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(b) FACULTY OF SOCIAL SCIENCES

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STAFF SEMINAR PAPER

No. 23

The Structure of Lesotho's  
Balance of Payments

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23 April 1980 4 p.m.

(Senate Room).

## BALANCE OF PAYMENT

LESOTHO 1970/71 - 1978/79

For any country, the task of compiling Balance of Payments figures is a difficult statistical exercise, involving a large component of estimation, allowance for undeclared or illegal transactions and arbitrary allocation of undefined capital movements to convenient classification.

For a country like Lesotho, the task is impossible for a number of reasons

- 1) As a member of the Southern African Customs Union, Lesotho places no barrier on the movement of goods and services across her borders. Government, firms, traders and citizens carry on every kind of transaction on both sides of the border with complete freedom. The only data kept is that of the declaration by individuals of the value of goods brought into the country; this data is collected for Customs Revenue purposes. Goods and service moving out are recorded only if channelled through an official marketing agency; there is no record of casual 'export' transactions. This lack of data applies to all current account transactions-tourism, insurance, freight dividends etc.
- 2) As a member of the Rand Monetary Agreement and, until 1980, without its own currency, Lesotho has had neither control of or record of monetary movements across her

borders. Any Basotho may hold funds in South Africa, conduct business, transfer funds, invest or disinvest without hindrance and without the transaction being recorded.

- 3) About half the male working population is migrant labour to South Africa. 120,000 of these are employed in mining, with an unknown number ( some illegally ) employed in agriculture, domestic, manufacturing and service industries. A large part of their income is in kind-food, accommodation, travel etc; some income is remitted, some spent in the Republic.
- 4). Because Balance of Payment figures have not hitherto been compiled (except for an attempt by a visiting I.M.F. team in 1975), no Government department except Customs has collected or compiled data with B. of P. in mind. Inland Revenue (interest/dividends). Registrar General (investment) Ministry of Tourism, Planning. Finance, Statistics, Controller of Financial Institutions reported either that the data just was not collected or that it was in unprocessed form.
- 5) Many transactions are in kind. Visiting personnel from a wide variety of aid agencies are fully or partially paid by foreign organisations, much comes in the form of vehicles, agricultural and production material, food, clothing, medicines, contraceptives educational equipment etc. whose value can only be guessed at.

6) The concept of residence is an awkward one. The basic I.M.F. rule of one-year absence signifying non-residence is not easy to apply. Migrant workers may remain for some years in South Africa but should still be regarded as residents. Their homes and families remain in Lesotho, they send funds home, visit their families at regular (usually monthly) intervals, maintain civic and land rights and cultivate land vicariously through their families. And South Africa does not recognise them as residents. For Balance of Payments purposes, therefore, such migrants are classified as residents.

On the other hand, many expatriate personnel, who reside in Lesotho for one or more years, have part or all of their salaries paid into foreign banks by their employing agencies. They may remit part of this to Lesotho. Somewhat arbitrarily, in this Balance of Payment assessment, all such personnel are treated as residents and their incomes as factor income from abroad.

Other groups - government embassy staff and government servants on long-term service abroad employed by their home governments are treated as non-residents, following normal I.M.F. convention.

Although politically independent, Lesotho has many of the characteristics of an economic region of the Southern African economy. Compiling Balance of Payments figures is rather like compiling accounts for Texas or Yorkshire, except that data in Texas and Yorkshire is more reliable.

The following accounts therefore make no pretence at statistical accuracy. They are made up almost entirely of estimates whose possible margin of error is unknown. In their favour it may be said that each estimate was made after considerable research and discussion with those people who were most likely to know the prevailing economic conditions in Lesotho.

The accounts are taken one at a time, using the standard I.M.F. classification, and each estimate is given with the argument to support its choice. Suggestions are made concerning desirable data-collection procedures which Lesotho might usefully make in the future. With the introduction of a National Currency - the Maloti - the collection of information may well become easier.

1. Commodity Exports Taking 1975/76 as our example, official recorded exports were valued at R10.6 million, the most important items being

Wool	1.72
Mohair	2.00
Hides	0.06
Diamonds	0.44
Live Animal/Food	2.04

This figure is certainly an undervaluation. The data is supplied by the South African marketing agencies which record

payments made to organisations and individuals known to be resident in Lesotho. Border officials (especially customs) have no interest in goods leaving the country; no tax is levied, there is no legal prohibition to the movement of goods and consequently there has been no reason to check or record the outward movement of goods. It is quite normal for a Basotho to truck his goods or drive his cattle to markets in South Africa, sell them and return to Lesotho with the proceeds. There is no regulation which requires him to declare the transaction to South African or Lesotho authorities. As far as the South Africans are concerned, he is treated as a South African resident. In addition, there is extensive illegal dealing in dagga (marijuana), which may well be Lesotho's principal commodity export.

It is probable that actual exports are at least twice the recorded value. However, in the absence of any reliable basis on which to make an estimate, the official figure (R10.6m) is used in these accounts, with the note that it is an under-recording by an unknown amount.

It is doubtful if anything can be done to improve data collection for Exports. The illegal and dispersed nature of the trade makes accurate data-collection impossible.

2. Commodity Imports.

a) Recorded Imports in 1975/76 were R133 million and there is no reason to suppose that this figure is wrong. About 75% of imports come by train and truck through the border posts; there are no duties payable and no reason for traders to give wrong declarations. Most of the rest comes from casual shoppers in the Republic. Again there is no incentive for wrong declaration<sup>but there may be some element of non-declarat</sup> or under valuing to avoid the inconvenience of form-filling or through sheer forgetfulness. On the other hand, these declaration are the basis on which Lesotho collects its share of Revenue from the Customs Agreement, and there may be some deliberate overvaluation by individuals and zealous customs officials. Here, the figure 133 is used with the fairly confident assumption of accuracy.

b) Customs Revenue

Import values are inclusive of tariff and should have the tariff value removed to obtain c.i.f. values. The nature of the Customs Agreement makes this a somewhat difficult exercise, and the argument leading to our conclusions rather complex.

Firstly, the actual payment received by Lesotho is based on the formula

$$LR = \frac{LI \times P \times 1.42}{CUA}$$

- LR = Lesotho's Revenue.
- LI = Lesotho's Imports, and local dutiable production and consumption
- CUA = Imports to Customs Union Area and dutiable production and consumption
- P = Total Revenue from Customs duties, excise and sales (excluding G.S.T.) taxes and import surcharge.

Thus  $\frac{LI}{CUA} \times P$  is the value of "tariff", conceptually made as a post-import payment by Lesotho citizens to Government. The fact that the payment is made circuitously through Pretorial does not change the reality of its being an internal transfer from consumers to government. The 0.42 increment is a different matter. This is an additional payment made by the SACUA to compensate Lesotho for loss of fiscal and monetary discretion, and the price raising effects of protectionist policies operated by South Africa, diverting Lesotho's trade to higher cost local products.

The value of Imports is therefore partially offset by the Customs Union revenue. The 'tariff' portion is recorded as a credit item in the Merchandise section of current account and the (0.42) compensatory part is recorded as an unrequited transfer by a foreign government/section 9.

A further problem arises when the method of payment is considered. A first payment is made, on the basis of the



two year old data, adjusted by a crude moving average of historical import data to obtain an estimate of current import values. When, two years later, actual figures are available, a first adjustment payment is made; later, when figures are checked and confirmed a second (very small) adjustment is made. Because, during the 1970's, gold prices, mine wages and mine employment rose rapidly, the level of imports rose exponentially

	(R 000)
1970/71	24,156
1971/72	31,741
1972/73	47,349
1973/74	65,790
1974/75	90,610
1975/76	132,861
1976/77	184,562
1977/78	199,374
1978/79	245,000

The result was that, until 1976/77 the moving average line lay below the actual import line and Lesotho was receiving a Payment somewhat below that which would have accrued if current import values had formed the base for payments. From 1977 to 1979, as the rate of growth in imports slackened, the moving average rose above the actual line and Lesotho received an overpayment. Conceptually, in the earlier years,

Lesotho granted South Africa a loan, repayable (through the adjustments) two years later; in the later years, South Africa made a two year loan to Lesotho.

There is an argument, fully justifiable, that this portion of Custom Revenue should be separated out and recorded as the acquisition (granting) of claims on a foreign government in the capital account. In terms of Government planning for future budgets, this is important, but it seems to be an unnecessary exercise for Balance of Payments purposes, which is primarily concerned with the flow of funds in a particular year. This analysis therefore records the actual receipts for the current year, reduces the value of imports by the "tariff" content and records the "transfer" element in section 9.

#### Goods Purchased by Migrant Workers

Some of the good brought into Lesotho represent purchases by migrant workers out of non-remitted earnings—clothing, radios, watches, cars cattle etc are remittances in kind rather than in cash. It must be assumed that, apart from a few items like clothing, these have been declared and are included in the Import figures. It is therefore necessary to include a matching conceptual cash remittance in Section 8 to balance the transaction. Import figures are recorded without allowance for remittances in kind and the assessment of section 8 records an inflow of funds which is assumed to be a mixture of a cash flow and the value of goods brought in directly.

### 3. Freight and Merchandise Insurance

Freight charges are included in the cost of goods c.i.f. to Maseru or other delivery points in Lesotho, and exports are normally sold at the border to South African agencies, so that Lesotho is not significantly involved in the freighting of goods outside her borders. Insurance is carried either by South African firms with agencies in South Africa and Lesotho, or by Lesotho firms.

The border customs declaration includes a separate section for Freight and Insurance and the sub-total is recorded in the Statistics Department breakdown of imports. However, it has been the custom to include this sub-total in the grand total of merchandise imports on the assumption that most of the services are provided by South African firms, by rail and road. Individuals ( e.g. shoppers, migrants + tourists ) never record a freight charge.

This item is therefore recorded as zero.

### 4. Other Transportation

Air freight accounts for a very small proportion of goods, mostly carried by S.A.A. and costs are included in the c.i.f. value of imports. The value is recorded as zero.

## 5. Travel/Tourism

The only data available is that supplied by the Tourist Department. It deals only with foreign visitors to Lesotho and is based on accommodation levies (10%) of hotel usage and the gaming levy (15%) on casino gains. There is no estimate of the expenditure of visitors who do not use hotel facilities, nor any estimate of their expenditure during their stay.

It is noted that, on the South African side, anyone leaving the Republic is asked to state how much he has spent during his stay. It should not be difficult for the same information to be collected from all non-residents on leaving Lesotho and fairly accurate data of tourist expenditure could be collected.

The credit entry used in this report is almost certainly an understatement, but the level of understatement cannot be estimated. Therefore, the estimates of the Tourist Department are used as provided.

On the debit side, no data at all is available, and any figure used is purely arbitrary. Expenditure on travel and tourism falls into two sections - outside and within the Rand Monetary Area.

Travel outside the R.M.A. should present no problem. Hitherto no data has been processed although the raw data

is available in travel bookings; by residents and in the issue of non-Rand currencies through the banks. Future Balance of Payments records should attempt to keep a record of this data. Almost all foreign travel is funded by outside agencies and very little is private.

Travel inside the R.M.A., by Lesotho residents is not recorded at all. Tourists, migrant workers and shoppers pass through the border posts and, on their return, are expected to indicate all expenditure on the Customs form. To the extent that they made accurate declarations, the expenditure is included in the gross Import figures. However, one suspects that the declarations tend to omit expenditure on such things as hotel accommodation, food, travel and incidental needs.

A possible method of collecting more accurate data would be to require everyone leaving the country to declare the value of Rands in their possession; on their return, the expenditure declaration and their declaration of Rands remaining should match their original declaration. The declaration itself should permit a ready classification of merchandise and travel expenditure.

For the purposes of this exercise, it is estimated that Lesotho spent double the amount on travel and tourism that non-residents spent here. Numerically there are probably more visitors to Lesotho than departments by residents, but (until 1979) all external travel has been with foreign carriers - airlines, trains + buses. For the visitor only costs borne within Lesotho are relevant; for the departing Lesotho, all expenditure is a debit.

## 6. Investment Income

It was impossible to obtain any data on relative flows of funds either for investment (capital account) or earnings from investment in the form of profits, interest or dividends. This is partly the result of the Rand Monetary Agreement, which permits firms and individuals to move funds freely and partly the inadequacy of the recording process.

The Registrar General has no record at all of the levels of investment or their earnings. Firms are registered on declaration of a nominal (minimum R2.00) shareholding, usually by a Lesotho resident who may or may not represent a local or foreign business. Increases in the asset value of the company are made at the discretion of the company, and such changes in asset values are reported to the Registrar General at the discretion of the company. No record is kept of ownership of shares, nor transfers of ownership.

Thus, firms in Lesotho appear to operate pretty much at will. They do not record the value of their assets, ownership of such assets, nor the relative Basotho/foreign holding of such assets.

In order to obtain some sort of data, 178 largest companies in Lesotho were asked to declare the value of assets over the ten year period. 46 firms replied and the result is recorded in the capital account. The 46 firms

represented a fairly good sample, spread across all industries and including a wide range of firm size. The 46 returns were assumed to be a representative sample of the 176 population and the value of assets owned by non-residents given by the sample was multiplied by  $\frac{176}{46}$  to provide an estimate of total non-resident ownership. The responses of individual firms are confidential and only gross figures may be published; a list of firms is attached in Appendix A.

The raw asset data allowed two estimates to be made. First, allowing an average 10% return in the form of interest, dividend and profit, earnings on foreign investment could be estimated for the current account. Second, changes in the total value of foreign owned assets indicated a flow of funds in the capital account ( Sections 11, 12, 13.).

Investment earnings by Basothos on foreign assets were derived from estimates of the ownership of foreign assets by Lesotho residents. These assets take the form of (a) Rands in circulation (b) Foreign assets of banks and (c) Private assets. Figures for (a) and (b) are available only from 1974/75 and payments on Rands in circulation have only been made since Lesotho entered the Rand Monetary Agreement in December 1974. Official estimates of Rands in circulation are used for the (c) component of assets, with a 7% return on them since 1975 and no return before that date.

Total ( bank and private ) assets are estimated at R10 million in 1970 and changes in these assets derived from the balance on current account. The argument is that any surplus (deficit) on current account must be matched by a corresponding flow in the Capital Account. Some is accounted for by changes in foreign investment in Lesotho, some by changes in Rand circulation, Bank reserves and I.M.F. holdings. The remainder is assumed to be held in assets abroad.

A large proportion of these holdings are in the short-term savings accounts of migrant workers who are accustomed to deposit a part of their monthly pay in savings banks and building societies where they accumulate until the end of the miner's contract. As mine employment and wages have risen, this has accounted for the growth of a relatively large pool of short-term savings held in the Republic. Earnings on all such investment - bank and private - is assumed to average 7%.

Improvement in data collection rests with the offices of the Registrar General and the Commissioner for Income Tax. Apart from the needs of Balance of Payments records, Lesotho should have an accurate record of companies registered, regular reports on the asset value of each company, ownership and domicile of these assets and a register of shares which records changes in ownership. The Income Tax office should acquire and collate, both from companies and individuals,



declarations of earnings and investments at home and abroad, by residents and non-residents.

#### 7. Other Government

In the absence of military expenditure and permanent trade delegations, this item is simply the expenditures of foreign embassies in Lesotho and of Lesotho embassies abroad. The foreign embassies in Lesotho provided their data and Lesotho expenditure is derived from Government expenditure figures; from 1976/77 onwards these are estimates of expenditure, as accurate figures have not yet been processed by the Ministry of Finance.

#### 8. Remittances.

The value of cash remittances by migrant workers is arrived at after a series of estimates. First it is necessary to estimate the number of migrants, then their incomes, and finally decide what proportion of their income was consumed in the Republic. Any goods purchased but not consumed (remittances in kind) must be recorded import value shown in Section 1.

Records of the South African Mine Recruitment Board are accurate. The actual number of Basothos working in South African mines is recorded each month and the average number employed through the year is derived. The South African Race Relations Bulletin provides average incomes of the racial groups in each industry and the Mine Recruitment Board issued wage-rates for different skills. The Race Relations Bulletin gives an average for Bantu miners which

closely corresponds to the Grade 3 mine rate. Gross Income from mine-migrants is therefore obtained by multiplying the average number of Basotho miners by the average Bantu income.

In January 1975 the compulsory Remittance Scheme was introduced, with the intention of channelling 60% of miner's incomes through the Lesotho Bank, to be held there until completion of contract. Discussions with the Lesotho Bank, with the Mine Recruiting Agency (TEBA) and a series of interviews with miners revealed that, in fact, only a small proportion of miners wages finds its way to the Lesotho Bank. The normal system appears to be that miners initially sign on for the minimum six-month contract. The deferred pay scheme, non operative for the first and last months of the contract, applies only to four months earning. The miner then continues to work on a monthly basis, with an average of fourteen months service for each spell in the mine. Thus, on average for ten of fourteen months the miner is paid his full wage directly at the mine. On the deferred pay portion of his income he is entitled to a 5% interest payment ( at annual rate ) when he collects his lump sum. The Bank earns a little over 7% on short term paper in Pretoria. Each mine has branch offices of South African savings and Building Societies and miners tend to keep surplus funds in short term accounts with these organisations, drawing the accumulated balance at the end of their contracts.

Earnings are remitted in a number of ways. Some comes under the deferred pay scheme, some accumulates and

is brought back at end of contract, some is sent monthly by post, by a returning friend or brought on the occasional monthly visit; some is brought in kind, in the form of clothing, radios etc. No record of such payments is available and the estimate of their value must be somewhat arbitrary. However, it seems reasonable to assume that 80% of miner's incomes is remitted in one form or another. Using 1978/79 as an example, the average gold miner received about R106 per month. In the mine compound he was provided with all the food he could eat, with a well-balanced diet, accommodation, sporting and recreational facilities and working clothes. There is little access to nearby towns or incentive to visit them. Apart from expenditure on drink, tobacco and other personal needs, at the mine store, there is little for him to spend. R20 is more than adequate for these needs and the few Rands bus fare home on his occasional visits. The rest assumed to be remitted, either in cash or in the form of durable goods declared to customs on entry.

The task of assessing the earnings of non-mine migrants is a much more difficult one. No records are kept of this form of employment which involves an unknown, but considerable number, of both men and women engaged in a wide variety of occupations, some legally and some in contravention of the pass laws. Most of them work on the basis of individual agreements with employers for wages, work conditions and payment in kind independently agreed upon. Estimates on the number of non-mine migrants vary from 20,000 to 100,000;

the only thing all estimates have in common is that all agree that, with mine employment increasing and more job opportunities available in Lesotho, non-mine migration is declining.

Two authentic figures are available. The Ministry of Bantu Administration and Development reported that 160,634 ( 121,716 mine, 38,918 non mine) Basotho workers were registered in the Republic at the end of 1976. In 1977 the figure is 33,256 for non-mine labour. A Lesotho Finance Ministry Survey, covering the years 1972 - 1979, has slightly lower (35,000 and 31,000) figures for these two years and a consistent decline in numbers over the period.

Fin.Min.Est.	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79
Adjusted	45,000	44,000	40,000	38,000	35,000	31,000	30,000
	(49,500)	(48,400)	(44,000)	(41,800)	(38,918)	(33,256)	(33,000)

The (somewhat weak) conclusion is that the survey figures underestimate the number of legal migrants and no allowance is made for illegal migrants. The assessed legal numbers are the bracketed figures under the survey figures - two of them (1975/76 and 76/77) being actual recorded values. An arbitrary allowance is then made ( of about one-third of legal migrants), for those working illegally. The final assessed figure of non-mine migrants appears in table - .

The next difficulty is to assess average cash income. most of these workers are employed in the Orange Free State in agriculture or domestic activity, with some in retail services performing duties similar to those of a domestic. At intervals, the South African Race Relations board has made surveys of wages in farm and domestic sectors in various regions and the available figures are.

O.F.S. (farm)	1971/72	R 76.76	per annum
	1973/74	R144.00	per annum
	1976/77	R171	

(Domestic)	1971/72	R166.94	per annum
	1972/73	R177.36	" "
	1976/77	R284.86	" "

There is also the guideline of minimum wage legislation in South Africa.

In 1976, for example, the minimum wage for an adult male Bantu was R65 per month (R780 per annum), but the surveys suggest only R14.25 for a farm-hand and R23.83 for a domestic. There is also a plea by the R.R. Board urging employers to pay domestics at least R32, the implication being that they received rather less. Certainly, it is unlikely that many of these migrants earned anything approaching the minimum wage on the other hand, many of those in domestic and retail employment may have received additional gratuities

or tips for additional services. The final estimate of R30 per non-mine migrant (R360 per annum) appears to be a reasonable guess - if anything a marginal over-estimate of actual earnings.

Unlike the miners, non-mine workers have no deferred pay system, have no organised provision of sport and recreation and generally have easier access to town amenities. In some cases ( e.g. young mothers ) they may have a dependent with them. The final assumption is that these migrants remit two-thirds of their cash income.

Conceptually, there should be an assessment made of earnings in kind - for food, shelter and transport, increasing the real earnings of migrants by that amount. This may be important for G.N.P. accounting, but for Balance of Payments purposes is a self-cancelling item because all is consumed in the Republic. The obvious difficulties of making this kind of assessment to obtain a zero balance, suggests that it is best simply to omit earnings in kind from the accounts.

#### 9. Unrequited Transfers.

Private These are the gifts, in cash and kind, received by private organisations - churches, schools, hospitals etc. The individual returns are confidential, but a list of the organisations from whom information was obtained is contained in Appendix - . The records and

accounting systems of some of these organisations leave much to be desired and no records are available for the years before 1974/75. Some of the variation in values can be attributed to the "lumpy" nature of gifts; for example, a grant for a new building can double or triple the value of gifts in one year. But some of the variation must also be due to inaccurate record keeping.

Government. These are payments from foreign governments not covered by Grant in Aid (10) and Government (7). First is the "compensatory" portion of SACUA payments discussed under (2) above. It is a payment made in addition to the duty levied on imports. Second is the Attestation fee paid by the mine companies to the Lesotho Government for every miner who signs a new contract. Both figures are accurate.

#### 10. Grant in Aid

This is the value of direct aid received by Government from International institutions and is taken from the Government Revenue/Expenditure publication.

Balance on Current Account It should not come as a surprise that Lesotho has, consistently a Current Account Surplus. Population, Income and economic activity generally has grown year by year and such growth must be matched - or rather pre-ceeded - by a growth in the money supply and in the level of investment. With no currency of its own, such growth can only be generated by a flow of funds into the country

in excess of the outflow. A period of current account deficit would inevitably be matched by a period of economic decline unless the banks of their own accord varied their reserve ratios to offset losses of foreign reserves. In fact the Lesotho banks have followed the very conservative policy of having a consistent reserve (foreign reserves; deposits) of about 0.60, double the legal requirement. Their monetary "policy" has been entirely passive.

The sudden, steep rise in the surplus since 1976, can be attributed primarily to two items.

1. Grand in Aid has risen sharply -- from R24 m in 1975/76 to R30 m in 1978/79, and it may be that the real activity of Lesotho's economy has been unable to absorb this additional monetary injection.
2. Miner's incomes have risen rapidly and the short term savings "pool", held in South Africa, has also risen.



Capital Account

In the almost total absence of any data, the Capital Account can be no more than an estimated balancing of the Current Account. There has been no central banking institution, nor direct holding of Government funds with foreign institutions. Government has held its accounts with the Commercial Banks whose combined reserves constitute the only "official" foreign assets. There has been a small account with the I.M.F., involving a loan repayment between 1973 and 1976, and the acquisition of Special Drawing Rights since 1975. The only other official figure is the estimate of Pounds in circulation.

Therefore, the current account surplus, less increases in bank holdings, rand circulation, plus changes in the value of foreign assets, net of changes in the I.M.F. position are assumed to have increased the total Private investment (Direct, Long + Short term) of Lesotho citizens abroad.



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