underdevelopment in Lesotho it will have to cope with rural as well as urban job-seekers. It is also clear that this industrial option will aggravate the problem of capital leakage; firstly, because it raises the import component of materials, manufactures, technology and skills, and secondly, because it increases the presence and influence of foreign, mainly South African, capital in Lesotho. Employment *is* created by industrial expansion but the internal multiplier of the income it generates is depressed by the scarcity of Sesotho commerce and industry.

CONCLUSION

In any developing country it is imperative that internal and externally-derived funds are deployed efficiently and in such a manner that the domestic multiplier is maximised. This is particularly important in the case of Lesotho where the leakage of capital is encouraged by the country's dependence upon South African suppliers, contractors, technology and skills. This paper has pointed out that weak financial control in Lesotho's public administration (of both local and international funds) is aggravating the problem of leakage. It is suggested then that more stringent financial controls should be introduced as a matter of urgency.

This paper has also argued that Lesotho's present development strategy - industrial expansion through foreign investment - will also exacerbate the leakage situation. Moreover, by failing either to adequately protect or to encourage Sesotho commercial and industrial entrepreneurs, this strategy is more likely to increase rather than reduce Lesotho's dependence on South Africa and, as a means of generating employment, its cost-effectiveness may also be open to question. The government of Lesotho, then, may well have cause to rethink its development policy in the coming years and reconsider rural development as an alternative.

NOTES

1. Discounting all settlements over 5 000 as 'urban', 89% of Lesotho's 1.3 million people lived in rural areas in 1980 (Wellings, 1983a). Agriculture is therefore virtually the only productive activity, contributing 37% of the GDP in 1977/78 (GOL, 1980, 8).

2. Working on the basis of average inflation rates on imported South African non-perishable products of 12% between 1975/76 and 1980/81 and 8% from 1966/67 to 1974/75 per annum (pers. comm.) and population growth rates of 2.3% (1970-79) and 2.0% (1960-70) (World Bank, 1981, 166), aid allocations have increased in *real terms* at a rate of 2.6% p.a per capita between 1966 and 1980/81.

3. LNDC., 1982 : *Newsletter*, 3, Maseru, p.3

4. Pers. comm.

5. *Sunday Times*, (Johannesburg), 3rd December 1978.

6. *Natal Witness*, (Pietermaritzburg), 6th August 1977; *Natal Mercury*, (Durban), 7th May 1977.

7. Permanent Secretary to the Minister of Commerce and Industry (now 'Trade and Industry'); *Sunday Times*, (Johannesburg), 3rd December 1978.

8. Tarr (1982, 19).

9. Ibid., p. 17.

10. Ibid., p. 5.

11. Ibid., p. 8.

12. Ibid., pp. 97-98.

13. Ibid., pp. 98-99

14. Ibid., p. 70, p. 71, p. 83.

15. Ibid., p. 71.

16. Ibid., p. 101.

17. Ibid., p. 88. Note that this observation derives from the incomplete data available to Tarr for the period 31st March 1978 to 31st March 1981.

18. Ibid., p. 88.

19. Ibid., p. 51.

20. Ibid., pp. 42-47.

21. Ibid., p. 57.

22. Ibid., p. 10.

23. LNDC., 1982: *Investment Guide to Lesotho : 1981*, Maseru, p. 2.

24. Ibid.

25. LNDC., 1982 : *Annual Report 1981*, Maseru, p. 5.

26. Theoretically, this is achieved when the tariff heading of the finished product is changed from the heading before transformation.

27. Two examples of this type of company are; Selkol, a subsidiary of a South African industrial conglomerate, which has recently invested R200 000 into a Lesotho woodwork factory and plans to pump in a further R200 000 over two production phases (LNDC, 1982: *LNDC Newsletter*, 3, p.8); and the Durban company, Khatani Industries, which acquired the Maseru based Kolonyama Candle Company in 1982 and, by investing over R750 000, intends to expand into soap and masterbatch production (LNDC., 1982: *LNDC Newsletter*, 2, p. 11). However, both companies intend to sell to the South African market as well as Lesotho.

28. LNDC., 1982 : *Investment Guide to Lesotho : 1981*, Maseru.

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