GOVERNMENT OF LESOTHO

MINISTRY OF FINANCE

PRIVATE SECTOR DEVELOPMENT DIVISION

STATE OWNED ENTERPRISES

ANNUAL REPORT FOR THE YEAR ENDED MARCH 2017

Prepared By:
Private Sector Development Division

May 2019

GOVERNMENT OF LESOTHO

MINISTRY OF FINANCE
PRIVATE SECTOR DEVELOPMENT DIVISION

31 May 2019

State-Owned Enterprise Annual Report for 2016/17

Honourable Minister of Finance

It is with pleasure that on behalf of the Public Sector Development Division I issue the first of our intended Annual Reports on the performance of State-Owned Enterprises, for the year ended 2016/17.

This initiative has been in planning for some time and has been achieved under the excellent leadership of the Minister of Finance – Honourable Dr Moeketsi Majoro, M.P. and with technical assistance that is important to acknowledge; the role of World Bank funding and consulting support services that have enabled us to reach a level sufficient to issue such a Report.

Strengthening of PSD internal capacities towards becoming effective monitoring analysts is an ongoing initiative, as we strive to balance the rigour of daily activity with up-skilling and growth while managing our scarce internal resources.

We take great pride in our work and in our diligence and persistence and this Report is testament to the efforts of our staff to continue to chase SOEs and other stakeholders for information and to sort and classify information accordingly.

In time, we anticipate this process will become more streamlined and we can expand our knowledge and range, to monitoring beyond mostly, the financial statements of the relevant SOEs.

We appreciate the support within the ministry, and we will endeavour to add increasing value to the ministry's efforts as we become more effective in our monitoring role.

I would especially like to thank all staff members, advisers and supporters in our efforts to compile this important report.

Yours sincerely

Ms. Maseeiso Lekholoane
Director,
Public Sector Development Division

ABBREVIATIONS

AFS	Audited Financial Statements
CSO/SPO	Community Service Obligation/Social Policy Obligation
FDI	Financial Direct Investment
FY	Fiscal Year (for this report fiscal year 2016/17 is to March 2017)
GDP	Gross Domestic Product
GoL	Government of Lesotho
IFRS / IAS	International Financial Reporting Standards / International Accounting Standards
KPI	Key Performance Indicator
LM	Line Ministry
LRA	Lesotho Revenue Authority
MoF	Ministry of Finance
OAG	Office of Auditor General
PFM	Public Financial Management
PFMAA	Public Financial Management and Accountability Act
PSD	Private Sector Development Division
SOE	**State-Owned Enterprise(s)**
LEC	Lesotho Electricity Company Pty Ltd
WASCO	Water and Sewerage Pty Ltd
LTDC	Lesotho Tourism Development Corporation
LPB	Lesotho PostBank Ltd
BEDCO	Basotho Enterprise Development Corporation
LNDC	Lesotho National Development Corporation
Loti	Loti Brick Pty Ltd
Maluti	Maluti Mountain Brewery (Pty) Ltd
Ok Baz	Ok Bazaars (Lesotho) Ltd
MHG (Avani)	MHG (Lesotho) Pty Limited
LHLDC	Lesotho Housing and Land Development Corporation
Les Flour	Lesotho Flour Mills Ltd
Letseng	Letseng Diamonds Pty Ltd
Econet	Econet (Telecom) Lesotho Pty Ltd
Kao	Storm Mountain Diamond Mines Pty Ltd
Lighobong	Lighobong Mining Development Company Pty Ltd
Nat Gen Ins	Lesotho National General Insurance Co Ltd
Nat Life Ass	Lesotho National Life Assurance Co Ltd
Standard	Standard Lesotho Bank
AON	AON Lesotho
WB	World Bank

Indicative Exchange rate: US$1: M13.5

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I. INTRODUCTION

1. This Report provides an overview and analysis of the results and performance of the Government of Lesotho state-owned enterprises (SOEs) for the fiscal period ending March 2017.

2. It is acknowledged that not all enterprises that may be classified as state-owned enterprises may be included in this report, due to various reasons, including a lack of information available. It is further acknowledged that not all such enterprises share common reporting dates and thus the analysis is adjusted to reflect the most relevant fiscal periods.

3. In Lesotho the term 'state-owned enterprise (SOE) is not found or defined in legislation. The PFMAA defines public enterprise as an entity which is (a) established by law to carry out specific commercial activities, (b) is owned and controlled by Government or its agencies; and (c) is a distinct accounting entity producing its own financial statements. A statutory body is similar but is defined as an entity established to carry out specific Government functions.

4. While there are continuing efforts towards improving the legal framework for ownership and control of Government investments, the Private Sector Development Division (PSD) of Ministry of Finance (MoF) currently has an objective to assess and report on the performance of nominated entities, classified for this purpose, as SOEs. The classifications and thus inclusions (and exclusions) may change over time as greater attention is given to the legal issues and efforts are made towards reform of the Government's ownership portfolio.

5. The purpose of this report is to provide an assessment of the performance of SOEs based on renewed efforts at monitoring the results of such enterprises, towards informing important decisions about the value of relevant investments. This report concentrates on the ownership role (in these enterprises) of the Government of Lesotho and is primarily evaluating the fiscal implications of ownership, rather than service delivery performance. The SOE portfolio, as defined for the purposes of PSD monitoring and reporting is diverse and includes some wholly-owned enterprises and investments in private sector enterprises with minority shareholdings. It is important to note that financially sound SOEs are a requirement for adequate and sustainable service delivery.

6. The SOE sector in Lesotho was first created in the 1970s to promote domestic investment and at that time accounted for a large part of the economy. Much of it has since been fully or partially privatised. When Government took a number of steps to downsize the sector and increase its efficiency, it launched the privatisation program of the 1990s, with associated structural changes such as the creation of independent regulators for the public utilities. Today, relevant to this report there remain six wholly-owned SOEs, nine partial Government shareholdings in private companies and five companies in which the Lesotho National Development Corporation (LNDC), an SOE itself under the Ministry of Trade, holds mostly minority shares, but together with Government holdings, controlling influence can be exercised.

7. In 2016, the World Bank initiated a study of the Lesotho SOE sector "State-owned enterprises in Lesotho: A country policy note. Report ACS19193, World Bank June 30, 2016". The report noted that "SOEs when managed well can create value, perform vital services that are required for poverty reduction and shared prosperity that are central to a lower middle-income country**.** However mismanaged SOEs can be a budgetary burden and can cause contingent liabilities. Some SOEs continue to put pressure on the national budget."

8. Line ministries exercise the primary oversight role. PSD is undertaking a new initiative to strengthen its ownership monitoring role.

9. The PFMAA lays down strict financial reporting requirements for SOEs including the use of IFRS and requires the submission of full financial statements on a timely basis to the MoF. Sector specific legislation regulates SOEs operating in the mining and financial sectors and in line with good international practice there are independent regulators for the water, power and telecoms sectors.

10. Lesotho has already taken the positive step of corporatizing most of its SOEs to improve SOE autonomy and has reduced the size of the sector through the privatization program of the 1990s and early 2000s. These steps are important initiatives in determining relevant governance structures and to clarify the different roles of owner, board, manager, regulator and policy-maker.

11. Ultimately, the aim of SOE monitoring is to assist achieve a level of SOE performance that is satisfactory to relevant stakeholders, but mostly to government as enterprise owners and this involves understanding performance based on returns, services, social obligations and community expectations and thus to inform policy so that the different objectives of SOE ownership can best be satisfied.

12. It is understood that as a full or partial owner, under the various relevant laws of Lesotho, Government is entitled to access to relevant information, including, but not limited to, the Annual Report and the audited financial statements. PSD aims to accumulate and monitor performance, primarily based on these documents. Although additional information, including, but not limited to, SOE business plans, investment and feasibility studies, and other information will enhance any assessment, it is an on-going initiative for PSD to acquire better information, to access and review public information and to ensure that it develops internal capacity to update, analyse and assess based on relevant, timely and accurate information on the SOE activities and performance.

13. The PSD has a wide remit in the monitoring of private sector development and in support of development initiatives. This Report is not intended as an overview or summary of PSD's outputs, rather, it is an assessment of the performance of selected enterprises, that for this purpose are defined as SOEs[1] and aims to provide useful and important input

[1] But the strict legal definitions may differ

into the broader debate concerning government investments, fiscal risk and value of resource allocations.

II. THE SOE PORTFOLIO

14. As indicated this report is focused on a select group of enterprises in which the Government either directly or indirectly has an ownership interest. For practical purposes it is identified as the SOE portfolio. Legal review[2] suggests there is sufficiency of legal framework to more adequately classify government ownership and interests. However, in the absence of a specific State-owned enterprise law, that indicates to which enterprises it applies, there is no absolutely correct (or incorrect) determination of which enterprises should be included.

15. There are currently six SOEs that are wholly-owned by Government. But Government, either on its own account or through LNDC, has also retained full or partial ownership in a larger number of enterprises, some of which were earlier partly privatised.

16. In analysing the SOE portfolio it is determined that three key groupings emerge:

- SOEs with 100% Government ownership
- SOEs under LNDC but overall Government control
- Government minority holdings

17. These groups are used in analysis of SOE performance. Currently, SOEs are as listed in the following table. Most SOEs are registered under the Companies Act except for three statutory corporations (BEDCO, LTDC and LNDC) which are registered under their own founding Acts.

Table 1: SOEs

SOE	Sector	Percent Government / LNDC Ownership	Fiscal Year End	AFS FY 2017 included[3]
1. SOEs with 100 percent Government ownership				
Lesotho Electricity Company Pty Ltd (LEC)	Utilities / Power	100	31 March	✓
Water and Sewerage (Company) Pty Ltd (WASCO)	Utilities / Water and sewage	100	31 March	✓
Lesotho Tourism Development Corporation (LTDC)	Tourism	100	31 March	✓
Lesotho Post Bank Ltd (LPB)	Banking & Insurance	100	31 March	✓
Basotho Enterprise Development Corporation (BEDCO)	Business Investment Promotion	100	31 March	

[2] As undertaken as a component of the World Bank funded TA: Public Sector Modernisation Project (PSMP), Technical Assistance on State Owned Enterprises, implemented by UNICON (UK) Limited.
[3] PSD continues to have difficulty in obtaining copies of all AFS. In some respects' this is a function of the ownership (through line ministries) and reporting mechanisms of SOEs and in other respects non-compliance or non-cooperation by relevant stakeholders. Where indicated, AFS for the year is included.

Lesotho National Development Corporation (LNDC)	Business Investment Promotion	100	31 March	✓
2. Enterprises wholly or partially owned as subsidiaries/associates of LNDC				
Loti Brick Pty Ltd	Industrial - Brick making	22.8 / 73.6	31 March	
Maluti Mountain Brewery	Industrial - Brewing	4.75 / 51	31 December	✓
OK Bazaars (Lesotho) Ltd	Industrial - Retail	50	30 June	✓
MHG (Lesotho) Pty Ltd (t/a Avani)	Hotel and Casino	36.4 / 16.7	31 December	✓
Lesotho Housing and Land Development Corporation (LHLDC)	Property Development	75 / 25	31 March	
3. Enterprises partially owned directly by Government				
Lesotho Flour Mills Ltd	Industrial - Milling	49	31 October	✓
Letseng Diamonds Pty Ltd	Mining	30	31 December	✓
Econet (Telecom) Lesotho Pty Ltd	Telecoms	30	28 February	✓
Storm Mountain Diamond Mines Pty Ltd (Kao)	Mining	25	31 August	✓
Liqhobong Mining Development Company Pty Ltd	Mining	25	30 June	
Lesotho National General Insurance Co Ltd	Banking & Insurance	20	31 December	✓
Lesotho National Life Assurance Co Ltd	Banking & Insurance	12	31 December	✓
Standard Lesotho Bank	Banking & Insurance	9.6	31 December	✓
AON Lesotho	Banking & Insurance	5	31 December	✓

18. The analysis in this report is based on the audited financial statements (AFS) of the respective enterprises. In some instances (especially, earlier year comparatives, for trend analysis) audited financial statements were not available, and either alternative sources were used for some information or information was absent. As indicated in the above table, PSD has been unable to acquire the AFS for FY2016/17 for a number of the SOEs[4].

19. Where an enterprise has a fiscal year end other than 31 March, the prior period AFS are used being the fiscal year end that falls in the government fiscal year to the relevant 31 March.

20. It is understood some enterprises are deficient in preparation of financial statements and completing audits, as required under the Companies Act.

21. Concern arises, in the numeracy of audit comments and qualifications about the financial statements; the frequency of prior year adjustments and some computational errors. No attempt is made to correct data.

22. PSD analysis is focused on the AFS as submitted by the SOE directors. While the number of qualified audit reports is a concern and limits total reliance on the AFS, a concerted effort in improving SOE governance and compliance with legal mandates, is expected to

[4] Letters have been received from Loti Brick and LHLDC advising of delay and backlog of AFS. The Auditor-General has advised of delay and backlog in completion of AFS for BEDCO.

improve the overall reliability of the financial information provided. In this regard, PSD aims to increase its inter-action within MoF and in support of other departments to reconcile and clarify relevant inflow and outflow information with SOEs. It is important that SOE AFS and MoF records within the macro, debt and taxation departments are consistent, with PSD enhancing its role as a monitor and information-hub for SOEs.

23. It is clear there are significant financial flows between the state and some SOEs. Such flows may be inbound, to treasury through taxes, royalties, dividends and import duties and may be outbound through direct transfers, subsidies or debt concessions. Traditionally, MoF has had difficulty coordinating the collection of relevant data and PSD does not have access to a full history of fiscal relations with SOEs. It is an on-going challenge to improve such data collection.

24. Ultimately, PSD aims to monitor all such fiscal transactions with SOEs, including government guarantees on SOE borrowing, all duty and tax exemptions, and any other concessions and be able to comment appropriately in this (annual) report.

25. Categorised by total revenue and total assets Letseng Diamonds and Lesotho Standard Bank are the two largest SOEs.

26. Among the three groups of SOEs it is clear that financial inflows to Government are highest from the Government minority holdings. These enterprises are trading companies, and through taxes according to law and dividends as required by shareholders, Government can derive significant income[5]. However, while inflows from this group have been increasing in recent years there is concern that even better returns to Government are undermined by issues of transfer pricing[6]. Mostly, monitoring of minority holdings is limited to ensuring that adequate returns are being generated and received and this involves reviewing and updating any agreements in place relating to the shareholding arrangements and the management of the enterprise to provide for reasonable parity for all parties - management are remunerated while capital providers are adequately compensated. Broadly, this necessitates such agreements being structured on a performance or incentive basis.

III. OVERALL SOE PORTFOLIO PERFORMANCE TO FY2017

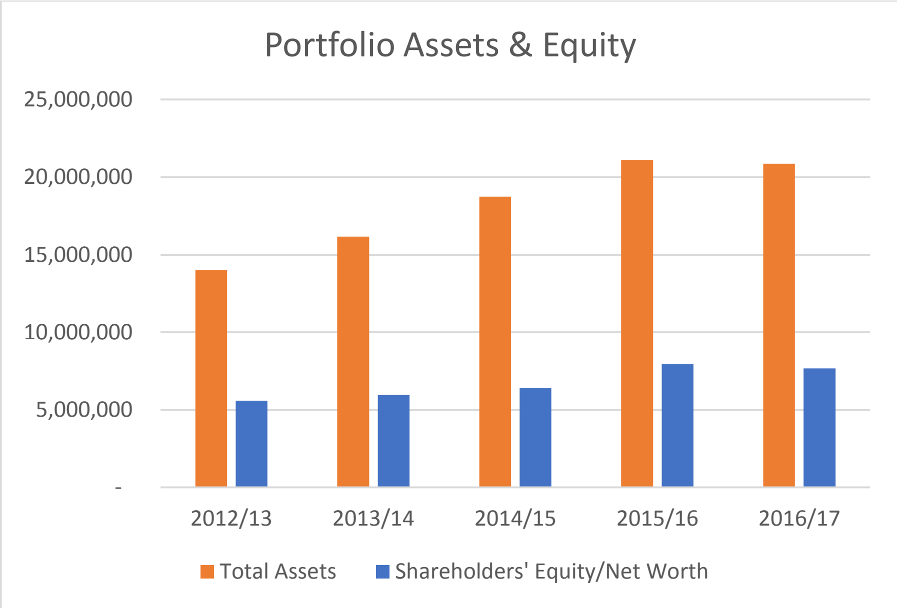
Note: All figures (unless otherwise stated) in M'000s

27. An important interest for PSD is the overall performance of the Governments' investment in SOEs. This can be monitored by review of trends in revenues, profits and returns and is most meaningful when analysed according to the three groups.

28. However, a useful trend is to note the overall increase in total asset values and shareholders' equity from the combined SOE portfolio over recent years.

[5] But this is impacted heavily by the size of Letseng Diamonds results
[6] State-owned enterprises in Lesotho: A country policy note. Report ACS19193, World Bank, 30th June 2016

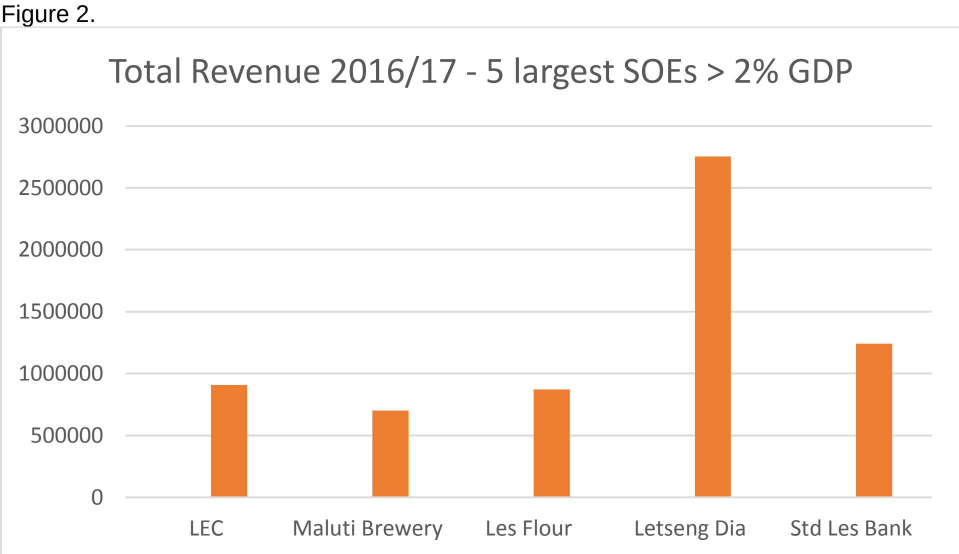
Figure 1.



29. There is a positive trend of increasing SOE value. It must be understood that the results of Letseng Diamonds[7] are significant in these results and, as with other enterprises where there are signs of market maturity, so a continuation of rapid growth rates is unlikely.

30. Generally, five (5) SOEs have shown to be large enough to produce total revenue at an amount of 2% or higher than (equivalent) GDP. These are Letseng Diamonds, Standard Lesotho Bank, Maluti Brewery, Lesotho Electricity Company and Lesotho Flour Mills. The combined value of this turnover dominated as it is by Letseng Diamonds and as indicated in the chart below illustrates the significance of these enterprises to the overall Lesotho economy.

Figure 2.



[7] Letseng Diamonds profitability in 2016/17 (and again in 2017/18) show the first indications of maturity and falling profit growth

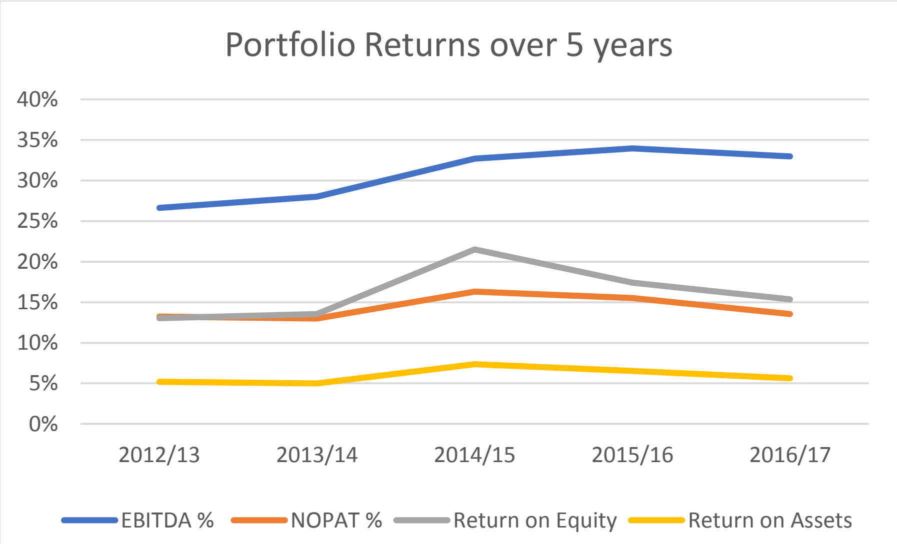
31. As well as review of SOE revenues and revenue growth, SOE performance needs to be assessed based on other criteria. Although there are many financial and non-financial key performance indicators (KPIs) to use in a comprehensive performance assessment, significant care is needed in how such data is applied. Generally, it is incumbent upon effective businesses themselves to monitor and assess their own performance, through analysis of and interpretation of relevant KPIs. As this Report is an overview, care is needed in how KPIs are used because they are not always consistent across different SOEs, or relevant to each in the same way and to the same extent.

32. For the above reasons, PSD selects general financial performance criteria. As the knowledge bank improves and available data is more reliable, so the range of KPIs used in assessment may expand. Annex 1 explains selected KPI's and how they are calculated.

33. Also, each SOE is at a different stage of its business or lifetime cycle. Each SOE has a different focus relating to short-term liquidity needs, achieving consistent levels of profitability and/or SOEs that are financing expansion and sustainable growth. As indicated, some SOEs are non-trading entities so overall comparisons can be misleading if not given due care. It is also important to consider the social service (or social policy) obligations of some of the 100% Government-owned SOEs.

34. Generally, the portfolio as a whole shows' performance to fiscal year 2016/17 of sustained profitability and growth across a number of indicators. As stated, Letseng Diamonds has been the major performer in recent years, with a weaker result in 2016/17.

Figure 3.



35. Based on shareholder's equity, weighted according to Government/LNDC interest in respective SOEs, the government's value in SOE's has progressively risen to US$400M in FY'17.

36. In analysing each of the group's it is clear profitability is driven by the Government minority holdings; however, higher returns on assets and equity are achieved in the group of investments through LNDC that afford Government controlling interest.

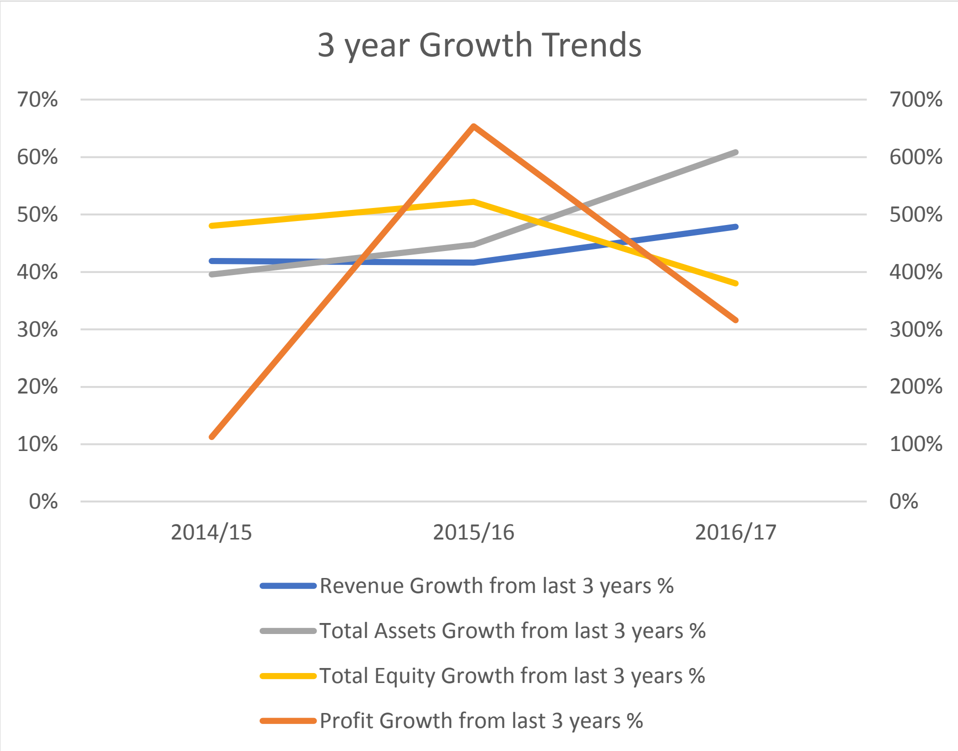
37. However, despite a positive overall trend, the significance of Letseng Diamonds performance must be understood as such a positive influence on portfolio performance, as well as the largest contributor to government inflows (through taxes and dividends) from the SOE sector.

38. More useful and relevant understanding is derived from analysis of the group performances and from the individual SOE performances.

IV. GOVERNMENT 100% OWNERSHIP PERFORMANCE TO FY 2017

39. Among SOEs with 100% Government ownership it can be seen that returns have improved in recent years with a continuation of revenue and profit growth.

Figure 4:[8]



40. Individual performances are assessed in the section XI, but it is clear that LEC is a key driver of the performance among 100% Government-owned enterprises. Lesotho PostBank (LPB) has performed relatively well in FY'17 and established a trend of profitability after several years of losses and LNDC has profited from the dividends and returns received from its investments and property rentals and WASCO has returned its best result in recent years, following recent improvements and earlier year losses.

[8] 3-year growth trend graphs are provided for each group of SOEs and in section X, those individual SOEs that are reviewed. In some instances, the **Profit Growth** trend line is shown on the right-hand axis to better distinguish differences in the scale of growth trends over time. Detailed explanation of the 3-year growth trends is provided in Annex 1.

41. Some enterprises, most notably LTDC and BEDCO have significant social service mandates.

42. Although the 3-year profit curve declines in 2016/17 this is indicating only slower growth from a higher base (2014/15) than in the earlier years, so the trend is still to be viewed as very positive (300% over 3 years).

43. These SOEs do not distribute dividends and draw significantly on capital grants or subvention. Nonetheless, FY'17 is the best overall performance in recent years for these enterprises across the range of KPI's, including highest revenues, profits, total assets and returns.

44. Relevant performance data for FY'17 is:

Table 2: Performance Highlights – Government 100% ownership

Performance Highlights (M '000)	**2014/15**	**2015/16**	**2016/17**	**3-yr Average**
Total Revenue	1,087,467	1,207,689	1,402,815	1,232,657
Net Operating Profit After Tax	88,598	107,379	141,969	112,649
Capital Grants Received	496,920	203,220	435,844	378,661
Total Assets	5,465,111	6,075,402	7,018,127	6,186,213
Total Liabilities	1,002,941	1,205,863	2,349,184	1,519,329
Shareholders' Funds	4,462,170	4,869,539	4,668,943	4,666,884
EBITDA %	22%	20%	23%	21%
NOPAT %	8.1%	8.9%	10.1%	9.1%
ROE %	2.0%	2.2%	3.0%	2.4%
ROA %	1.6%	1.8%	2.0%	1.8%
Current Assets / Current liabilities	1.19	1.57	1.37	1.38
Quick Ratio	1.02	1.33	1.17	1.18
Accounts Receivable Days	66	67	91	75
Assets Turnover	0.21	0.19	0.20	0.20
Debt / Equity Ratio	0.14	0.17	0.24	0.18

45. The indicators suggest that the liquidity of this group of SOEs remains a concern. LNDC and WASCO have taken on (a little) more debt since FY'15 and there are some arrears on loan repayments to Government and to international creditors that have required Government financial assistance. That said, the overall debt/equity ratio remains low and inability to repay is worrying. Collections of receivables have deteriorated in the recent fiscal year.

46. International good practice attempts to ensure that all community or social service obligations (CSO/SPOs) of SOEs are financed under specific and separate transparent arrangements, rather than being offsets within the SOE financial operations. PSD will

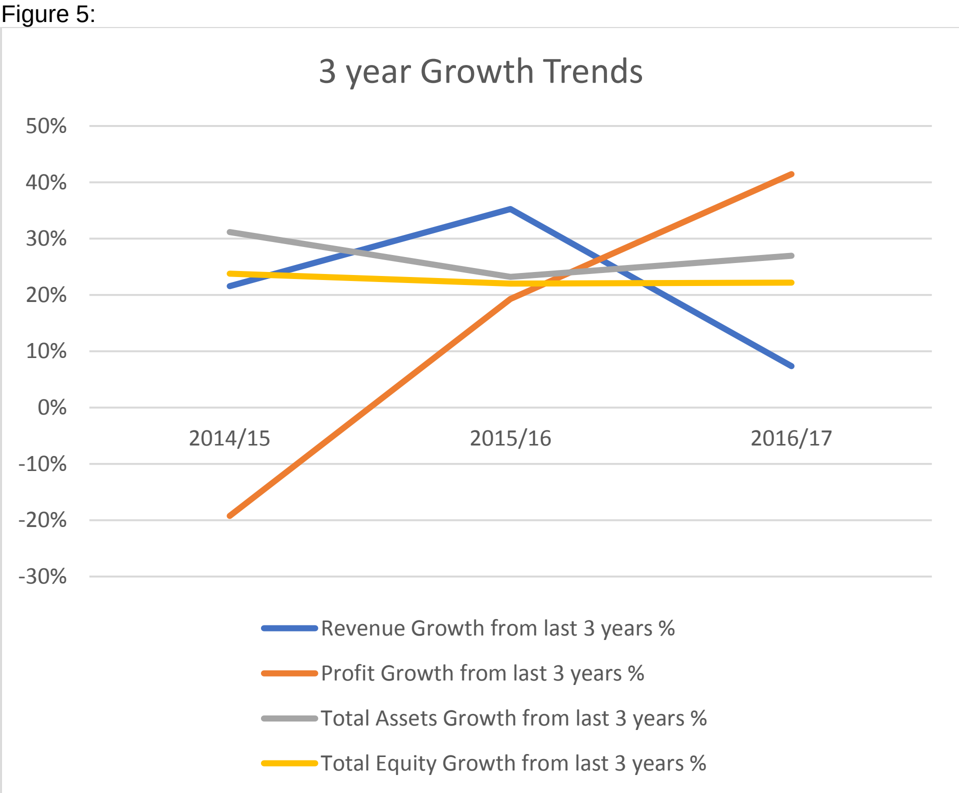
assist Government in driving an SOE reform agenda that includes costing and transparent financing of social obligations, yet it is understood there are many issues of reform and building awareness and buy-in are critical to success. It is anticipated it will take some time until properly funded social obligations can be fully evaluated.

V. SOES UNDER LNDC WITH OVERALL GOVERNMENT CONTROL

47. These enterprises, arguably, are the most difficult to manage from a performance-monitoring perspective. Government, either directly, or through a combination of its influence in LNDC (and LNDC holdings) has a controlling interest. However, many of the enterprises are trading businesses managed and operated via shareholding and management agreements.

48. Trends within this group are mixed. Although the most recent 3 years has seen growth across the leading indicators, the rate of profit growth has slowed, and the overall performance of this group has slowed relative to the period to 2011. Revenue growth in the year is influenced by the exclusion of Loti Brick data for the year and falls in revenue at both Maluti Brewery and MHG (Avani).

Figure 5:



49. Maluti Brewery is the major performer in this group, contributing a steady dividend stream. However, other SOEs, including Loti Brick and LHLDC do not make significant contributions (and have not produced AFS for 2016/17).

50. Government, through its shareholdings and the investment of LNDC, has a controlling interest in Loti Brick and MHG (Avani) and it is worth further evaluation of the shareholding and management relationships to attempt to secure better returns from these SOEs. Loti Brick's performance in 2014/15 was particularly disappointing and deteriorated in 2015/16 and now results for 2016/17 are not available. it is unclear if losses incurred are indicative of a longer-term trend or a temporary downturn[9].

51. MHG took over from Sun International in operating the Avani hotel and casino complexes during 2015 and evidently it was a difficult trading period[10].

52. Loti Brick and MHG (Avani) are not generating regular dividends and this calls to question important issues about the rationale for Government investment, as well as tightening management agreements to avoid perception or practice of any transfer pricing.

53. Relevant performance data for FY'17 is:

Table 3: Performance Highlights – SOEs under LNDC Government control

Performance Highlights (M '000)	**2014/15**	**2015/16**	**2016/17**	**3-yr Average**
Total Revenue	1,034,128	1,225,037	1,012,347	1,090,504
Net Operating Profit After Tax	97,263	129,763	124,801	117,276
Dividends paid to GoL	3,067	4,816	2,275	3,386
Total Assets	673,200	721,682	793,001	729,294
Total Liabilities	285,055	317,148	364,184	322,129
Shareholders' Funds	388,145	404,534	428,817	407,165
EBITDA %	12%	13%	16%	14%
NOPAT %	9.4%	10.6%	12.3%	10.8%
ROE %	25.1%	32.1%	29.1%	28.7%
ROA %	14.4%	18.0%	15.7%	16.1%
Current Assets / Current liabilities	0.76	0.95	1.10	0.94
Quick Ratio	0.36	0.56	0.84	0.59
Accounts Receivable Days	19	31	81	44
Assets Turnover	1.59	1.74	1.32	1.55
Debt / Equity Ratio	0.05	0.04	0	0.03

54. The value of Government's share of its investments in these SOEs (based on proportion of shareholders equity) is US$17.3M.

[9] Analysing such performances so long following the period is sub-optimal and highlights the need for significantly greater timeliness of reporting and ownership monitoring.
[10] Results in the following years appear to have improved with an increase in dividends paid.

55. While the performance indicators are strong, there is concern about liquidity with low levels of liquid asset cover for obligations due. Neither Maluti or MHG (Avani) operate with any significant level of debt.

VI. GOVERNMENT MINORITY HOLDINGS

56. This group of SOE investments are the most profitable and, especially Letseng Diamonds, make the largest contribution to cash inflows to government, from the SOE sector. Because the shareholdings are minority stakes, Government cannot directly control business management and PSD as an ownership monitor, has the primary monitoring objective (for so long as there remains a shareholding) to ensure that a fair return is being achieved.

57. Essentially, a fair return as an enterprise owner (albeit a partial owner) derives from dividend payments. Matters of ensuring that the enterprise pays its full share of taxes is the domain of the Lesotho Revenue Authority (LRA), although understanding and monitoring of cash inflows (inclusive of taxes) from these investments is important.

58. When investment cash inflows and returns are strong, performance can be determined as good. PSD proposes that an ownership policy should be developed to identify security, strategic or other rationale for government ownership in commercial businesses, regardless of the origin of any investment or past agreements to maintain minority stakes following privatization.

59. Even when the dividend stream is good that may be the best time to consider divestment, as values (and any sale price) is often derived from the value of expected future dividends.

60. Among strong performances from Letseng Diamonds and the banking and insurance enterprises, this group also includes Governments 30% stake in Econet (Telecom) Lesotho. Econet made losses in each of the most recent years and increased its level of debt. Since 2015 Econet Telecom Lesotho has also been in arrears on repayments of a loan from EXIMBANK of China, on-lent by Government.

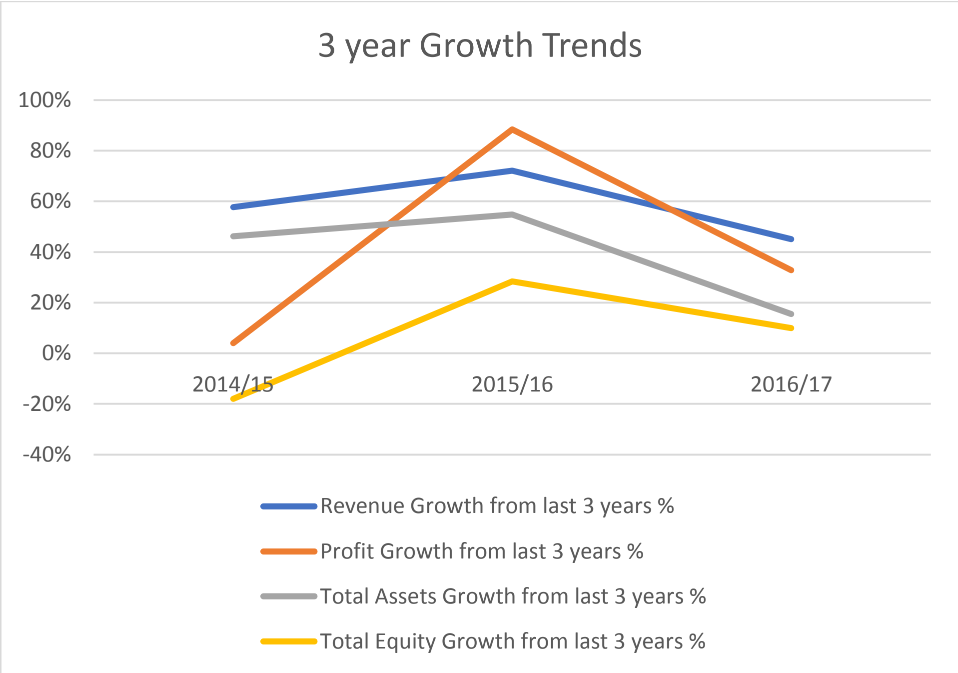
61. Lesotho Flour Mills has also fallen into losses since 2013/14. As with other SOEs there is concern about the value of the shareholding relationship and management agreement and the allusion of transfer pricing. Seaboard have been partners, operating the Flour Mill for over 20 years with significant cost to expatriate managers, fees and consultants and little return to government. However, Lesotho Flour Mills posted a much improved result for the year ended 2016/17, after 44% revenue growth in the year.

62. As stated, the data and trends within this group are influenced by the size of the contributions from Letseng Diamonds, which has contributed a total of M751million in dividends, to Government during the last 3 years.

63. Generally, the banking and insurance industry SOEs performed satisfactorily, although it is unclear if the rate of dividend pay-out is optimal or undermined by excessive management costs and fees.

64. While trend graphs indicative positive growth across all indicators they also show that the rate of growth is slowing and has declined in 2016/17 (again heavily influenced by Letseng Diamonds result). This is partly the high growth rates of recent times and the maturing of some of the businesses. It might be expected that continued growth is at more modest levels in future.

65. Figure 6:



66. Relevant performance data for FY'17 is:

Table 4: Performance Highlights – Government Minority Holdings

Performance Highlights (M '000)	**2014/15**	**2015/16**	**2016/17**	**3-yr Average**
Total Revenue	6,321,173	6,485,169	6,275,157	6,360,500
Net Operating Profit After Tax	1,189,914	1,144,747	911,076	1,081,912
Dividends to Govt	340,746	182,203	249,973	257,607
Total Assets	12,598,934	14,308,298	13,045,179	13,317,470
Total Liabilities	11,046,163	11,644,918	10,468,289	11,053,123
Shareholders' Funds	1,552,771	2,663,380	2,576,890	2,264,347
EBITDA %	38%	40%	38%	39%
NOPAT %	18.8%	17.7%	14.5%	17.0%
ROE %	76.6%	43.0%	35.4%	51.7%
ROA %	9.4%	8.0%	7.0%	8.1%
Current Assets / Current liabilities	1.07	1.23	1.23	1.18
Quick Ratio	0.20	0.23	0.19	0.21

Accounts Receivable Days	32	32	21	28
Assets Turnover	0.51	0.46	0.45	0.47
Debt / Equity Ratio	1.48	0.55	0.55	0.86

67. The value of Government's share of its investments in these SOEs (based on proportion of shareholders equity) is US$46.4M.

68. While the return indicators are generally robust, there is concern about liquidity with low levels of liquid asset cover for obligations due.

69. There is indication of generally low debt financing. Debt can be a useful and inexpensive mechanism for business growth and can share the risks across other financing institutions in addition to owners' capital. Government risk appetite will undoubtedly differ from ownership partners and Government guarantees either explicit (as with Econet) or implicit through not wanting businesses or industries to fail, requires a very careful debt management policy and approach by government.

VII. SECTOR ANALYSIS

70. The SOEs broadly, fall into different business sectors and naturally, performance across the key indicators is influenced by the type of business within which the SOE operates. While sector groupings can be somewhat arbitrary and distracting, it is useful when attempting to assess performance with benchmarking.

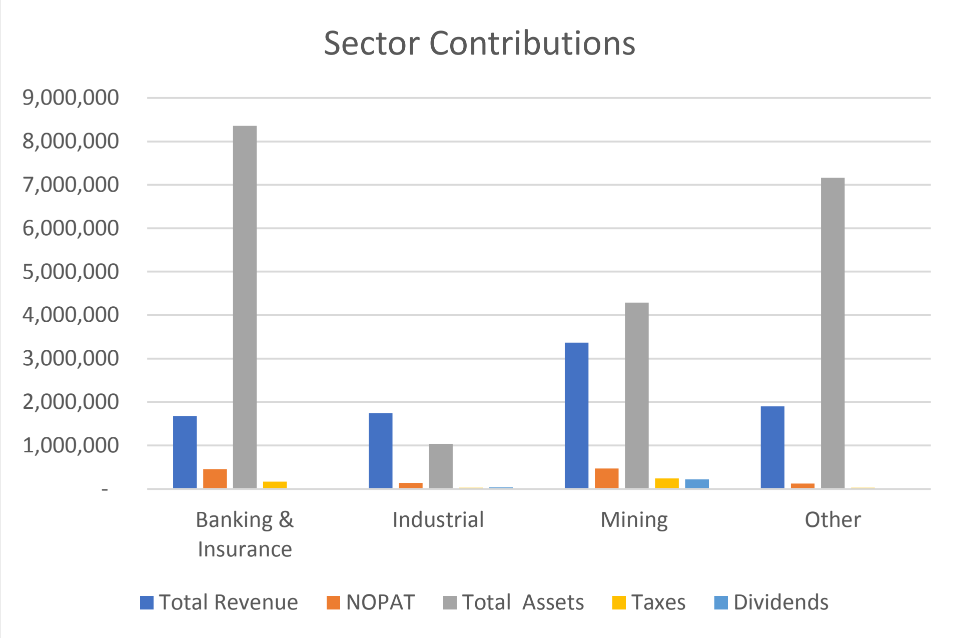
71. However, the Lesotho SOEs are relatively few (some countries have significantly more SOEs) and the sectors are varied. Useful analysis is only applicable when several SOEs fall within the same broad sector. Two utility enterprises and two investment businesses offer limited value as a discrete sector analysis.

72. Therefore, review at this time is confined to the three sectors of banking & insurance (5 SOEs), Industrial (4 SOEs) and mining (3 SOEs).

73. While the banking and insurance sector (mostly through the value of Standard Lesotho Bank) has significant total asset value, the key inputs to performance are from Letseng Diamonds.

74. PSD will attempt relevant benchmarking with neighbouring country indicators in due-course, if and when reliable data can be attained and size and operational issues can be identified to provide useful comparisons.

Figure 7:



75. It is clear that the mining sector is the major contributor of revenues, profits and tax payables, although the early years performance of Storm Mountain Diamonds detracts from Letseng Diamonds results. The banking & insurance sector is a consistently strong performer and it is important to remember that the asset base within this sector is liquid assets (customer deposits) rather than the bias to physical assets within the other sectors.

VIII. OTHER INFLOWS AND OUTFLOWS TO/FROM THE SOE SECTOR

76. The Government supports the SOE sector (selected SOEs through selected policy decisions) through subsidy/subvention and through provision of capital grants and on-lending of international development partner assistance. Generally, the 100% owned SOE group are the largest recipients of government support.

77. The SOE sector provides inflows to Government through its business transactions, payment of duties, royalties and indirect taxes. In addition, SOEs (some of them) provide direct taxation and dividend payments to Government. The highest contributions of direct payments to Government are from the minority shareholdings.

78. Broadly, therefore one group of SOEs is dependent on receipt of government support while another group provides most of the returns to Government from the SOE sector. There are complex issues involved in this determination, however, if SOEs clearly identify and price their social service obligations that are then funded as such, rather than as general subsidy/subvention (or the requirement for capital grants) it would improve transparency of financing the businesses and reduce/eliminate subvention/grant support. On the other hand, if the shareholding and management agreements with partially owned SOEs are strengthened to provide for management fees and related costs on a performance-basis, and to include dividend policies for all shareholders benefit, then again, clarity surrounding a fair allocation of enterprise resources would be enhanced.

79. Although the six wholly-owned SOEs are the primary recipients of Government support, LEC, WASCO, LPB and LNDC are the largest beneficiaries. Of these, LEC, WASCO and LNDC classify major receipts as special funding or capital grants. It appears that overall balances are provided and the SOE draws-down and amortises the value of the total grant over a life, based on assets acquired/constructed using grant fees and in accord with grant agreements. WASCO treats the balance as government equity. The treatments of such funding and grants are not qualified in the audit reports suggesting they are compliant with IFRS standards, while PSD continues to try to access detailed information and documentation for the same.

80. Broadly, grants or funding that is assigned to particular asset constructions is, as treated in the AFS, different from subsidy/subvention support. The value of such payments is high and poses fiscal concerns for government. It is asserted, but not substantiated that some subventions are paid from line ministries but not disclosed specifically in the AFS.

81. Some subvention support is not separately identified in the AFS and where independent verification is unavailable, such support is excluded from this analysis.

82. Capital grants and identified subventions are as indicated.

Table 5: Grant and subvention receipts and balances

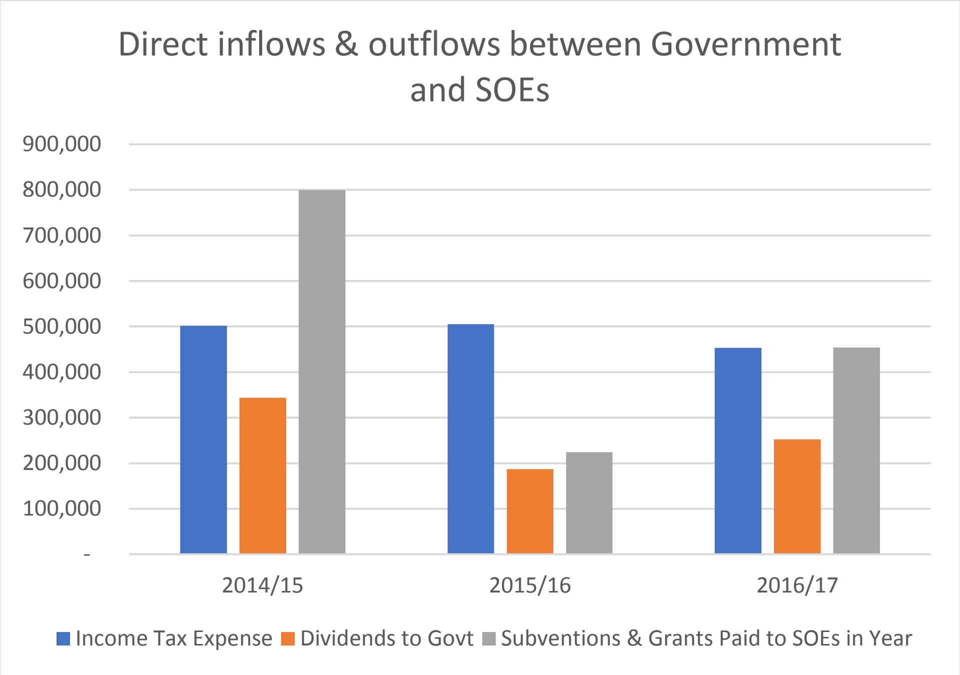
2014/15		**2015/16**		**2016/17**	
New Receipts in Year	Balance	New Receipts in Year	Balance	New Receipts in Year	Balance
LEC					
96,760	?	108,541	46,208	242,638	702,671
WASCO					
400,160			1,225,434	105,828	1,288,022
LTDC					
19,205	568	20,750	549	17,941	529
LPB					
268,142		17,663	43,909	53,000	93,528
BEDCO					
		No data available			
LNDC					
		77,016	174,663	34,378	174,663
Total					
799,925	**1,804,737**	**223,970**	**1,490,763**	**453,785**	**2,259,413**

83. WASCO represents a particular concern, not only in its poor financial performance, qualified audit reports, inability to repay loans, but also due to the significant value of continued GoL contribution to the enterprise through two primary sources: ‘GoL Funding’

and 'GoL Grants', both of which, under WASCO policy are capitalised as equity balances. The former represents the net assets of former water & sewerage branch plus projects under construction by WASCO funded by government, while the latter is stated as representative of debt forgiveness[11]. The respective equity balances as at 31 March 2017 are M388,765,385 and M899,256,634. (M1,288,022,000 as shown in the above table)

84. The general pattern of direct inflows against outflows can be illustrated as follows:

Figure 7:



85. It can be seen that the trend is shifting in the right direction (in favour of government inflows) even if there is disparity in the relative recipients and providers of the cash flows.

IX. ISSUES OF GOVERNANCE AND RISK

86. This section of the report comments on general matters of SOE Governance and fiscal risk to the government. More specific matters are addressed in the following section on individual SOE performances.

87. It should be noted, that at this time and as explained in the introduction, PSD has limited influence and control, despite fulfilling an ownership monitoring function. Much of the stewardship decision-making and application of governance practices rests with line ministries and PSD has limited information.

88. Specifically, in regard to matters of governance and risk, GOL / LNDC power and authority over companies where it has minority shareholding is limited to the rights attaching to the

[11] GoL Funding is specified under the Lesotho Water & Sewerage Company Order of 1991. The value of the GoL Grants probably includes loan balances as in the table, where it is asserted WASCO is in default. Clearly, further reconciliation is needed in this regard.

shares or specified in the Companies Act and articles of incorporation. There is no distinction between GoL / LNDC as a shareholder and a private shareholder. A director that represents GoL / LNDC is in the same position as a director that represents a private shareholder. Where GoL / LNDC hold a majority shareholding in a company, the rights of minority shareholders and the interest of the company must be respected in the same way that GoL / LNDC must seek to exercise its rights as a minority shareholder.

89. A shareholder or duly authorised agent may, at any time, make a written request to a company for information held by the company. The Minister of Finance, when a shareholder may make this request, or may be made by a duly authorised agent by other shareholders that hold shares directly or indirectly on behalf of GoL. A shareholder that is refused information may apply to Court for an order that the company provide the information within a reasonable time or upon the payment of a charge.

90. In fully exercising any GoL rights as a shareholder, a Minister or ministry or LNDC may appoint the Minister (ministry) of Finance as a proxy, for attendance and voting at a shareholders meeting.

91. A shareholder may question, discuss or comment on the management of a company at a meeting of shareholders of the company. A meeting of shareholders may pass a resolution relating to the management of the company, which is binding on the board unless the articles of incorporation provide otherwise. Where the shareholder does not approve the exercise of a power by a director or board of a company, the power is deemed not to have been exercised and where the shareholder suffers prejudice, the shareholder may bring an action against the director or the company.

92. Each of the stated powers of a shareholder should be exercised to the fullest extent by GoL, in order to ensure effective governance of each SOE. Practically this requires political will and the ability of Ministers and ministries to engage ministry of finance personnel as required to assist in the fulfilment of shareholding rights and powers; to improve governance and oversight of SOEs and to reduce financial and operating risk.

93. SOEs that are registered companies that are wholly, or majority owned by government or LNDC are limited (in liability) to the value of the shareholding, although there is an implicit risk of expectation of guarantee that GoL will not permit the company to default on payments.

94. IMF states that "while guarantees for external debt are monitored well by the Ministry of Finance, weak monitoring of state-owned enterprises limits information about possible domestic contingent liabilities which are, therefore, not included in the DSA (Debt Sustainability Analysis). However, based on World Bank analysis, the range of possible contingent liabilities would not have a major impact on the DSA."[12]

[12] IMF Kingdom of Lesotho Staff Report for the 2017 Article IV Consultation 31 January 2018

95. GoL has provided loans or guarantees to private owned and controlled companies and companies in which it has minority shareholding. LNDC may provide loans, grants or guarantees to private owned or controlled companies.

96. The status of on-lent loans to SOEs[13] as at 31 March 2017 is indicated as follows:

Table 6: Government loan balances with SOEs

	Opening Balance	Principal Repayment	Interest	Closing Balance 31 March	Agreed to AFS
LNDC					
	1,485,343	723,716	-	761,627	✓
	5,460,946	1,680,290	-	3,780,656	✓
	137,420	137,420	-	-	
	7,229,611	5,290,437	-	1,939,174	✓
	905,013	905,013	-	-	
	260,000	260,000	-	-	
	51,000,000	-	-	51,000,000	✓
	21,000,000	6,000,000	-	15,000,000	✓
	202,789,827	-	-	202,789,827	✓
Telecom - Econet					
	222,726,839	-	15,660,405	222,726,839	✓[14]
	205,986,835	7,373,161	5,406,576	198,613,674	✓
WASCO					
	63,023,315	-	-	63,023,315	X
	78,097,438	-	-	78,097,438	X
	85,500,487	-	-	85,500,487	X
	48,814,092	-	-	48,814,092	X
	18,119,448	-	-	18,119,448	X
LEC					
	48,617,899	972,358	437,561	47,645,541	✓[15]
	1,061,154,513	**23,342,395**	**21,504,542**	**1,037,812,118**	

97. The above table indicates the significance of the on-lend to the SOE sector and the value of the associated fiscal risk. WASCO totally defaulted by not paying the principal and interest on all accounts.

98. The AFS for LNDC to 31 March 2017 details in note 3.1 a confusing and rather different set of loan balances. However, with the benefit of the AFS to 31 March 2018, the comparative (prior year adjusted) figures in note 12 reconcile exactly as above but exclude the details of the IDA 2400 loan balance (M18,119,448). Discussion with the Debt Management office indicated that there is now full reconciliation of amounts due.

[13] Source: Report of the Auditor General for the Year Ended 31 March 2017 (based on MoF Debt Records)

[14] Econet AFS indicate the balance on the network II loan as M230,100,000 plus accrued interest of M15,184,826 while the loan balance due for phase 1 loan agrees, the Econet AFS indicate an amount of M28,514,764 accrued interest outstanding

[15] The balance as stated in LEC AFS at 31 March 2017 is M46,112,232 a difference of M1,533,309

99. The Report of the Auditor General also notes amounts as follows for outstanding advances to SOEs:

Table 7: Government outstanding advances with SOEs

Enterprise	Amount
LHLDC	895
WASCO	3,453
Std Lesotho Bank	24
Total	**4,372**

100. The PFMAA requires a public enterprise (including SOEs) to obtain the approval of the Minister of Finance for foreign loans. Before approving any borrowing or guarantee the PFMAA requires that the Minister be satisfied that the recipients have the capacity to repay the debt. Experience shows that MoF borrows on the external market and on-lends the funds to the public enterprise so that GoL becomes the primary obligor for the loan. MoF should be carrying out an assessment of the request for foreign borrowing including analysis of fiscal risk arising from financial analysis of the public enterprise, the use of funds and the public enterprise capacity to repay, as well as analysis of fiscal risk arising from the additional debt that is incurred. MoF should go beyond reviewing the information provided by the public enterprise in its request.

101. GoL has provided loan guarantees to LNDC, WASCO and other enterprises. Relevant details as per the Government of the Kingdom of Lesotho Ministry of Finance 2016/17 Annual Public Debt Bulletin are:

Table 8: Government Guarantees for SOEs

	Bank	Guaranteed Amount	Disbursed Outstanding Debt	Total Repaid by Beneficiaries	Called Guarantee	Remarks
WASCO (PTY) LTD Minister of Finance approval 01.12.2010 Expiry date :01.12.2020	Nedbank	20,000,000	15,340,379.81	4,659,620.19	0	Still on-going.

102. The PFMAA further requires all public enterprises (including SOEs) to issue annual reports that include plans and forecasts for the next 3 years. Currently, PSD does not receive copies of any such plans and as stated monitoring is confined mostly to analysis of audited financial statements (AFS). In time, it is anticipated that PSD will broaden scope and become more familiar with SOE plans and operations and will be able to negotiate more KPIs and targets to assist in performance improvement.

103. There is room for improvement in governance and fiscal risk management from SOEs and a role for PSD to better liaise with other MoF departments, including debt management for the sharing and exchange of relevant information.

X. INDIVIDUAL SOE PERFORMANCES

104. This section of the report identifies the major SOEs that influence portfolio performance and provides some individual SOE profiling and performance analysis. Only a selection of SOEs are included as determined by ownership structure, significance of contribution, or fiscal risk concerns.

105. **Lesotho Electrical Company** LEC is 100 percent owned by government, reporting to the Ministry of Energy, Meteorology and Water affairs and regulated by the Lesotho Electricity and Water Authority. LEC generates, transmits and distributes electrical power throughout the country. Its main power sources are the 72MW Muela hydropower plant at the outflow from the Katse Tunnel in the north of the country which is operated by Lesotho Highlands Development Authority and provides the base load, and South Africa's power utility ESKOM which supplies most of the balance. LEC participates in the Southern Africa Power Pool. LEC, through its rural electrification unit, is also responsible for rural electrification projects for which it receives capital grants from Government (and sometimes donors) to cover the costs. The company has 519 employees.

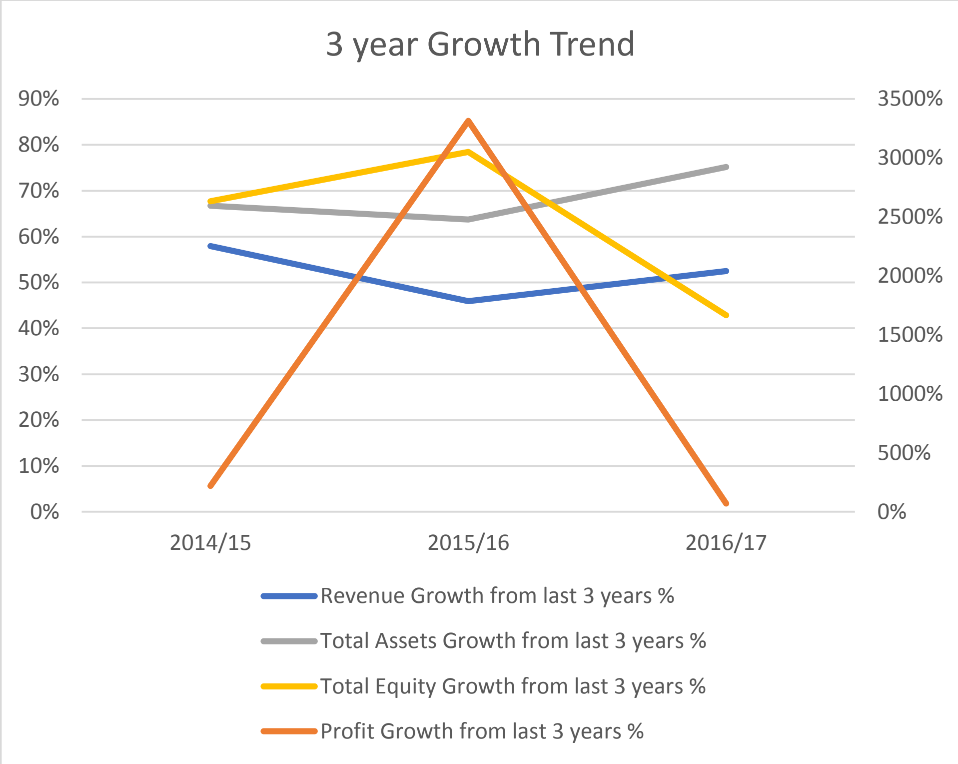
106. LEC's relatively strong financial position owes much to the restructuring of the industry that took place in the early 2000s in preparation for a privatization program that did not ultimately happen. One factor helping to maintain profitable operations includes pre-payment of accounts by local authorities and domestic customers which together account for around half of all electricity sales.

107. The World Bank Report notes that "LEC's profitability is reportedly being achieved at the cost of inadequate upgrading of infrastructure and delays to investments in new technologies. LEC obtained a capital grant from Government in 2009 to refurbish part of the network. LEC also received a M 47m loan from the AfDB for distribution infrastructure and started repaying it in 2015. LEC is liable to pay 47 percent of the loan. LEC has recently applied for a loan to rehabilitate its infrastructure."

108. The performance trend for LEC is generally positive with year-on-year revenue growth at a respectable 14% to 17% per-year. Revenue growth is the more consistent and reliable measure of growth for an enterprise such as LEC, however, it must monitor costs and seek full transparency and compensation for all social and non-commercial operational activity.

109. The following chart indicates the strength of LEC indicators, as revenue and asset growth are above 50% per year for a 3-year trend. The Profit growth figures are exceptional in the earlier years following the recorded loss in 2012/13 and the equity growth mirrors that trend.

Figure 8:



110. Relevant performance data for FY'17 is:

Table 9: Performance Highlights – LEC

Performance Highlights (M '000)	2014/15	2015/16	2016/17	3-yr Average
Total Revenue	703,669	741,779	907,959	784,469
Net Operating Profit After Tax	75,558	56,386	87,035	72,993
Capital Grants Receipts	96,760	108,541	242,638	149,313
Total Assets	2,837,590	2,966,129	3,340,432	3,048,050
Total Liabilities	292,159	258,066	1,004,490	518,238
Shareholders' Funds	2,545,431	2,708,063	2,335,942	2,529,812
EBITDA %	27%	21%	25%	24%
NOPAT %	10.7%	7.6%	9.6%	9.3%
ROE %	3.0%	2.1%	3.7%	2.9%
ROA %	2.7%	1.9%	2.6%	2.4%
Current Assets / Current liabilities	1.37	1.49	1.78	1.55
Quick Ratio	1.22	1.31	1.61	1.38
Accounts Receivable Days	34	36	56	42
Assets Turnover	0.29	0.25	0.28	0.27
Debt / Equity Ratio	0.02	0.02	0.02	0.02

111. LEC was issued a qualified audit opinion for the year ended 31 March 2017, with the auditor highlighting some concerns for directors' attention relating to the accounting for the Lesotho Electricity Supply Unit, LEC Communications (Pty) Ltd, Trade & other Payables and general governance issues.

112. Review of the annual report of LEC and other information suggests that the SOE is in contravention of the PFMAA section 43, by failing to provide 'a statement of the expected activities for the coming three years' and a 'statement of losses of enterprise money or loss or damage to enterprise property, including any amounts recovered or written off and any enterprise property disposed by way of gift'.

113. The information available indicates that there is no schedule of board meetings held and detailed attendance record of each director; there are no Board Sub committees; neither are details provided of board of Directors' composition. Each of these omissions fails to satisfy the requirements stipulated in the Corporate Governance Policy on SOEs for Lesotho.

114. **Water and Sewerage Company** WASCO is a 100 percent government owned company, established by Law in 2010, to take over the assets and operations of the former Water and Sewerage Authority (WASA). It is responsible for providing potable water and waste water disposal for 17 urban areas of Lesotho and territories served by the Metolong Dam. The company is owned 50 percent each by the MoF and the Ministry of Energy, Meteorology and Water Affairs. Along with LEC, WASCO is independently regulated by LEWA. In addition to the objectives of providing adequate and expanded service, an important objective is financial sustainability, including a reduction in the volume of non-revenue water.[16] WASCO has around 550 employees.

115. Non-revenue water is estimated at around 30 percent and physical losses upwards of 26 percent. Reportedly there are delays in collections from Government customers. Tariff increase requests have not always been met by the regulator. A major challenge is to expand the provision of services in the poorer urban areas while achieving full cost recovery. There appears to be scope for better determination of the costs of public service obligations in providing subsidised services to poorer communities, and for updating the tariff structure to ensure cost recovery while encouraging greater efficiency.

116. WASCO's financial performance has been erratic and deteriorated in recent years and Government has several times stepped in with transfers to cover WASCO's cash flow shortfall due to public service obligations, not all of which are financially viable. However, after a series of losses, 2015/16 and 2016/17 has seen a modest improvement and return to profitability.

117. The performance trend for WASCO is therefore a cause of concern. Addressing matters of tariff or funding of public service activities is a priority.

[16]Non-revenue water is water that has been produced but does not reach the customer. Losses can be real losses through leaks, sometimes also referred to as physical losses, or they can be apparent losses for example through theft or metering inaccuracies.

Figure 9:

118. Relevant performance data for FY'17 is:

Table 10: Performance Highlights – WASCO

Performance Highlights (M '000)	2014/15	2015/16	2016/17	3-yr Average
Total Revenue	198,665	222,837	247,809	223,104
Net Operating Profit After Tax	(3,160)	6,036	16,112	6,329
Capital Grants Receipts	400,160		105,828	168,663
Total Assets	1,351,220	1,458,702	1,552,253	1,454,058
Total Liabilities	202,706	274,196	317,824	264,909
Shareholders' Funds	1,148,514	1,184,506	1,234,429	1,189,150
EBITDA %	7%	11%	17%	12%
NOPAT %	(1.6%)	2.7%	6.5%	2.5%
ROE %	(0.3%)	0.5%	1.3%	0.5%
ROA %	(0.2%)	0.4%	1.0%	0.4%
Current Assets / Current liabilities	2.04	2.11	2.26	2.14
Quick Ratio	1.45	1.39	1.49	1.44
Accounts Receivable Days	159	148	164	157
Assets Turnover	0.15	0.16	0.16	0.15
Debt / Equity Ratio	0.10	0.16	0.16	0.14

119. WASCO was issued an adverse audit opinion for the period to 31 March 2017 relating to its accounting for Property, Plant & Equipment, Accounts Receivable, Inventory, Cash and Cash Equivalents, Non-compliance with IAS 20 – Accounting for Government Grants and Government Assistance, and Accounts Payables. There is thus significant concern on the reliability of these financial statements.

120. Perhaps of greater concern is that similar qualifications have been given in each of the past 3 years (and perhaps longer). There is thus a lack of effort by the board to attend to these matters and this is unacceptable for a public enterprise.

121. In addition, the significant value of government investment in WASCO (as noted in paragraph 83) heightens concerns regarding government fiscal risk.

122. WASCO has recently (January 2019) prepared a funding proposal for working capital to be provided by GoL. This is a poorly constructed document, but it does highlight some cash flow challenges. There are over 400 Government accounts that are not paid promptly and in excess of M22m is consistently due to WASCO from Government accounts. Credit risk with suppliers has deteriorated and old infrastructure is being repeatedly re-worked and repaired inefficiently in the absence of new infrastructure development.

123. The proposal suggests that part of the recent improved profitability for WASCO is charging interest on overdue Government and customer accounts. One element of the funding plan is the roll-out of prepaid meters to try to improve billing and cash flow deficiencies.

124. Part of the high non-revenue water account, is the free-access to supply that is granted in the Metolong downstream conveyance system (DCS) and WASCO argue they have been disadvantaged by additional costs, not previously identified in the design for the operation of the Metolong dam that they commenced to manage in April 2017.

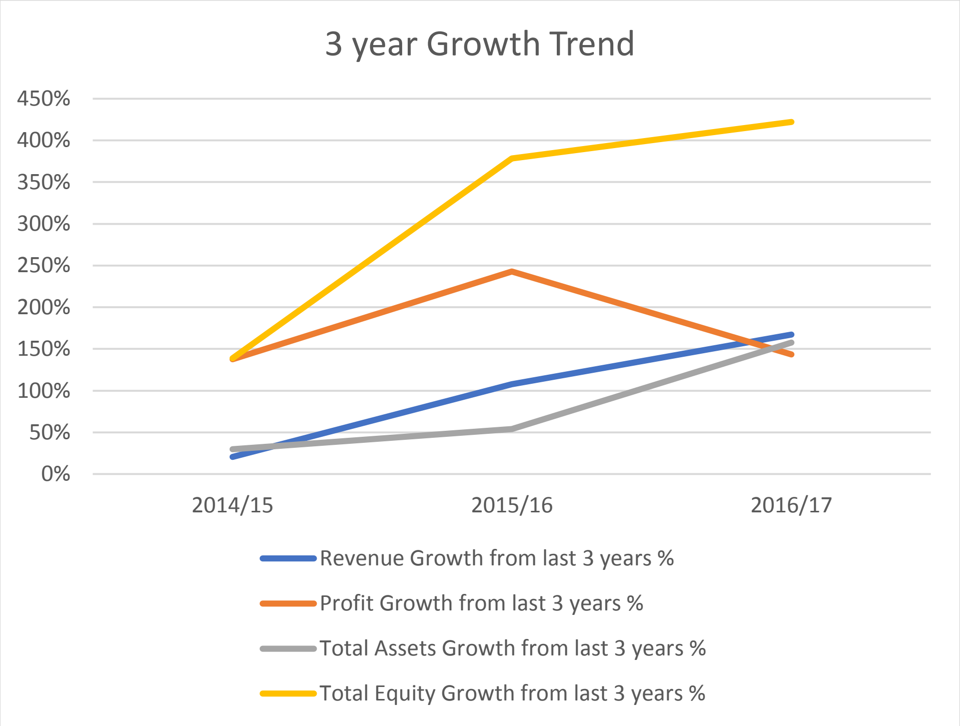
125. **Lesotho Post Bank** LPB is 100 percent Government owned and was incorporated in 2004 under the Companies Act. It is also licensed by the Central Bank in accordance with the Financial Institutions Act of 2012. It has 149 employees. The LPB's mandate is to promote financial inclusion by serving the unbanked and under-banked economically active population of Lesotho. An important objective is to provide financial services in a sustainable manner. LPB is one of four commercial banks in Lesotho, the other three of which are subsidiaries of South African Banks. LPB's network consists of 13 branches in seven districts and one customer service center in Maseru in addition to the main branch.

126. LPB has been a loss maker but performance has improved since 2014/15 with a turnaround to profitability, however this is determined after receipt of subventions from the government. Revenues increased steadily from M 32m in 2009 to M 79.1m in 2017 while profitability turned around steadily from a loss of M18m in 2009 to a profit of M 4.2m in 2017. The performance improvement is said to be a result of better management.

127. The performance trend for LPB is therefore one of cautious optimism, with the negative results seeming to turn around with better management and continued government

support. The trend lines are mostly flat indicating the slow but steady shift towards improvement over recent years.

Figure 9:



128. Relevant performance data for FY'17 is:

Table 11: Performance Highlights – LPB

Performance Highlights (M '000)	**2014/15**	**2015/16**	**2016/17**	**3-yr Average**
Total Revenue	48,609	74,203	79,104	67,305
Net Operating Profit After Tax	3,873	14,353	4,283	7,503
Capital Grants Receipts		17,663	53,000	23,554
Total Assets	347,289	444,886	808,566	533,580
Total Liabilities	323,415	349,197	704,119	458,910
Shareholders' Funds	23,874	95,689	104,447	74,670
EBITDA %	19%	31%	17%	23%
NOPAT %	8.0%	19.3%	5.4%	10.9%
ROE %	16.2%	15.0%	4.1%	11.8%
ROA %	1.1%	3.2%	0.5%	1.6%
Current Assets / Current liabilities	1.03	1.06	0.87	0.99
Quick Ratio	1.02	1.05	0.87	0.98
Accounts Receivable Days	17	15	37	23
Assets Turnover	0.14	0.18	0.12	0.15

Debt / Equity Ratio	11.98	3.11	5.64	6.91

129. LPB's latest three year Strategic Plan, covering the period 2016-2018, was adopted by LPB in October 2015. The elements of this Plan include better targeting of customers through segmentation, upgrading human resources, education of clients in financial literacy, development of new products to meet customer needs, improving the quality of service, and a strong continuing focus on sustainability.

130. **Basotho Enterprise Development Corporation** BEDCO has the principal objective of establishment and development of Basotho owned enterprises with particular emphasis on the promotion of indigenous entrepreneurial skills. BEDCO is 100 percent owned by government. It was originally created in 1975 as a subsidiary of the LNDC and in 1980 became an independent corporation. The focus of its operations is to support the development of small and medium enterprises (SMEs) through training, technical and financial assistance, provision of work space and industrial estates and procurement of raw materials. Recent studies indicate that BEDCO has a history of overlap of functions with LNDC, overstaffing, inadequate service delivery and heavy dependence on subsidies from government.[17] Recommendations included rationalising and revitalising BEDCO's operations, and folding BEDCO's functions back into LNDC.

131. BEDCO carries out its mandate through activities including: Enterprise establishment and development; Technical and business management training to entrepreneurs and trainees in the various programmes; Counselling assistance to entrepreneurs in all managerial skills providing entrepreneurs with technical know-how for quality control, design and marketing products; Providing advisory service to entrepreneurs; Provision of workspace by means of renting work units at subsidized rental rates in all estates; Providing common workshop facility where machinery can be hired or assistance obtained at reasonable price; Providing a timber yard where wood material and accessories can be bought at reasonable prices; and Running a production workshop that can be visited by entrepreneurs to get knowledge of modern furniture production and to promote furniture made by Basotho.

132. Indications are that in practice BEDCO operates less as a commercial entity and more as a provider of services paid for by Government. Its main source of income by far is capital grants, which grew from M 16.7 m in 2008/09 to M 20.7 m in 2010/11 before declining steadily to M 18.4 m in 2014/15. In contrast revenues generated from payment for services were a very small percentage of total income growing from the low level of M 1.3 m in 2008/09 to only M2.6 m in 2014/15. While generating profits in the early years of the period, losses have followed in each year since then, peaking at M 4.4 m lost in 2012/13. The company's net worth in recent years in contrast has stood at more than M 90 m, with assets consisting mainly of buildings and land.

133. The performance trend for BEDCO is therefore one of concern. Evidence suggests this is a key SOE ripe for restructure and fundamental reform. Its mission is valid, but government needs to explore more financial effective mechanisms to achieve the stated

[17] Notably a Strategic Review of LNDC and BEDCO carried out by the World Bank in September 2010.

business objectives. BEDCO is behind in completing its financial statements and no AFS are available since 2014/15, therefore no data is shown in this report.

Figure 10:
No data available

134. Relevant performance data for FY'17 is:

Table 12: Performance Highlights – BEDCO

Performance Highlights (M '000)	**2014/15**	**2015/16**	**2016/17**	**3-yr Average**
Total Revenue				
Net Operating Profit After Tax				
Capital Grants Receipts				
Total Assets				
Total Liabilities				
Shareholders' Funds				
EBITDA %				
NOPAT %				
ROE %				
ROA %				
Current Assets / Current liabilities				
Quick Ratio				
Accounts Receivable Days				
Assets Turnover				
Debt / Equity Ratio				

135. **Lesotho National Development Corporation** LNDC was created in 1967 as a 100 percent government owned statutory corporation. Its core mandate is to initiate, promote and facilitate the development of manufacturing and processing industries, mining and commerce in a manner calculated to raise the level of income and employment in Lesotho. It is the Corporation's key responsibility to contribute to national economic growth and development. The LNDC carries out this role by promoting Lesotho as an attractive and a preferred investment location to both foreign and local investors. LNDC offers a wide range of investment promotion, facilitation and supportive services. These include serviced industrial sites; factory buildings; business support services; after care services; financial assistance on a selective basis; and where possible, selective limited equity participation in projects considered to be of strategic importance to the economy."

136. It has 45 employees and offers a wide range of investor services. These include provision of nine industrial zones and factory shells. LNDC is also engaged in investment and property management and raises most of its finance from property rentals and

dividends from investments in companies. Other sources of revenue include interest on loans.

137. LNDC has had many successes over the years in attracting foreign direct investment (FDI). In its early years LNDC was successful in the development of light manufacturing industry and tourism. From the late 1980s LNDC was instrumental in attracting investors in the garment industry from East Asia, notably Taiwan. In the 1990s and early 2000s, partially through LNDC's efforts, Lesotho became one of the first countries in southern Africa to qualify for benefits for its garment industry from the US African Growth and Opportunities Act (AGOA) trade agreement and Lesotho became the largest African supplier of apparel to the US. More recently due to declines in competitiveness and uncertainty in preferential access, garment factories have been closing in Lesotho.

138. Recent studies and reviews[18] suggested the need to diversify away from textiles and to review the mandate and funding structure of LNDC and address perceived over-reliance on its investment in Maluti Mountain Brewery. Reform suggestions in place include splitting the corporation into two entities, one focusing on the core mandate of investment promotion and the second on property management, with the latter function ultimately being privatized.

139. LNDC is currently being restructured to serve better its mission of private sector development. In 2018, LNDC announced that it was re-organising its activities into four strategic business units - development finance, property development, investment and trade promotion, and corporate services.

140. Within the bounds of these strategic focus areas, LNDC must reconsider its role as an owner in other trading and manufacturing businesses. The role of an investment promotion and enterprise development institution has evolved in many countries with less emphasis on ownership or participation in ownership, and more emphasis on being an advocate for improving the investment climate and representing Government’s view to investors and investors views to Government.

141. It is not necessary to retain shareholdings in companies that have been operating in Lesotho for some years to achieve the purpose of LNDC in promoting investment and economic development. Where a national development agency in a country holds shares in company start-ups as a form of support, it usually recycles and sells the shares to use the proceeds for alternative uses or supporting new start-ups.

142. In addition, because LNDC is mandated to participate in some investments and provide rents at discounted rates as part of the investment incentive, then to the extent that such activities are non-commercial, LNDC will benefit from identifying market costs and prices and the effective social policy costs attached to the discounted rates that are applied.

[18] Notably that undertaken by the World Bank in 2010

143. Despite the apparent internal issues and reported inefficiencies, and although LNDC has never returned a dividend to Government, it has, especially in recent years performed well across a range of financial indicators. Profitability appears strong; however, the liquidity indicators are cause for concern.

144. The performance trend for LNDC is therefore one of cautious optimism. Evidence suggests this is a key SOE managing important assets and investment opportunities. Internal restructure needs to preserve the capacity for commercial operations with proper allocated funding for any social operations.

Figure 11:

145. Relevant performance data for FY'17 is:

Table 13: Performance Highlights – LNDC

Performance Highlights (M '000)	**2014/15**	**2015/16**	**2016/17**	**3-yr Average**
Total Revenue	114,230	146,991	149,320	136,847
Net Operating Profit After Tax	12,435	32,068	35,590	26,698
Capital Grants Receipts		77,016	34,378	
Total Assets	921,035	1,197,388	1,310,336	1,142,920
Total Liabilities	178,744	319,597	318,194	272,178
Shareholders' Funds	742,291	877,791	992,142	870,741
EBITDA %	19%	26%	25%	23%
NOPAT %	10.9%	21.8%	23.8%	18.8%
ROE %	1.7%	3.7%	3.6%	3.0%
ROA %	1.4%	2.7%	2.7%	2.2%

Current Assets / Current liabilities	0.79	5.62	5.24	3.88
Quick Ratio	0.35	3.93	3.31	2.53
Accounts Receivable Days	193	212	348	251
Assets Turnover	0.07	0.06	0.06	0.07
Debt / Equity Ratio	0.19	0.32	0.28	0.26

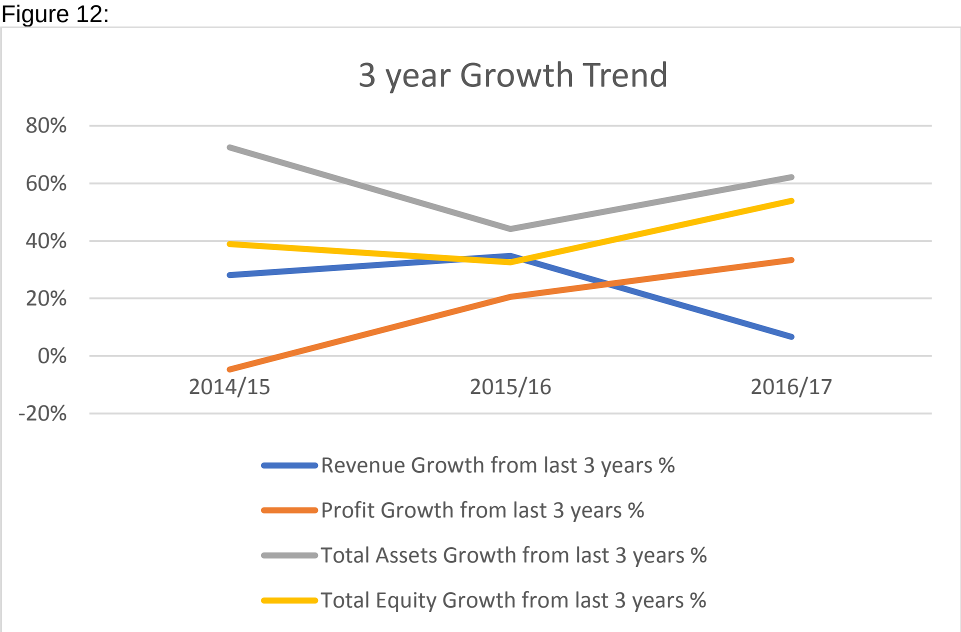
146. LNDC was issued an unqualified audit opinion for 2016/17 having been qualified for the year to 31 March 2016 relating to application of IAS 36 on Impairment of Assets.

147. **Maluti Mountain Brewery (Pty) Ltd:** Maluti is controlled by Government through LNDC being the major shareholder (51%), Governments 4.75% holding (Lesotho Unit Trust with 5.25%) and the minority but significant holding of AB InBev (39%), who recently acquired the holding of SAB Miller.

148. Currently, there is a proposal to separate the soft drinks business to create two companies, with Maluti Mountain Brewery (and AB InBev) concentrating on beer production and alcoholic drinks, while NewCo, in partnership with Coca-Cola will produce the soft drinks. There may be agreement to share bottling and packing facilities. Government and LNDC are reviewing the opportunity to invest in NewCo or to assess the relative value in Maluti pre-split and determine the best way forward.

149. The performance trend for Maluti has been attractive for LNDC with consistent profitability and dividend payments. That said, profit growth has been a little erratic in recent time as shown in the graph, with some annual dips in growth, however the current trend is upward, meaning that there is not just profitability but growth in the profit returns. The 2016/17 fiscal year was for only 9 months and this has distorted the data somewhat, but the 3-year trends become more reliable. The dip in revenue growth is a direct result of the lower revenues in a 9-month period to the prior 12-month periods.

Figure 12:



150. Relevant performance data for FY'17 is:

Table 14: Performance Highlights – Maluti Mountain Brewery

Performance Highlights (M '000)	**2014/15**	**2015/16**	**9 months 2016/17**	**3-yr Average**
Total Revenue	733,666	830,793	701,387	755,282
Net Operating Profit After Tax	96,833	118,512	104,324	106,556
Dividends Paid to GoL	3,067	4,816	2,275	3,386
Total Assets	414,972	461,653	595,852	490,826
Total Liabilities	191,010	223,093	300,872	238,325
Shareholders' Funds	223,962	238,560	294,980	252,501
EBITDA %	16%	16%	17%	16%
NOPAT %	13.2%	14.3%	14.9%	14.1%
ROE %	43.2%	49.7%	35.4%	42.8%
ROA %	23.3%	25.7%	17.5%	22.2%
Current Assets / Current liabilities	0.63	0.77	0.96	0.78
Quick Ratio	0.25	0.43	0.75	0.48
Accounts Receivable Days	15	33	105	51
Assets Turnover	1.87	1.89	1.32	1.70
Debt / Equity Ratio	n/a	n/a	n/a	n/a

151. Maluti Mountain Brewery has received unqualified audit reports for all recent years.

152. As indicated Maluti operated a 9-month accounting period for the fiscal year 2016/17. Extrapolating the revenue for a full 12-month period would give a 12.5% revenue growth for the year and 20% growth in profits. This is a commendable performance. However, the declared dividends reduced following this short year, but returned to levels of 70 – 80% of after-tax profit in the following year.

153. **Loti Brick (Pty) Ltd:** Loti Brick is controlled by Government through LNDC being the major shareholder (73.6%), Governments 22.8% and a minority shareholding of 3.6%.

154. The performance trend for Loti Brick is one of great concern. The delay in producing financial statements is contrary to the Companies Act and PFMAA requirements, is unacceptable and fuels the concerns of deteriorating performance. Although the value of Government's ownership is not among the largest for SOEs, the deteriorating performance provides significant fiscal risk.

155. LNDC is actually the major shareholder and as indicated above, LNDC needs to re-evaluate its role in ownership of industrial and trading companies. It is understood that LNDC (Government) influence the board of directors and the board of Loti Brick now,

urgently, need to be called to account for recent performance trends[19]. It is recommended that PSD, through the Minister, request a full board meeting with the most recent financial statements and internal financial reports presented and full explanations and plans for recovery to be made.

Figure 13:
The trend graphs for Loti Brick are not provided as the most recent data is unavailable and prior years were losses.

156. Relevant performance data for FY'17 is:

Table 15: Performance Highlights – Loti Brick

Performance Highlights (M '000)	**2014/15**	**2015/16**	**2016/17**	**3-yr Average**
Total Revenue	31,043	32,747		
Net Operating Profit After Tax	(9,371)	(11,892)		
Dividends Paid to GoL/LNDC				
Total Assets	89,753	80,400		
Total Liabilities	35,950	34,087		
Shareholders' Funds	53,803	46,313		
EBITDA %	(27%)	(34%)		
NOPAT %	(30.2%)	(36.3%)		
ROE %	(17.4%)	(25.7%)		
ROA %	(10.4%)	(14.8%)		
Current Assets / Current liabilities	1.15	0.89		
Quick Ratio	0.24	0.18		
Accounts Receivable Days	51	40		
Assets Turnover	0.34	0.37		
Debt / Equity Ratio	0.36	0.34		

157. Loti Brick received audit qualifications in recent years, as well, that relate to several issues regarding sales, depreciation, debtors and ledger balances.

158. **Ok Bazaars (Pty) Ltd:** Ok Bazaars is controlled by Government through LNDC holding 50% along with ShopRite Checkers Pty Ltd as an equal, 50% shareholder.

159. The performance trend for Ok Bazaar is quite satisfactory. Profitability and performance are good to strong in recent years and a dividend at quite a high proportion

[19] PSD received a formal letter from the Finance Manager of Loti Brick on 4 March 2019, stating "Loti Brick currently has a backlog of the audited financial statements and the latest audited financial statements available are up to 2015/16" There is no attempt to explain issues or efforts to address the issues and backlog. This is totally improper and unacceptable for an SOE and heightens cause for concern.

of profits is being distributed. In addition, the business appears to be debt free and without liquidity stress.

160. However, the worrying sign is that profitability growth is falling and a review of the last 10-year period shows that while revenue has improved year-on-year, expenses have increased at a higher rate, hence the fall in profitability. As said, it remains satisfactory but there is a need to beware of this trend.

161. It is understood the business is largely commercial retail of grocery and housewares and it is difficult to see the continuous value in LNDC as a major owner. As indicated above LNDC mandate is support and promotion of investment opportunities but it does not need direct ownership. There is no evidence of LNDC direct value-add to the business. A restructured and more focused LNDC should reduce the dependency on dividend streams from enterprises such as Ok Bazaars, and a good case could be made, while business performance is strong to divest and acquire a good price for the shares.

Figure 14:

162. Relevant performance data for FY'17 is:

Table 16: Performance Highlights – Ok Bazaars

Performance Highlights (M '000)	**2014/15**	**2015/16**	**2016/17**	**3-yr Average**
Total Revenue	142,388	154,687	173,126	156,734
Net Operating Profit After Tax	8,317	8,214	8,525	8,352
Dividends Paid to GoL				
Total Assets	53,475	58,575	63,813	58,621
Total Liabilities	14,290	17,145	20,159	17,198

Shareholders' Funds	39,185	41,430	43,654	41,423
EBITDA %	9%	8%	7%	8%
NOPAT %	5.8%	5.3%	4.9%	5.4%
ROE %	21.2%	19.8%	19.5%	20.2%
ROA %	15.6%	14.0%	13.4%	14.3%
Current Assets / Current liabilities	3.58	3.27	3.01	3.29
Quick Ratio	2.46	1.72	1.64	1.94
Accounts Receivable Days	25	38	32	32
Assets Turnover	2.54	2.67	2.72	2.64
Debt / Equity Ratio	n/a	n/a	n/a	n/a

163. Ok Bazaars had an unqualified audit report.

164. **MHG Lesotho (Pty) Ltd t/a (Avani):** MHG Avani is controlled by Government with a 36.4% direct shareholding and LNDC holding 16.7%, while MHG International Holding (Mauritius) have 37.54% of shares and Sun International Co, Inc hold 9.38%.

165. The performance trend for MHG Avani is very mixed. Although recent years are profitable, the period to 2013/14 were loss-making. This was also a time of change in the minority shareholder and Government/LNDC appeared to be somewhat of a spectator as important investment decisions were being made. No dividends were paid during the time of investment and capital works on the hotel properties.

166. As businesses, clearly there is both potential and high-risk in these businesses and there is little evident expertise within Government or LNDC to add real value. Thus, dependency on a shareholding partner and under a complex management agreement exposes Government (and LNDC) to the vagaries of such business outcomes and results. Hotel management and casinos are strongly cash-based operations, yet the current ratio is low and liabilities quite high. Unless a significant improvement in sharing information about performance and business planning can be made, Government remains very vulnerable in its majority stake in this business group and fiscal risk is high.

Figure 15:

167. Relevant performance data for FY'17 is:

Table 17: Performance Highlights – MHG Avani

Performance Highlights (M '000)	2014/15	18 months 2015/16	2016/17	3-yr Average
Total Revenue	127,031	206,810	137,834	157,225
Net Operating Profit After Tax	1,484	14,929	11,952	9,455
Dividends Paid to GoL				
Total Assets	115,000	121,054	133,336	123,130
Total Liabilities	43,805	42,823	43,153	43,260
Shareholders' Funds	71,195	78,231	90,183	79,870
EBITDA %	2%	11%	21%	12%
NOPAT %	1.2%	7.2%	8.7%	5.7%
ROE %	2.1%	19.1%	13.3%	11.5%
ROA %	1.3%	12.3%	9.0%	7.5%
Current Assets / Current liabilities	0.25	1.00	1.16	0.80
Quick Ratio	0.25	0.94	0.11	0.77
Accounts Receivable Days	0	16	19	12
Assets Turnover	1.10	1.75	1.08	1.31
Debt / Equity Ratio	0.01	0.01	0.01	0.01

168. MHG Avani had an unqualified audit report.

169. **Lesotho Housing & Land Development Corporation** LHLDC is controlled by Government with a 75% direct shareholding and LNDC holding 25%. No data available for recent years.

170. LHLDC is a merger between the Lower Income Housing Company (LEHCO-OP) (low income sector) and Lesotho Housing Corporation (LHC) (middle income sector), and its purpose is to assist all Basotho by providing shelter and housing. The principal business of LHLDC is to build houses for sale and the provision of rental accommodation and serviced sites for residential and commercial purposes.

171. The LHLDC performs the following functions: Increase the supply of shelter and help meet the housing requirements of Lesotho as determined by Government and the local authorities by; Implementing on a self-financing basis a broad array of schemes including self-help housing, sites and services, land development, and cooperative housing; Assisting private parties to develop land and deliver housing; Engaging in the development and management of rental housing schemes where it is deemed to be in the economic interest of LHLDC to manage the property; Assisting in the mobilization of capital available to the shelter sector by emphasizing in its activities efficiency and cost recovery programmes to ensure a good return on investment; and developing a long-term capital programme that will assure the LHLDC's continuing financial viability and ability to remain a vital participant in Lesotho`s shelter sector.

172. The performance for LHLDC is not known as no information is available to PSD. This situation must be improved with urgency so that reasonable analysis can be made of the performance and fiscal risk to Government.

Figure 16:
No data available

173. Relevant performance data for FY'17 is:

Table 18: Performance Highlights – LHLDC

Performance Highlights (M '000)	2014/15	2015/16	2016/17	3-yr Average
Total Revenue				
Net Operating Profit After Tax				
Capital Grants				
Total Assets				
Total Liabilities				
Shareholders' Funds				
EBITDA %				
NOPAT %				
ROE %				
ROA %				
Current Assets / Current liabilities				

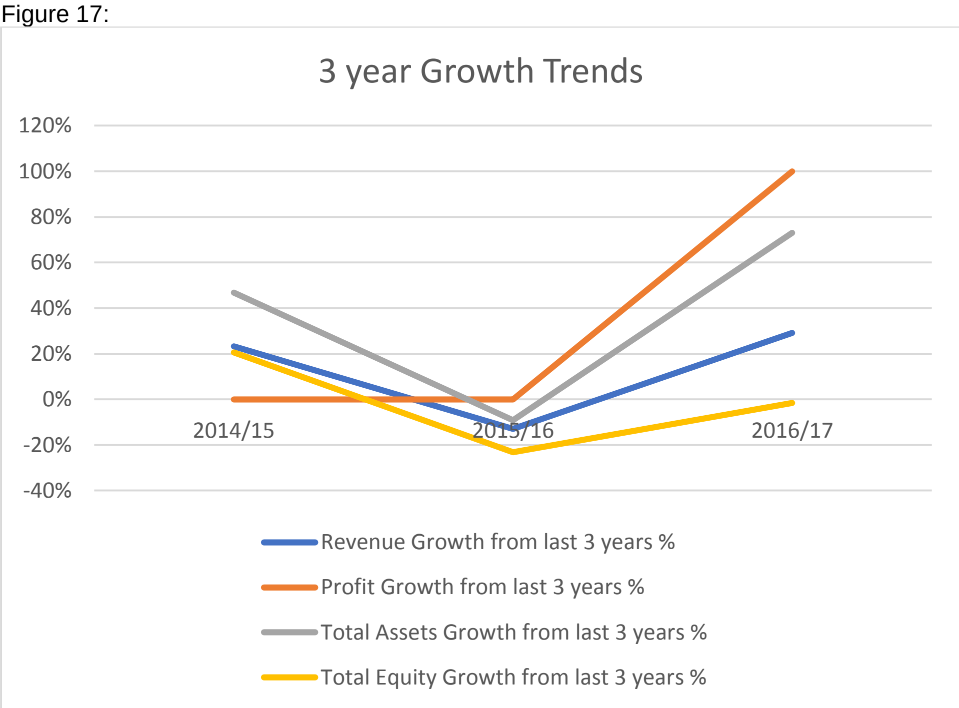
Quick Ratio				
Accounts Receivable Days				
Assets Turnover				
Debt / Equity Ratio				

174. **Lesotho Flour Mills Ltd** Lesotho Flour has a 49% ownership by Government with a 51% ownership with Seaboard Overseas Pty Ltd.

175. Lesotho Flour performance has been disappointing for many years, at least from the Government perspective. In profitable years, as recently as 2012/13 no dividends were declared, and Government has seen no real financial return from its investment. There is a complex management agreement in place that permits Seaboard to engage expatriate advisors from the parent company, in addition to payment of management fees. The most recent years have seen reported losses adding to the overall concern about the financial risk of this investment. 2016/17, however, on the back of strong divisional sales in maize, produced a much better result and a return to profitability.

176. It is difficult to conclude in a positive way regarding Lesotho Flour performance trends, from Government's perspective. An aggressive approach towards revising management agreements and ensuring performance against agreed plans is a must. Government must ensure there is fair representation and plans and results must be shared with PSD. A wait-and-see approach is too risky and plans for continued profitability and an improvement in trend indicators is required.

Figure 17:



177. Relevant performance data for FY'17 is:

Table 19: Performance Highlights – Lesotho Flour

Performance Highlights (M '000)	**2014/15**	**2015/16**	**2016/17**	**3-yr Average**
Total Revenue	645,141	603,948	870,887	706,659
Net Operating Profit After Tax	(12,175)	(15,301)	25,956	(507)
Dividends Paid to GoL	-	-	-	-
Total Assets	271,968	242,201	377,845	297,338
Total Liabilities	163,967	149,569	259,487	191,008
Shareholders' Funds	108,001	92,632	118,358	106,330
EBITDA %	(1%)	(2%)	4%	0%
NOPAT %	(1.9%)	(2.5%)	3.0%	(0.5%)
ROE %	(11.3%)	(16.5%)	21.9%	(2.0%)
ROA %	(4.5%)	(6.3%)	6.9%	(1.3%)
Current Assets / Current liabilities	1.27	1.18	1.26	1.24
Quick Ratio	0.49	0.50	0.57	0.52
Accounts Receivable Days	41	38	51	43
Assets Turnover	2.63	2.35	2.81	2.60
Debt / Equity Ratio	0.17	0.14	0.18	0.17

178. Lesotho Flour had an unqualified audit report.

179. **Letseng Diamonds Pty Ltd** Letseng is 30% Government owned.

Figure 18:

180. Letseng Diamonds performance has been strong in recent years' and it remains the portfolio stand-out performer. Profitability has fallen in the most recent year and it is unclear if this is a new trend, however the strong performance and high dividend pay-out is a positive outcome for Government.

181. Relevant performance data for FY'17 is:

Table 20: Performance Highlights – Letseng

Performance Highlights (M '000)	2014/15	2015/16	2016/17	3-yr Average
Total Revenue	3,075,278	3,157,091	2,753,132	2,995,167
Net Operating Profit After Tax	996,784	1,027,672	698,287	907,582
Dividends Paid to GoL	307,800	149,400	219,000	225,400
Total Assets	2,955,052	3,449,664	3,407,840	3,270,852
Total Liabilities	1,240,277	1,198,996	1,182,178	1,207,150
Shareholders' Funds	1,714,775	2,250,668	2,225,662	2,063,702
EBITDA %	64%	65%	57%	62%
NOPAT %	32.4%	32.6%	25.4%	30.1%
ROE %	58.1%	45.7%	31.4%	45.1%
ROA %	33.7%	29.8%	20.5%	28.0%
Current Assets / Current liabilities	1.75	2.34	1.70	1.93
Quick Ratio	1.27	1.74	0.65	1.22
Accounts Receivable Days	38	29	17	28
Assets Turnover	1.06	0.92	0.79	0.92
Debt / Equity Ratio	0.09	0.04	0.01	0.05

182. **Econet (Telecom) Lesotho Pty Ltd** Econet is 30% Government owned.

183. The performance for Econet is a cause for great concern. After several years of small profits, the last four years have been losses, the only positive being a slight and then increasing reduction in the loss in the most recent years. Econet has a substantial investment in assets, mostly in physical assets. Revenue has been fairly stagnant with only modest growth over the last 8 to 10 years. This is suggestive of an entity burdened by unproductive or old assets in a fast moving, rapidly changing environment. More information is needed to assess the risks involved including a break-down of market share and proportion of revenues from different sectors. Mobile and data are the key areas of potential growth but also competitiveness and Government needs to closely monitor Econet plans and prospects in light of the significant investment tied-up in physical equipment.

Figure 19:

184. Relevant performance data for FY'17 is:

Table 21: Performance Highlights – Econet

Performance Highlights (M '000)	**2014/15**	**2015/16**	**2016/17**	**3-yr Average**
Total Revenue	390,486	439,982	437,474	422,647
Net Operating Profit After Tax	(59,177)	(53,872)	(29,118)	(47,389)
Dividends Paid to GoL	-	-	-	-
Total Assets	770,594	888,565	825,047	828,069
Total Liabilities	604,937	776,780	742,379	708,032
Shareholders' Funds	165,657	111,785	82,668	120,037
EBITDA %	(19%)	(13%)	(3%)	(12%)
NOPAT %	(15.2%)	(12.2%)	(6.7%)	(11.4%)
ROE %	(35.7%)	(48.2%)	(35.2%)	(39.7%)
ROA %	(7.7%)	(6.1%)	(3.5%)	(5.8%)
Current Assets / Current liabilities	0.64	0.41	0.68	0.57
Quick Ratio	0.59	0.35	0.61	0.52
Accounts Receivable Days	112	72	69	85
Assets Turnover	0.52	0.46	0.48	0.49
Debt / Equity Ratio	2.06	4.71	6.93	4.57

185. Econet had an unqualified audit report.

186. While the overall performance indicators are a cause of concern, the AFS indicate that the largest item of expenditure is the depreciation charge. This figure represents 26% of total expenditure of the FY17 year and warrants a better understanding as it suggests large costs of infrastructure (fixed line) and it is not clear if suitable returns are available.

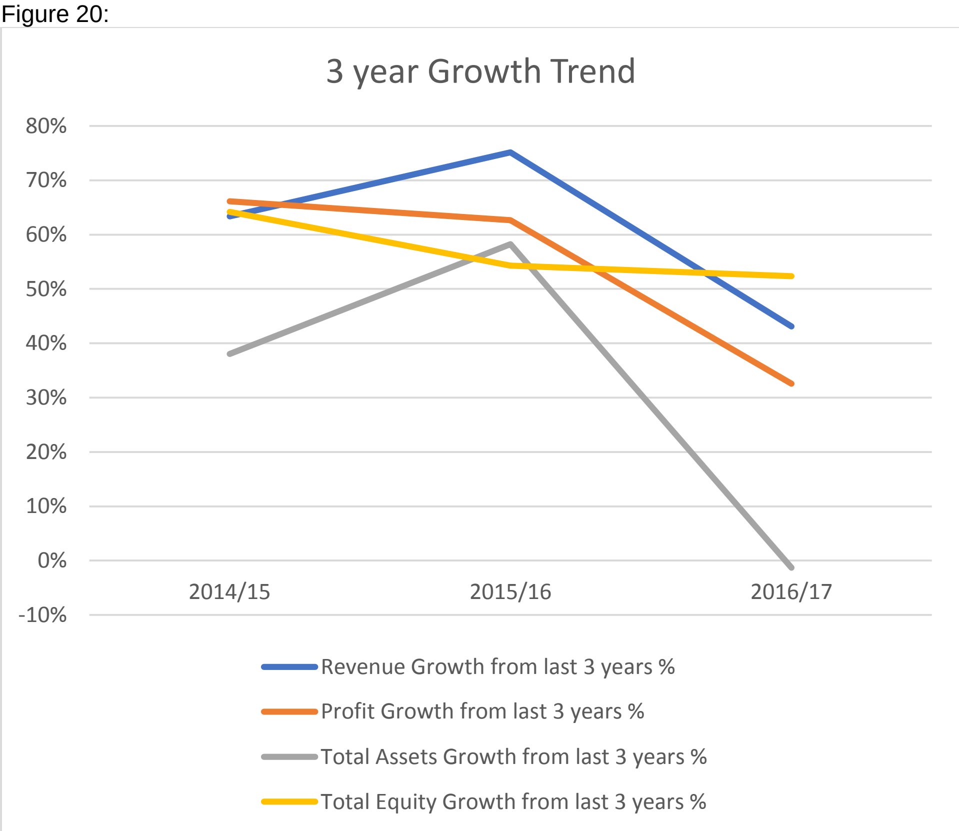
187. It is also worth noting that Econet is still dependent on Fixed line income, mostly through data, but Fixed line and Mobile are approximately 50% each of revenue.

188. **Standard Lesotho Bank** Standard is 9.6% Government owned as a minority with the Standard Bank Group of South Africa.

189. The performance trend for Standard has been strong and dividend pay-out has been increasing. Government's small investment offers little direct influence, but with a steady return above 40%, the investment is proving to be sound. Once again it is mostly about policy decisions for Government to be affiliated with the largest bank and in competition with other banking assets. GoL proportion of value is around M100m.

190. The falling trends depicted in the graph is a minor concern, being that growth across each element (revenue, profits, assets and equity) continues to be strong but at a falling rate over time. This might suggest Standard is towards its peak market share and cannot sustain rates of growth above 50% annually.

Figure 20:



191. Relevant performance data for FY'17 is:

Table 22: Performance Highlights – Standard

Performance Highlights (M '000)	2014/15	2015/16	2016/17	3-yr Average
Total Revenue	1,008,956	1,099,927	1,240,015	1,116,299
Net Operating Profit After Tax	317,752	344,261	387,698	349,904
Dividends Paid to GoL	19,200	24,000	24,000	22,400
Total Assets	6,995,120	8,214,930	6,834,533	7,348,194
Total Liabilities	6,231,345	7,383,817	5,849,131	6,488,098
Shareholders' Funds	763,775	831,113	985,402	860,097
EBITDA %	44%	59%	63%	55%
NOPAT %	31.5%	31.3%	31.3%	31.4%
ROE %	41.6%	41.4%	39.3%	40.8%
ROA %	4.5%	4.2%	5.7%	4.8%
Current Assets / Current liabilities	1.11	1.10	1.14	1.12
Quick Ratio	0.08	0.07	0.11	0.09
Accounts Receivable Days	n/a	n/a	n/a	n/a
Assets Turnover	0.14	0.14	0.16	0.15
Debt / Equity Ratio	n/a	n/a	n/a	n/a

192. Standard Bank had an unqualified audit report.

XI. CONCLUSIONS AND RECOMMENDATIONS

193. PSD aims to improve access to relevant information, and towards that end, is working on improving relationships with all SOE sector stakeholders, including, but not limited to; the SOEs, line ministries, other MoF departments, Office of the Auditor General. Effective monitoring of SOEs demands that consistent and relevant information is available.

194. This report and its analysis are limited where there is lack of relevant information available as indicated in the report.

195. SOEs without public or social service obligations provide better overall results and indicators of profitability. This highlights the need for identification of social services and SOE activities at other than commercial behaviour, and the need for transparent funding of the same.

196. SOEs under government control are subject to the PFMAA and Part VI (PFMAA) with special emphasis on sections 41 – 43 needs to be properly enforced. This will require political will and cooperation between ministries and Ministers.

197. Letseng Diamonds is the stand-out performer in recent years, while the banking and insurance sector has performed well.

198. Some SOEs appear to offer little to the portfolio with weak or zero dividend returns and limited influence or inputs available to Government.

199. PSD endeavours to improve its capacity to reconcile cash-based items (dividends, debt payments) to the declared dividends and debt obligations as reported in the SOE AFS.

200. **PSD, on behalf of Government, should develop an SOE Ownership Policy to highlight relevant strategic, security and other reasons why the Government should invest in businesses.** Once a broad policy has been agreed, then it is logical to work towards improving the SOE portfolio of investments to align to that policy. Such alignment may take many years in both divestment of non-relevant SOEs and in creating SOEs from other Government operations or departments that meet the ownership and commercial 'mandate' criteria. Where there is significant value in some Government-owned entities that do not fall in line with SOE ownership policy, significant effort and resources should be allocated to ensure any exit of the investment meets all appropriate Government requirements, including, but not limited to, value and sale price. As the World Bank Report notes "Reduction of the management burden of ownership of a large number of minority interests would free up administrative resources and allow a focus on core government functions".

201. In pursuing an active programme of divestment of minority and non-strategic holdings, it should be emphasised that there are other holdings not included in this analysis; some of which appear to be fully registered companies but not producing financial reports while others exist but are not well known and thus not subject to effective monitoring[20]. **A complete inventory of Government holdings needs to be identified and verified and relevant information gathered** before any policy criteria can be applied in assessing the merit of such investments.

202. **SOEs that provide important social or public services need to be adequately compensated and the value of such social obligations needs to be transparent to the annual budget.** LEC, WASCO, LTDA, and BEDCO plus other SOEs need to fully and adequately identify any non-commercial activities or operations so that more effective resource allocation and funding decisions can be made. Hiding social service costs among other operational costs is inefficient and leads to sub-optimal decisions for both Government as the investor/funder and the SOE as the service-operator. There are a number of best practice mechanisms to manage this, including direct budget allocations and contracted costing (on a performance-basis) for the SOE to deliver the requested social services.

[20] In March 2019 there was activity concerning the Governments 20% holding in Eqstra Fleet Services (PVSP). Comments suggested it was an entity hitherto unknown to PSD

203. **Some SOEs, particularly the utility businesses (LEC and WASCO) have a large number of account balances with Government departments and significant receivables from Government.** If Government fails to respect normal terms of trade for the provision of services, then SOE efficiency is undermined and a quasi-social service is effectively imposed. Effort is required from ministries, departments and government agencies to improve payments for services provided.

204. Some SOEs including Lesotho Flour Mills, MHG (Avani), Maluti Mountain Brewery and others are managed under relevant shareholder agreements and management agreements. **It is in Government's interest that these (shareholder and management) agreements are regularly reviewed**, run for a minimum efficient period, around 3 years is a useful guide with provision for renewal, and are structured on a performance-basis, such that the bulk of the managements reward or compensation is based on pre-defined results/performance indicators.

205. Based on the analysis[21], the following SOEs pose some fiscal risk and require immediate attention to address such risk:

SOE	Risk / Concern	Actions
LEC WASCO	Both entities depend on GoL financial support and both have significant infrastructure to maintain. It is probable that there are social policy obligations being absorbed in general costs and it is unclear if the tariffs are fully commercial. WASCO suffers high water loss. Both entities are signaling improvement, but they are too big and important for failure.	PSD should build knowledge and relationships with the SOEs and line ministries and better understand performance indicators and business plan targets to more closely monitor fiscal risk
LPB	Although performance has improved this is after significant capital grants. More information regarding the expectations/obligations of these grants is required to fully assess the merit/cost/return of funding such banking services.	
BEDCO	A lack of information and delays in producing financial statements is unacceptable and itself poses fiscal risk. BEDCO is understood to be mostly business development services without a strong commercial mandate.	Attempt to "influence" getting information up to date
LNDC	LNDC is undertaking internal reform and that should facilitate performance improvement (after re-evaluation of physical and investment holdings) in time. It has accumulated shareholder funds but doesn't pay a dividend.	PSD should facilitate a dividend policy for LNDC
Loti Brick	Deteriorating results and recent delays in producing financial statements causes concern. Liquidity indicators are low. LNDC (and Government) may have residual risk.	An independent review of the operations and financial status of Loti Brick is required based on which GoL/LNDC should plan to divest their equity.

[21] Remembering that data gaps exist and impede full analysis as required.

MHG (Avani)	Mixed results, lack of dividends, low liquidity for a cash-based business; limited Government influence under management agreement.	Review management agreement. Re-evaluate purpose of Government holding.
LHLDC	A lack of information and delays in producing financial statements is unacceptable and itself poses fiscal risk. LHLDC is understood to offer some development services without a strong commercial mandate, but it is understood to have substantial property holdings.	Attempt to "influence" getting information up to date.
Lesotho Flour Mills	Recent improvements after years of disappointing results may bode well.	Needs a review of the management agreement and close monitoring.
Econet	Deteriorating results and some erosion of shareholder value in a fast-moving market. Liquidity indicators are cause for concern; high asset values and increasing liabilities. Long-term loan on-lent by Government.	Need for greater understanding of current plans to move forward and close monitoring on a regular basis (at least quarterly) otherwise continued poor performance will be too difficult to fix without significant financial stress.

206. Finally, PSD acknowledges the findings in this report are based on information provided, mostly from AFS and not all independently verified. PSD thanks all who have assisted in the compilation of this report and PSD is committed to continue to build capacity and competence and improve on its overall SOE monitoring and on the timeliness and effectiveness of this report.

ANNEX 1 – KEY PERFORMANCE INDICATORS

Financial KPI's can be used as in the following table:

Key Indicator	Explanation	Calculation
EBITDA %	Measures profitability from core operations without capital and financing costs	Profit add back interest, tax, depreciation & amortisation charges and express as a % of revenue
	$$\frac{\text{Net Profit before interest, tax, depreciation (\& amortization)} \times 100}{\text{Revenue}}$$	
NOPAT %	Measures after tax profitability from core operations without considering financing costs	Profit from operations less tax as a % of operating revenue
	$$\frac{\text{Net Profit after tax + finance charges} \times 100}{\text{Revenue}}$$	
ROE %	Measures business performance through the value of return (Profit after tax) relative to the value of the investment (Shareholder's Equity)	Profit after tax as a percentage of total equity $\frac{\text{Net Profit after Tax}}{\text{Total Equity}}$
ROA %	Measures business performance through the value of return (Profit after tax) relative to the value of the total assets engaged in the business	Profit after tax as a percentage of total assets $\frac{\text{Net Profit after Tax}}{\text{Total Assets}}$
Current Assets / Current liabilities (current ratio)	Provides a measure of liquidity or cash provision to meet supplier, employee and other operating payments in an on-going and timely manner based on conversion of current assets (cash, receivables, inventories) to cash	Total current assets expressed as a proportion of current liabilities (amounts due) $\frac{\text{Current assets}}{\text{Current liabilities}}$
Quick Ratio	Provides a measure of liquidity or cash provision to meet supplier, employee and other operating payments in an on-going and timely manner based on conversion of the most liquid current assets (cash, receivables,) to cash	Total [most liquid – cash, receivables] current assets expressed as a proportion of current liabilities (amounts due) $\frac{\text{Current assets - Inventory}}{\text{Current liabilities}}$
Accounts Receivable Days	Provides a measure of efficiency in collecting revenue from credit customers and maintaining liquidity rates	Value of trade receivables as a proportion of (credit) revenue, x 365 to express in No. of days

		Accounts receivable x 365 Credit Sales
Assets Turnover	Provides a measure of efficiency in the use of assets to generate revenue for the business	Revenue divided by total assets Revenue Total Assets
Debt / Equity Ratio	A key financing indicator to illustrate the proportion of business capital financed by debt in relation to equity	Interest-bearing debt expressed as a proportion of total equity
	Interest-Bearing Debt (Current + Non-Current) Total Equity	

3-Year Growth Trends

Data across key indicators: Total Revenue, NOPAT, Total Assets and Equity is represented on 3-year trend graphs. PSD calculate 1-year and 3-year growth trends for these indicators. The 1-year graph will usually be more volatile, such that a 3-year movement better illustrates the overall performance trend of each indicator. These indicators aim to provide a short-medium term perspective of growth and thus performance.

To illustrate these calculations data for LEC is shown as follows:

M'000's	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Total Revenue	445,572	508,224	595,547	703,669	741,779	907,959
1-Year Growth		62,652	87,323	108,122	38,110	166,180
1-Year Growth Trend		14%	17%	18%	5%	22%
3-Year Growth				258,097	233,555	312,412
3-Year Growth Trend				**58%**	**46%**	**52%**
Net Operating Profit After Tax (NOPAT)	23,694	(1,755)	51,201	75,558	56,386	87,035
1-Year Growth		(25,449)	52,956	24,357	(19,172)	30,649
1-Year Growth Trend		0	3017%	48%	(25%)	54%
3-Year Growth				51,864	58,141	35,834
3-Year Growth Trend				**219%**	**3313%**	**70%**
Total Assets	1,701,753	1,811,537	1,906,667	2,837,590	2,966,129	3,340,432
1-Year Growth		109,784	95,130	930,923	128,539	374,303
1-Year Growth Trend		6%	5%	49%	5%	13%
3-Year Growth				1,135,837	1,154,592	1,433,765

3-Year Growth Trend				**67%**	**64%**	**75%**
Shareholders' Funds (Equity)	1,517,948	1,517,495	1,635,324	2,545,431	2,708,063	2,335,942
1-Year Growth		(453)	117,829	910,107	162,632	(372,121)
1-Year Growth Trend		0%	8%	56%	6%	(14%)
3-Year Growth				1,027,483	1,190,568	700,618
3-Year Growth Trend				**68%**	**78%**	**43%**

Across the four indicators LEC data provides a good example of how the 1-year movements are more volatile than the 3-year trends.
Where a negative profit is recorded there is no value to any growth trend. Where an indicator declines over a period a negative trend may be recorded.
Where a growth is particularly high, such as a profit following a loss, it is useful to use a secondary (right-hand) axis so that reasonable graphs can be produced to scale. This is relevant for some of the ***Profit Growth Trend lines***

Plotting the 3-year growth trends thus provides a better medium-term trend indicator than 1-year trends and, in fact, by plotting the most recent 3 years of 3-year trend data, it includes a range of data from the previous 6-years as follows: