GOVERNMENT OF LESOTHO

MINISTRY OF FINANCE

PRIVATE SECTOR DEVELOPMENT DEPARTMENT

STATE OWNED ENTERPRISES

ANNUAL REPORT FOR THE YEAR ENDED MARCH 2018

Prepared By:
Private Sector Development and Financial Affairs Department

GOVERNMENT OF LESOTHO

MINISTRY OF FINANCE
PRIVATE SECTOR DEVELOPMENT DIVISION

30 June 2020

State-Owned Enterprise Annual Report for 2017/18

Honourable Minister of Finance

It is with pleasure that on behalf of the Private Sector Development Division (PSD) I issue the Annual Report on the performance of State-Owned Enterprises, for the year ended 2017/18.

This report has been achieved with technical assistance that is important to acknowledge; the role of World Bank funding and consulting support services.

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 and their relationships with SOEs and other stakeholders; and our capacity to sort and classify information accordingly. This has enabled a more comprehensive analysis than was achieved for the 2016/2017 Annual Report on the performance of State-Owned Enterprises.
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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,
Private Sector Development and Financial Affairs Department

ABBREVIATIONS

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

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I. INTRODUCTION

1. This Report provides an overview and analysis of the results and performance of the Government of Lesotho's (GoL) state-owned enterprises (SOEs) and commercial companies in which the government has a non-controlling equity stake for the fiscal period ending March 2018.

2. Whilst the SOEs have a common financial year-end (31st March), the other GoL invested companies do not share common reporting dates and thus the analysis reflects the most relevant fiscal periods.

3. In Lesotho the term 'state-owned enterprise' is not found or defined in legislation, but is in common usage within government, the media, the public and the management of the companies themselves, to refer to 'public enterprises'. The Public Financial Management Accountability Act (PFMAA) defines a public enterprise as an entity that 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. In this report 'SOE' represents companies that are either 100% owned and controlled by the State and companies in which the State has a controlling interest either directly or indirectly. The other companies included in the report are companies in which the State holds equity of 50% or less.

5. While there are continuing efforts towards improving the legal framework relating to ownership and control of Government investments, the Private Sector Development Department (PSD) of Ministry of Finance (MoF) currently has a mandate to assess and report on the performance of nominated entities; enterprises classified as SOEs and enterprises in which the GoL has a non-controlling equity stake The classifications and thus inclusions (and exclusions) of individual enterprises may change over time as efforts are made towards reform of the Government's ownership portfolio.

6. The purpose of this report is to provide an assessment of the performance of SOEs and companies in which GoL has an investment, based on 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 portfolio, as defined for the purposes of PSD monitoring and reporting is diverse. It is important to note that financially sound SOEs are a requirement for adequate and sustainable service delivery.

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. 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.

9. Ultimately, the aim of SOE performance monitoring and evaluation is to support the achievement of a level of SOE performance that is satisfactory to relevant stakeholders, but mostly to government as enterprise owners. 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.

10. 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 of its SOEs and invested enterprises. The PSD is mandated to monitor and evaluate performance, primarily based on these documents. Additional information, including, but not limited to, SOE corporate / strategic / business plans, investment and feasibility studies, and other information will enhance any assessment. It is, however, an on-going initiative for PSD to acquire accurate up-to-date information; to access and review public information; and to ensure that it develops internal capacity to update, analyse and assess enterprise performance based on relevant, timely and accurate information.

11. 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, and aims to provide valuable input into the broader debate concerning government investments, fiscal risk and value of resource allocations.

II. THE PORTFOLIO

12. This report is focused on a select group of enterprises in which the Government either directly or indirectly has an ownership interest. Legal review[1] 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.

13. 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

[1] 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.

minority shares, but together with Government holdings, controlling influence can be exercised.

14. The portfolio is therefore analysed by individual companies as well as by three key groupings:

- SOEs with 100% Government ownership
- SOEs under LNDC but overall Government control
- Government minority holdings (ranging from 49% down to 5% equity).

15. Table 1 lists the companies within each group and each company's financial year end date. It also highlights which was the most recent AFS included in this report. 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.

16. 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) AFS are not available, and either alternative sources were used for some information, or information is absent.

17. Where an enterprise has a fiscal year end other than 31 March, the AFS for the fiscal year end that falls in the government fiscal year to the relevant 31 March is used as highlighted in Table 1, below.

Table 1: SOEs and GoL invested companies

SOE	Sector	Level of Government / LNDC Ownership	Fiscal Year End	Most Recent AFS included[2]
1. SOEs with 100% Government ownership				
Lesotho Electricity Company Pty Ltd (LEC)	Utilities / Power	100	31 March	31/03/2018
Water and Sewerage (Company) Pty Ltd (WASCO)	Utilities / Water and Sewerage	100	31 March	31/03/2018
Lesotho Tourism Development Corporation (LTDC)	Tourism	100	31 March	31/03/2018
Lesotho Post Bank Ltd (LPB)	Banking & Insurance	100	31 March	31/03/2018
Basotho Enterprise Development Corporation (BEDCO)	Business Investment Promotion	100	31 March	31/03/2016
Lesotho National Development Corporation (LNDC)	Business Investment Promotion	100	31 March	31/03/2018

[2] 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..

SOE	Sector	Level of Government / LNDC Ownership	Fiscal Year End	Most Recent AFS included[2]
2. Enterprises wholly or partially owned as subsidiaries/associates of LNDC				
Loti Brick Pty Ltd	Industrial - Brick making	22.8 / 73.6	31 March	See individual company analysis
Maluti Mountain Brewery	Industrial – Brewing	4.75 / 51	31 December	31/12/2017
OK Bazaars (Lesotho) Pty Ltd	Industrial – Retail	50	30 June	31/12/2017
MHG (Lesotho) Pty Ltd (t/a Avani)	Hotel and Casino	36.4 / 16.7	31 December	31/12/2017
Lesotho Housing and Land Development Corporation (LHLDC)	Property Development	75 / 25	31 March	See individual company analysis
3. Enterprises partially owned directly by Government				
Lesotho Flour Mills Ltd	Industrial – Milling	49	31 October	31/10/2017
Letseng Diamonds Pty Ltd	Mining	30	31 December	31/12/2017
Econet (Telecom) Lesotho Pty Ltd	Telecoms	30	28 February	See individual company analysis
Storm Mountain Diamond Mines Pty Ltd (Kao)	Mining	25	31 August	31/08/2017
Liqhobong Mining Development Company Pty Ltd	Mining	25	30 June	See individual company analysis
Lesotho National General Insurance Co Ltd	Banking & Insurance	20	31 December	31/12/2017
Lesotho National Life Assurance Co Ltd	Banking & Insurance	12	31 December	31/12/2017
Standard Lesotho Bank	Banking & Insurance	9.6	31 December	31/12/2017
AON Lesotho	Banking & Insurance	5	31 December	31/12/2017

18. Some enterprises including Liqhobong Mining, BEDCO, Loti Brick and LHLDC are deficient in preparation of financial statements and completing audits, as required under the PFMAA and Companies Act. They have been non-compliant for more than 2 years.

19. Econet (apparently) has been audited but has failed to provide the PSD with copies of the 2017/2018 AFS.

20. There is continued concern as to the number of audit comments and qualifications relating to the financial statements; the frequency of prior year adjustments and some computational errors. No attempt is made to correct data.

21. The analysis in this report is focused on the AFS as submitted by the companies' 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 improve the overall reliability of the financial information provided.

22. The PSD continues to increase and enhance its engagement with other departments within MoF 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. In this regard PSD is enhancing its role as a monitor and information-hub relating to SOEs.

23. There are significant financial flows between the State and some SOEs and invested enterprises. 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. 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 but critical 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. Among the three groups of enterprises, financial inflows to Government are highest from the Government minority holdings. These enterprises are commercial companies, and through taxes (as required by law) and dividends (as required by shareholders), Government derives significant income[3]. However, while inflows from this group have been increasing in recent years it is inconsistent (Letseng Diamonds paid no dividends in 2017/2018 and LFM and MHG dividend declarations are at best 'sporadic'). There is concern that even better returns to Government are undermined by issues of transfer mis-pricing[4].

26. Monitoring of minority holdings is primarily limited to ensuring that adequate returns are being generated and received. In some cases this involves reviewing and updating any agreements in place relating to the shareholding arrangements and management contracts (where they exist) to ensure 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, which is currently not the case and is an issue that needs to be addressed.

III. OVERALL PORTFOLIO PERFORMANCE TO FY2018

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

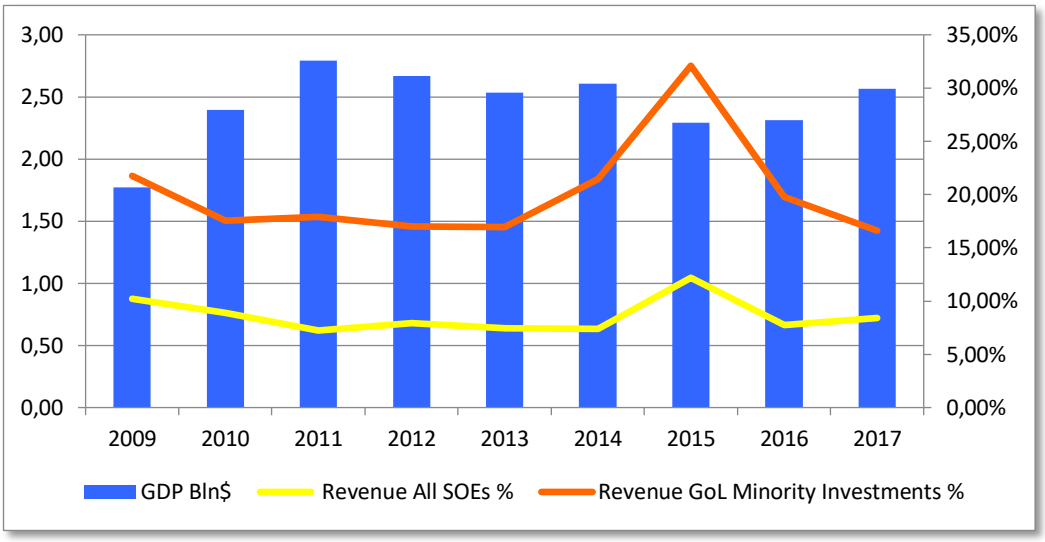
27. The overall performance of the Government's investment in SOEs and other enterprises can be monitored by review of trends in revenues, profits and returns. In later sections this is analysed within the three groups (100% SOE, those under State control and the minority holdings).

[3] But this is impacted heavily by the size of Letseng Diamonds results

[4] State-owned enterprises in Lesotho: A country policy note. Report ACS19193, World Bank, 30th June 2016

28. SOEs and GoL invested companies are significant players in Lesotho's economy. In the years from 2009 to financial year ending March 2018, the total annual revenue of all SOEs and GoL invested companies has been the equivalent of between 24% and 44% of GDP.

29. Figure 1: SOE and Minority Invested Company Revenue as percentage of GDP

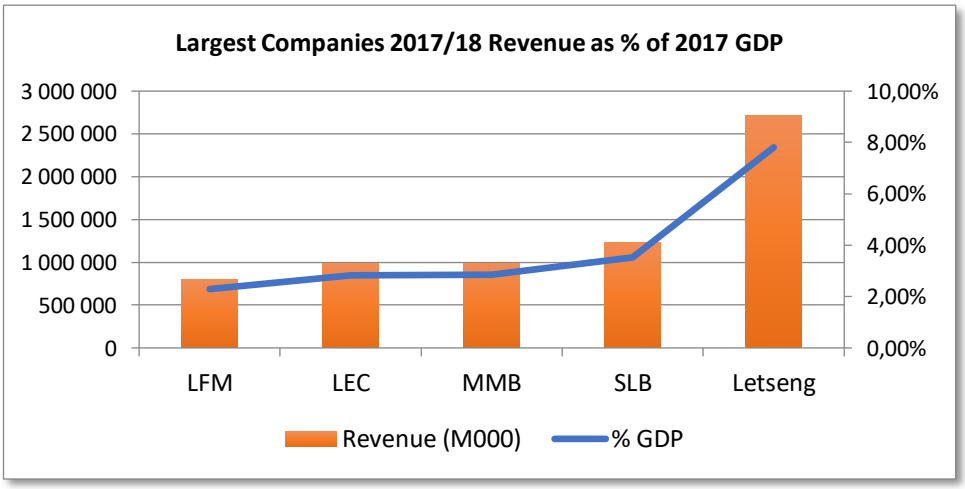


Source: GDP – World Bank; Revenues - AFS Various Years

30. In Figure 1, GDP is shown in Billions of US dollars on the left hand side and the right hand side shows the total revenues of the 2 SOE categories combined, as well as GoL minority interests, as a percentage of GDP. The companies that have already been privatised and in which the GoL maintains a minority interest are (as a group) significantly larger than the SOEs.

31. The peak year of 2015 at 44% (minorities 32.10% and SOEs 12.05%) is more a function of GDP decline rather than significant increases in company revenues.

32. **Figure 2: Revenue of 5 largest companies in the portfolio that each exceeds 2% of GDP**



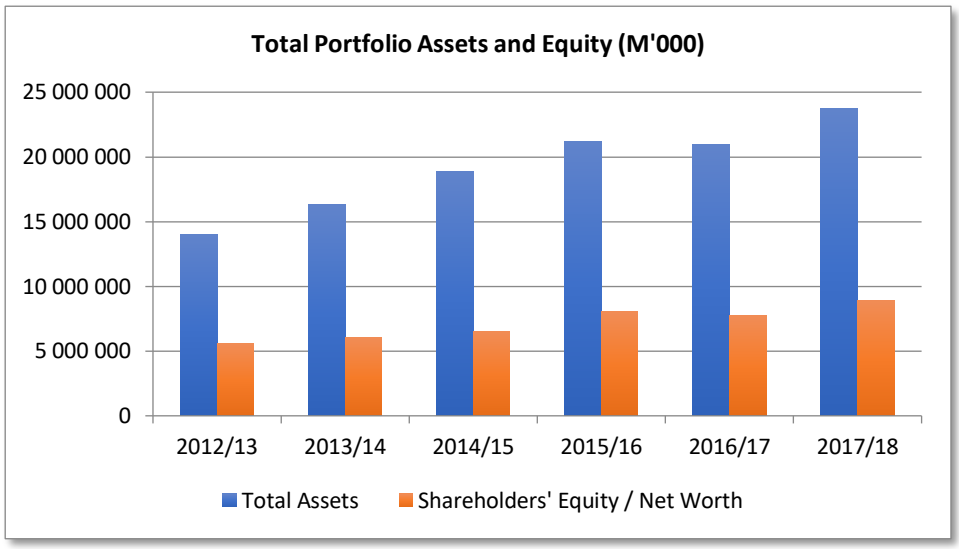
Source: GDP – World Bank; Revenues - AFS Various Years

33. The companies are Lesotho Flour Mills (LFM), Lesotho Electricity Company (LEC), Maluti Mountain Brewery (MMB), Standard Lesotho Bank (SLB) and Letseng Diamonds (Letseng).

34. Figure 2 highlights the significance of these companies to the country's economy, yet we can see that only 2 SOEs are included in the top 6 companies by revenue. The other 4 are companies in which the GoL has minority interests. Whilst Letseng dominates, it is important to note that Letseng's 2017/18 revenues have declined by 13.9% in the past two years. More significantly this translates into a 51.6% reduction in tax payments from Letseng to the government.

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

Figure 3. Total Portfolio Assets v Equity



Source: AFS Various Years

36. There is a positive trend of increasing SOE value. Based on shareholder's equity, weighted according to Government/LNDC interest in respective SOEs, the government's value in SOE's and its minority investments have progressively risen to US$447M in FY'18.

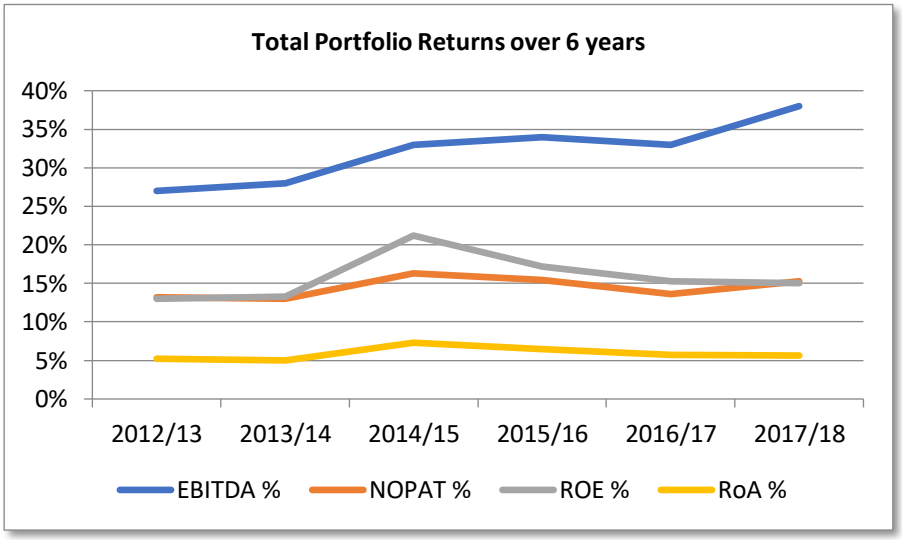
37. Categorised by total revenue and total assets Letseng Diamonds and Lesotho Standard Bank are the two largest enterprises within the government portfolio.

38. As well as reviewing 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.

39. For the above reasons, this report primarily focuses on 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.

40. Also, each SOE is at a different stage of its business or life cycle. Each SOE has a different focus relating to short-term liquidity needs, achieving consistent levels of profitability and/or 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.

Figure 4. Total Portfolio Returns



Source: AFS Various Years

41. Generally, the portfolio as a whole shows performance to fiscal year 2017/18 of sustained EBITDA growth whilst NOPAT has been weaker. However, whilst we saw in Figure 3 that there have been positive increases in Total Assets and Equity neither Return on Equity nor Return on Assets has demonstrated similar improvements. This indicates that companies in the portfolio have become less efficient in the way management are deploying capital.

42. More useful and relevant understanding is derived from analysis of the group performances and from the individual SOE performances that is contained in the following sections. In analysing each of the groups 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.

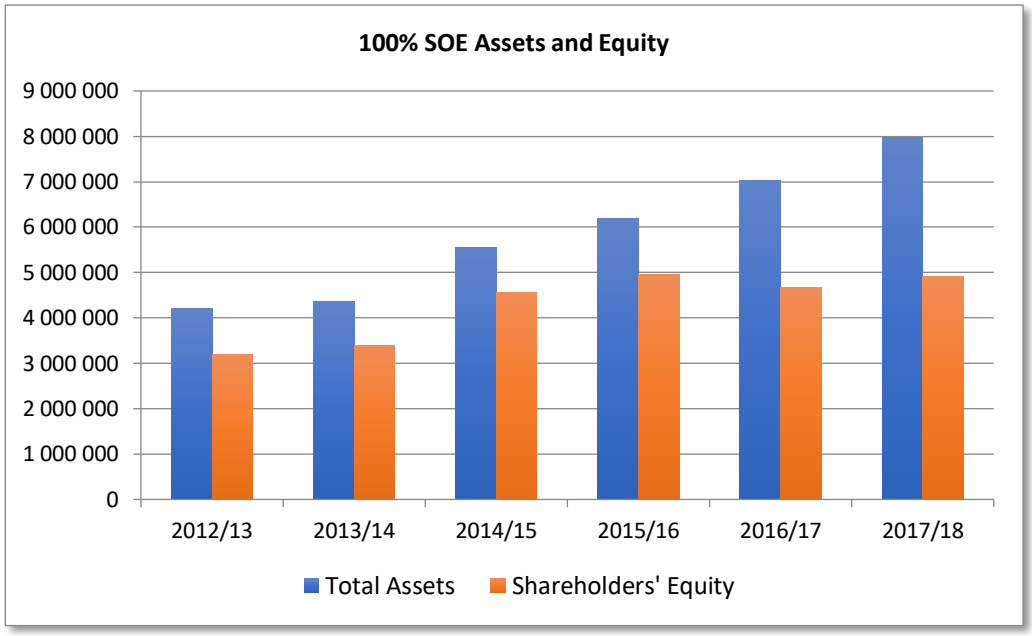
IV. GOVERNMENT 100% OWNERSHIP PERFORMANCE TO FY 2018

43. Table 2: Total Revenue of 100% owned SOES as percentage of GDP

	2009	2010	2011	2012	2013	2014	2015	2016	2017
GDB Bln$	1.77	2.40	2.79	2.67	2.53	2.61	2.29	2.31	2.57
Revenue as % of GDP 100% SOEs	4.51	4.09	3.44	3.86	3.71	3.83	6.11	4.45	4.56

Source: GDP – World Bank; Revenue – SOE AFS Various Years

44. Figure 5. Assets v Equity



Source: SOE AFS Various Years

45. Individual performances are assessed in the section X, 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'18 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.

46. These SOEs do not distribute dividends and draw significantly on capital grants or subvention. Nonetheless, FY'18 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.

47. Relevant performance data is shown in Table 3

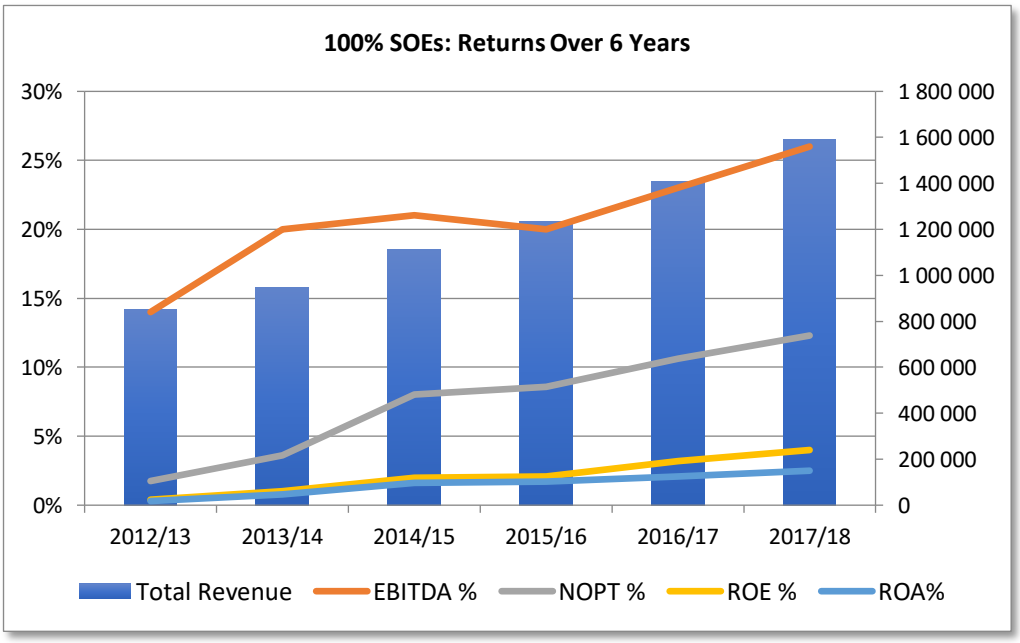
Table 3: Performance Highlights – Government 100% ownership

Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18
Total Revenue	1,113,412	1,234,554	1,409,823	1,591,889
Net Operating Profit After Tax	89,212	105,872	149,005	195,462
Capital Grants Received	124,959	203,220	435,864	280,711
Total Assets	5,562,622	6,182,161	7,018,127	7,977,019
Total Liabilities	1,009,247	1,217,587	2,349,184	3,065,973
Shareholders' Funds	4,553,375	4,964,574	4,668,943	4,911,046

Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18
EBITDA %	21%	20%	23%	26%
NOPAT %	8.0%	8.6%	10.6%	12.3%
ROE %	2.0%	2.1%	3.2%	4.0%
ROA %	1.6%	1.7%	2.1%	2.5%
Current Assets / Current liabilities	1.20	1.60	1.37	1.25
Quick Ratio	1.04	1.36	1.17	1.08
Accounts Receivable Days	70	70	91	83
Assets Turnover	0.20	0.19	0.19	0.20
Debt / Equity Ratio	0.13	0.17	0.24	0.31

48. Although overall performance has improved LNDC and WASCO have taken on 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 therefore worrying. Collections of receivables have deteriorated in the recent fiscal year.

49. Figure 6. 100% SOE Returns



Source: SOE AFS Various Years

50. 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.

V. SOES UNDER LNDC WITH OVERALL GOVERNMENT CONTROL

Table 4: Total Revenue of <100% SOEs but with Overall GoL Control

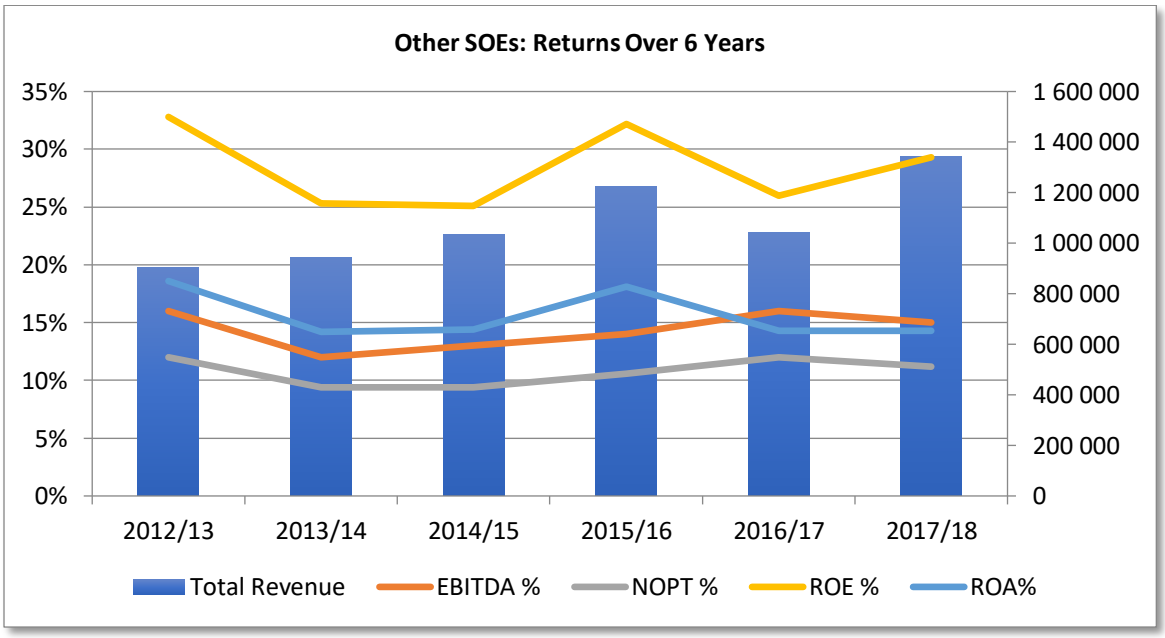
	2009	2010	2011	2012	2013	2014	2015	2016	2017
GDB Bln$	1.77	2.40	2.79	2.67	2.53	2.61	2.29	2.31	2.57
Revenue as % of GDP other SOEs	5.69	4.8	3.8	4.09	3.71	4.09	3.49	6.07	4.58

Source: GDP – World Bank; Revenue – SOE AFS Various Years

51. 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, the enterprises are commercial businesses managed and operated via shareholding and management agreements.

52. 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.

53. Figure 7. Other SOE Returns



Source: SOE AFS Various Years

54. MMB 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 2017/18).

55. 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 later results are not available. It is unclear if losses incurred are indicative of a longer-term trend or a temporary downturn[5].

56. 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.

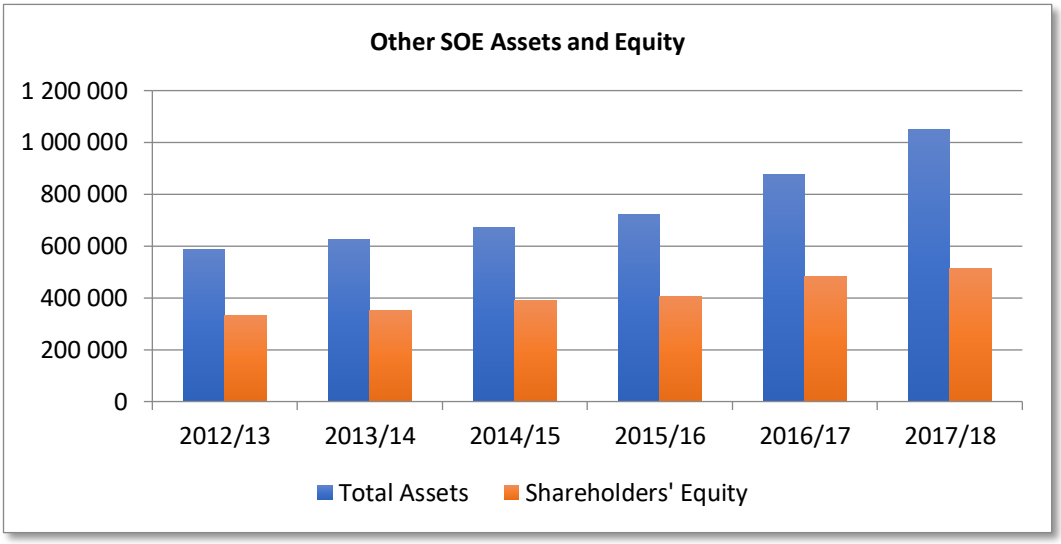
57. Relevant performance data for FY'18 is:

Table 3: Performance Highlights – SOEs under LNDC / Government control

Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18
Total Revenue	1,034,128	1,225,037	1,043,905	1,344,156
Net Operating Profit After Tax	97,263	130,360	125,068	150,190
Dividends paid to GoL	3,067	4,816	2,275	7,932
Total Assets	673,200	721,682	874,811	1,048,849
Total Liabilities	285,055	317,148	393,594	536,020
Shareholders' Funds	388,145	404,534	481,217	512,829
EBITDA %	12%	14%	16%	15%
NOPAT %	9.4%	10.6%	12.0%	11.2%
ROE %	25.1%	32.2%	26.0%	29.3%
ROA %	14.4%	18.1%	14.3%	14.3%
Current Assets / Current liabilities	0.76	0.95	1.11	1.12
Quick Ratio	0.36	0.56	0.84	0.91
Accounts Receivable Days	19	31	81	98
Assets Turnover	1.59	1.74	1.32	1.37
Debt / Equity Ratio	0.05	0.04	0.03	0.02

Figure 8. Other SOE Assets v Equity

[5] Analysing such performances so long following the period is sub-optimal and highlights the need for significantly greater timeliness of reporting and ownership monitoring.



Source: SOE AFS Various Years

58. The value of Government's share of its investments in these SOEs (based on proportion of shareholders equity) is approximately US$20 million

59. While the performance indicators are strong, there is concern about liquidity with low levels of liquid asset cover for obligations due. Neither MMB nor MHG (Avani) operate with any significant level of debt.

VI. GOVERNMENT MINORITY HOLDINGS

60. This group of SOE investments is the most profitable and has made 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.

61. Table 6. Revenue of Minority Holdings as a proportion of GDP

	2009	2010	2011	2012	2013	2014	2015	2016	2017
GDB Bln$	1.77	2.40	2.79	2.67	2.53	2.61	2.29	2.31	2.57
Revenue as % of GDP Minority Holdings	21.76	17.54	17.91	16.98	16.97	21.43	32.10	27.44	16.61

Source: GDP – World Bank; Revenue: AFS Various Years

62. 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.

63. 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

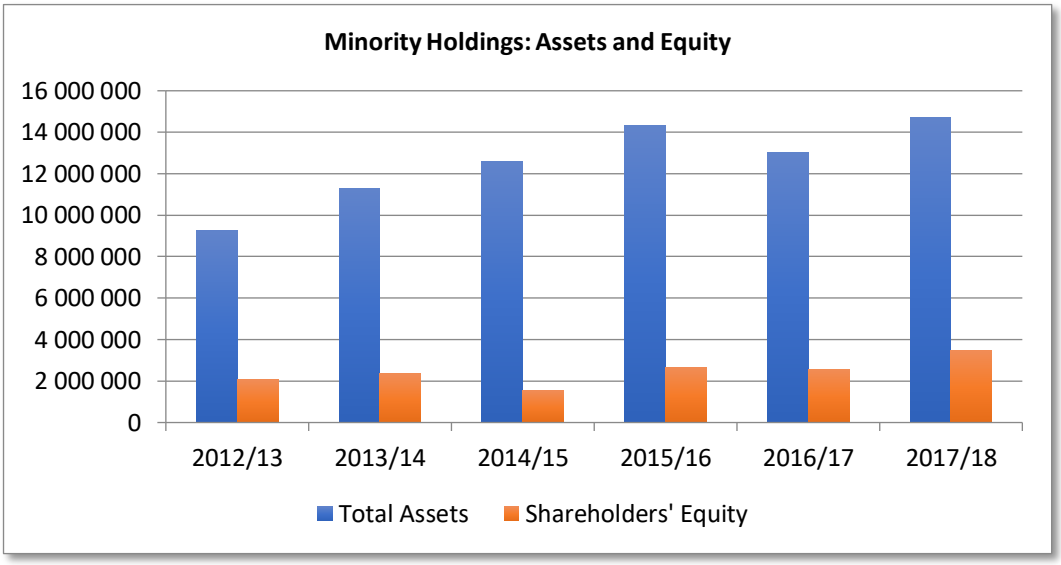
or other rationale for government ownership in commercial businesses, regardless of the origin of any investment or past agreements to maintain minority stakes following privatization.

64. 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.

65. Among strong performances from Letseng Diamonds in 2017 and the banking and insurance enterprises, this group also includes GoL's 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 GoL.

66. LFM's performance has been inconsistent with no dividends declared. As with other SOEs there is concern about the value of the shareholding relationship and management agreement and the allusion of transfer mis-pricing. Seaboard have been partners, operating the Flour Mill for over 20 years with significant payments made to expatriate managers, fees and consultants and little return to government. However, LFM posted a much improved result for the year ended 2016/17, after 44% revenue growth in the year.

67. Figure 9. Minority Holdings: Assets v Equity



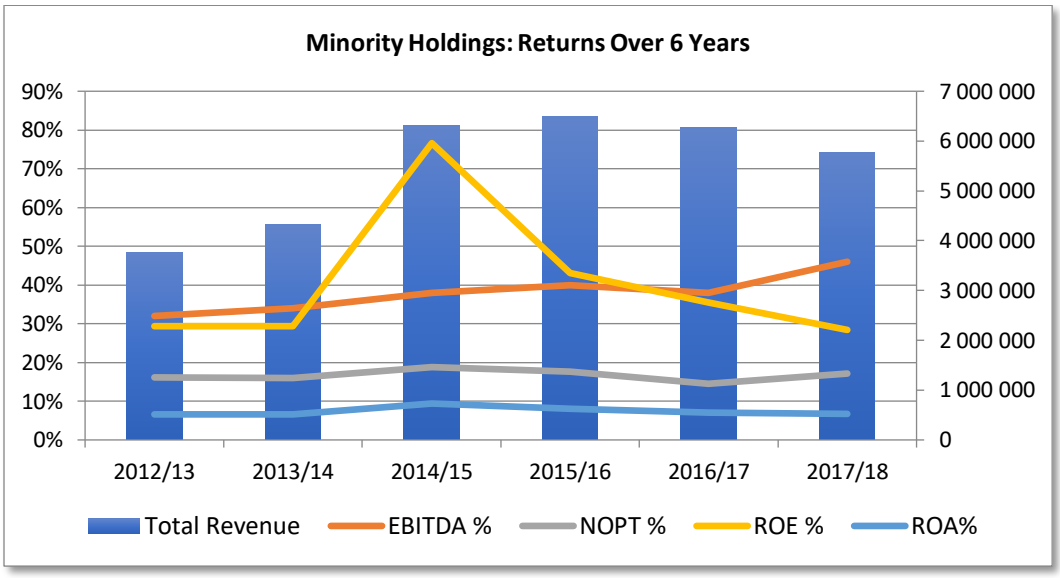
Source: AFS Various Years

68. The trends within this group have been influenced by the size of the contributions from Letseng Diamonds, which has contributed a total of M751million in dividends to Government during the last few years but has not declared any dividends for 2017/2018.

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

70. While trend graphs indicative positive growth across all indicators they also show that the rate of growth is slowing. 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.

71. Figure 10: Minority Holdings: Returns over 6 Year



Source: SOE AFS Various Years

72. Relevant performance data for FY'18 is:

Table 7: Performance Highlights – Government Minority Holdings

Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18
Total Revenue	6,321,173	6,485,169	6,275,157	5,779,167
Net Operating Profit After Tax	1,189,914	1,144,747	911,076	985,694
Dividends to Govt	340,746	182,203	249,973	1,420
Total Assets	12,598,934	14,308,298	13,045,179	14,734,049
Total Liabilities	11,046,163	11,644,918	10,468,289	11,269,480
Shareholders' Funds	1,552,771	2,663,380	2,576,890	3,473,569
EBITDA %	38%	40%	38%	46%
NOPAT %	18.8%	17.7%	14.5%	17.10%
ROE %	76.6%	43.0%	35.4%	28.40%
ROA %	9.4%	8.0%	7.0%	6.70%
Current Assets / Current liabilities	1.07	1.23	1.23	1.3
Quick Ratio	0.20	0.23	0.19	0.19
Accounts Receivable Days	32	32	21	11
Assets Turnover	0.51	0.46	0.45	0.41

Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18
Debt / Equity Ratio	1.48	0.55	0.55	0.27

73. The value of Government's share of its investments in these SOEs (based on proportion of shareholders equity) is approximately US$61M.

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

75. 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.

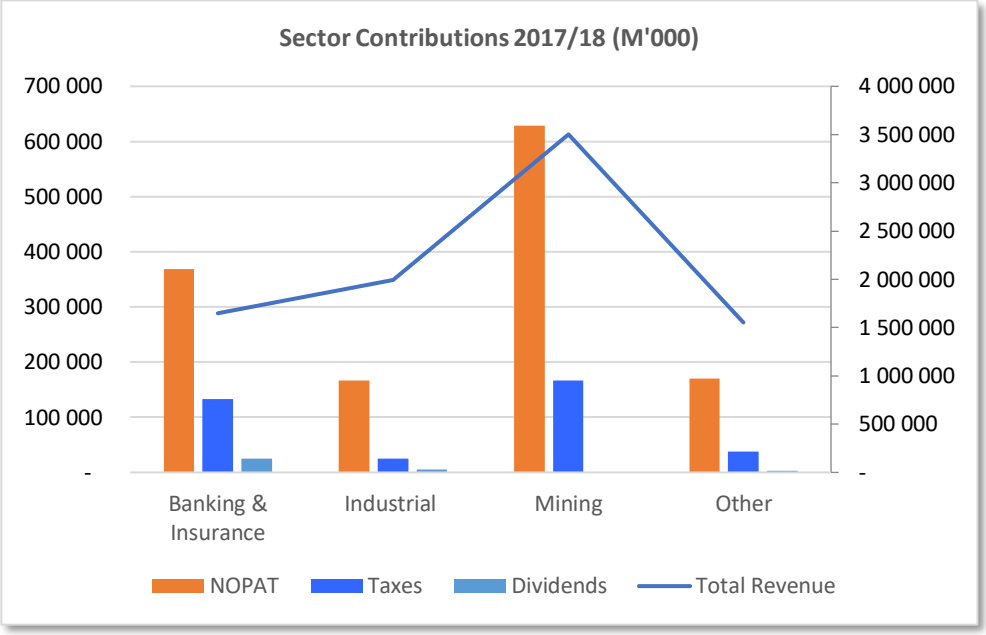
VII. SECTOR ANALYSIS

76. 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.

77. 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.

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

Figure 11. Sector Contributions 2017/2018



79. It is clear that the balance of contribution has changed significantly in the FY 2017/18. The Mining sector is still the major contributor of revenues, profits and tax payables, although taxes at a greatly reduced level due to Letseng Diamond's performance. The banking & insurance sector is a consistently strong performer and in the 2017/18 FY has provided the vast majority of dividends to GoL. 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.

80. 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.

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

81. The Government supports the SOE sector 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.

82. 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.

83. Broadly, therefore one group of SOEs is dependent on receipt of government support while another group provides most of the returns to Government. 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.

84. 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.

85. 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.

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

87. Capital grants and identified subventions are as indicated.

Table 8: Grant and Subvention Receipts and Balances (M'000)

	2015/16		2016/17		2017/18	
	New Receipts in Year	**Balance**	**New Receipts in Year**	**Balance**	**New Receipts in Year**	**Balance**
LEC	108,541	46,208	242,638	702,671	168,527	574,641
WASCO	95,812	1,225,434	105,828	1,288,022	60,280	1,307,836
LTDC	20,750	549	17,941	529	19,500	549
LPB	17,663	43,909	53,000	93,528	35,000	114,684
BEDCO	14,000	17,451				
LNDC	77,016	174,663	34,378	174,663	90,622	174,663
TOTAL	**333,782**	**1,508,214**	**453,785**	**2,259,413**	**373,929**	**2,172,373**

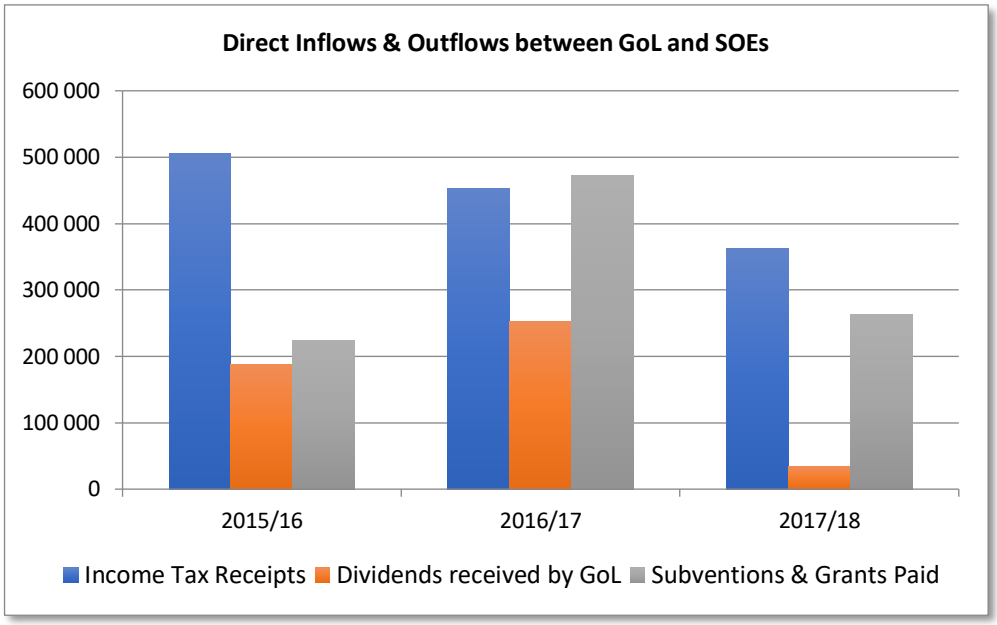
Source: SOE AFS Various Years

88. 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[6].

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

Figure 12: Direct Inflows and Outflows



Source: SOE AFS Various Years

90. Whilst the balance of inflow is greater than that of outflow, the chart clearly highlights the vulnerability of inflows as they have been greatly dependent upon Letseng Diamonds which has not declared dividends in 2017/18, and its tax payments have reduced by 51% in the past 2 years.

IX. ISSUES OF GOVERNANCE AND RISK

91. 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.

92. 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.

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

[6] 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.

94. 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.

95. 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.

96. 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.

97. 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.

98. 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.

99. 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."[7]

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

100. The Government lends or on-lends to state-owned enterprises for specific purposes consistent with its development policy objectives. The borrower is obliged to pay interest and repay principal sums in accordance with the terms and conditions agreed between the parties.

101. During the year under review, principal payments of on-lent loans amounted to M10,236,300. The closing balance at the end of the year amounted to M1,029,114,831. No existing loans were cancelled or new loans disbursed during the year. Conversely, a significant total amount of M161,898,291 being principal amount of M133,467,189 and interest of M28,431,102 owing to Government were in arrears as at 31 March 2018. The status of on-lent loans to SOEs[8] as at 31 March 2018 is indicated in Table 9 below.

Table 9: Government Loan Balances with SOEs

SOE/Project name	Opening Balance 1.04.2017	Principal Payments	Interest Paid	Closing balance 31.03.2018	Arrears of Principal	Arrears of interest
LNDC						
ODA 2			2,130			2,130
ODA 3			1,137			1,137
ODA 2nd Line of credit	761,627	761,627	300,113			314,619
IDA Infrastructure	3,780,656	945,164	1,258,604	2,835,492	2,835,492	2,504,340
IDA 2400 Infrastructure Eng	18,119,448			18,119,448	6,116,583	1,250,697
EIB M/S Printing			28,308			32,324
ADB Line of credit	1,939,174	484,794	608,911	1,454,381	1,454,381	606,269
Basotho Cannery			32,455			33,058
Thetsane (Nieng Hsing)			9,324			9,497
Tikoe Factory Shells	51,000,000	3,100,000	3,044,500	47,900,000	1,900,000	2,805,000
CGM	15,000,000	3,000,000		12,000,000	6,000,000	
Tikoe Phase 2 factory Shells	202,789,827			202,789,827		
Total LNDC	***293,390,732***	***8,291,585***	***5,285,482***	***285,099,148***	***18,306,456***	***7,559,071***
ECONET						
Telecom Nat Network Phase 2	222,726,839		16,038,865	222,726,839	8,176,590	
Telecom Nat Network Phase 1	205,986,835		16,368,503	205,986,835	7,373,161	
Total Econet	***428,713,674***		***32,407,368***	***428,713,673***	***15,549751***	
WASCO						
BADEA 132 Maseru Wat Supply 1	63,023,315			63,023,315	43,627,806	2,753,981

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

SOE/Project name	Opening Balance 1.04.2017	Principal Payments	Interest Paid	Closing balance 31.03.2018	Arrears of Principal	Arrears of interest
BADEA 133 Maseru Wat Supply 2	78,097,438			78,097,438	15,391,600	11,306,865
OFID 134 Maseru Supp 2	85,500,487			85,500,487	30,272,577	6,576,925
IDA 3995 Wat Sect Imp Project	48,814,092	48,814,092		48,814,092	10,319,000	234,260
Total WASCO	***275,435,332***	***48,814,092***		***275,435,332***	***99610,983***	***20,872,031***
LEC						
Lesotho Elect Supp Project	41,811,393	1,944,716	845,951	39,866,677		
TOTAL	**1,039,351,131**	**10,236,300**	**38,538,710**	**1,029,114,831**	**133,467,189**	**28,431,102**

Source: Report of the Auditor-General on the Consolidated Financial Statements of the Government of Lesotho

102. The closing balance of M 1,029,114,831 represents 9.6% of Lesotho's External Public Debt.

103. WASCO was able to make the principal repayment on one account but could not pay interest on all four accounts. At the end of the financial year WASCO was in arrears of M99,610,983 and M20,872,031 for principal and interest payments respectively. It is worth mentioning that in 2016/17 WASCO did not make repayments of both principal and interest on all four accounts.

104. LNDC was in arrears of M18,306,456 and M7,559,071 for both principal and interest payments respectively. For the last two financial years ended 2017/18, no repayment of the principal has been made on its two accounts.

105. LEC had made repayments on both principal and interest and had no arrears.

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

Table 10: Government outstanding advances with SOEs

Entity	Amount M
LHLDC	895,112
LNDC	5,379,987
WASCO	3,453,056
ECONET	3,324,194
STD Lesotho Bank	23,978
Total	**13,076,327**

Source: Records accompanying Financial Statements

107. 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.

108. The PFMAA further requires all public enterprises (including SOEs) to issue annual reports that include plans and forecasts for the next 3 years. Currently, not all enterprises comply with this requirement and often even if they are prepared, PSD does not receive copies of such plans. 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.

109. 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

110. 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 and enterprises in which GoL has a minority interest are included as determined by ownership structure, significance of contribution, or fiscal risk concerns.

111. **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.

112. 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 ultimately did not happen.

113. During the financial year 2016/17 LEC achieved 15,608 new connections against an annual target of 15,000. By March 2017 this meant that LEC had achieved electrification to around 40% of the total household connectivity, against the GoL's long term goal to connect 50% of households by 2020. Average annual distribution losses improved from 13.15% to 12.9% by end

of March 2017. The 2017/18 LEC annual report has not been made available so we cannot report on the achievements of 2017/18.

114. 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 M47m 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."

115. LEC audited accounts were issued an Adverse Opinion for the year ended 31 March 2018, with the auditor highlighting some concerns for directors' attention relating to VAT issues; trade debtors; interest charged on overdue accounts; the capitalisation of M88 million from the Lesotho Electricity Supply Project assets; and an unresolved variance in corporation tax liability.

116. Relevant performance data for FY'18 is:

Table 11: Performance Highlights – LEC

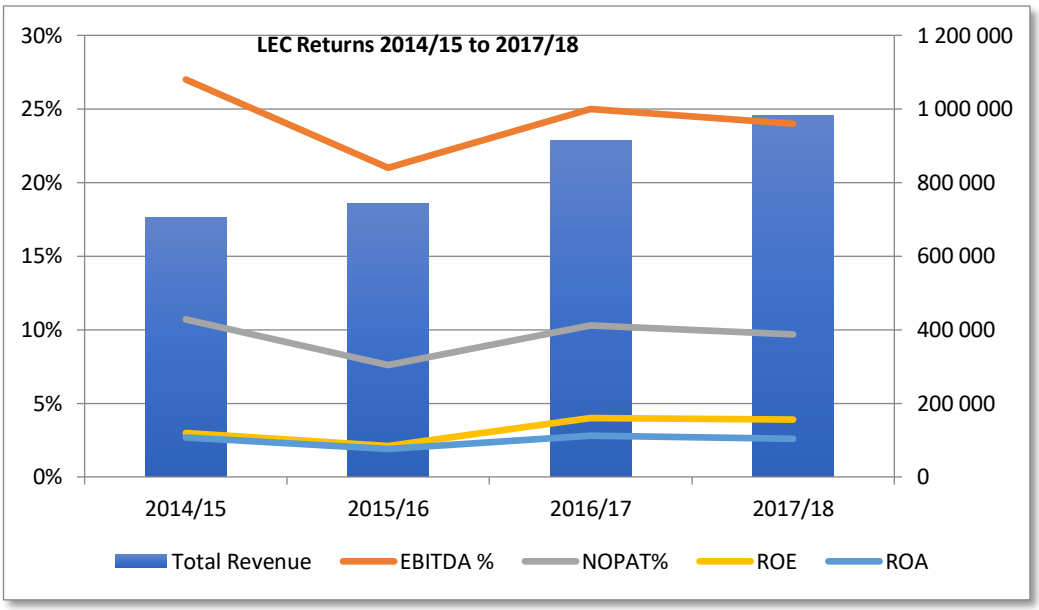
Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18	4-yr Average
Total Revenue	703,669	741,779	914,994	982,580	83,756
Net Operating Profit After Tax	75,558	56,386	94,070	95,123	80,284
Capital Grants Receipts	96,760	108,541	242,638	168,527	154,117
Total Assets	2,837,590	2,966,129	3,340,432	3,674,851	3,204,751
Total Liabilities	292,159	258,066	1,004,490	1,254,035	702,188
Shareholders' Funds	2,545,431	2,708,063	2,335,942	2,420,816	2,502,563
EBITDA %	27%	21%	25%	24%	24%
NOPAT %	10.7%	7.6%	10.3%	9.7%	9.6%
ROE %	3.0%	2.1%	4.0%	3.9%	3.25%
ROA %	2.7%	1.9%	2.8%	2.6%	2.5%
Current Assets / Current liabilities	1.37	1.49	1.61	1.89	1.59
Quick Ratio	1.22	1.31	1.61	1.75	1.47
Accounts Receivable Days	34	36	56	57	46
Assets Turnover	0.29	0.25	0.28	0.27	0.27
Debt / Equity Ratio	0.02	0.02	0.02	0.03	0.02

117. Table 11 highlights the continuing trend of increasing revenues and relatively sound NOPAT and Asset growth. 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. However, the Directors' Report in the 2017/18 AFS highlights a decrease of 17.31% in Gross Profits.

118. Despite the pre-payment of many accounts, the Accounts Receivable days continues to rise from 34 days in 2014/15 to 57 days in 2017/18. This is primarily due to the level of debt due from GOL, its agencies and even other SOEs. Given the current and future economic climate, this situation is unlikely to improve in the near future.

119. Figure 13 below provides a visual representation of LEC's performance over the past 4 years. Whilst revenue has grown there have been minor declines in each of the performance ratios, though all are well above the 2015/16 rates, which were the lowest in recent years.

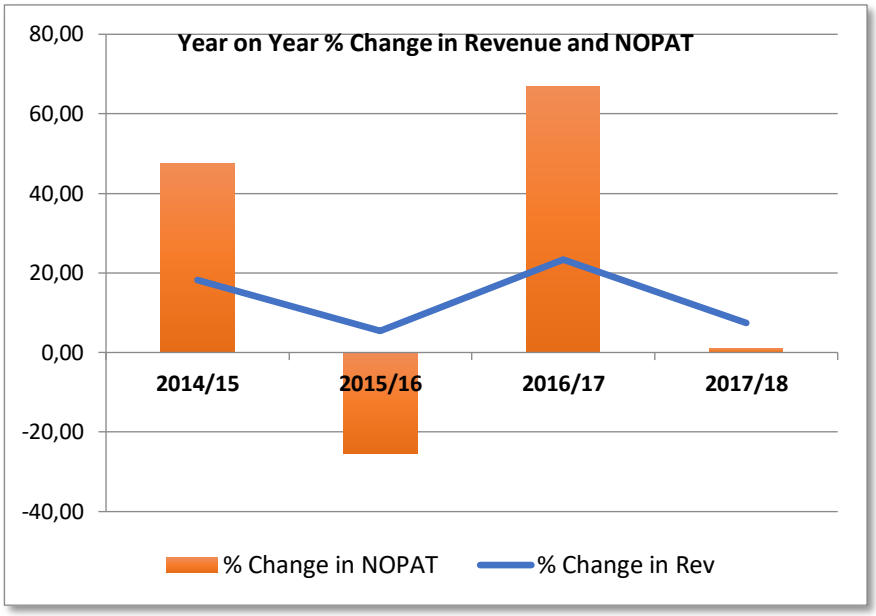
120. Figure 13: LEC Returns 2014/15 to 2017/18



Source: LEC AFS Various Years

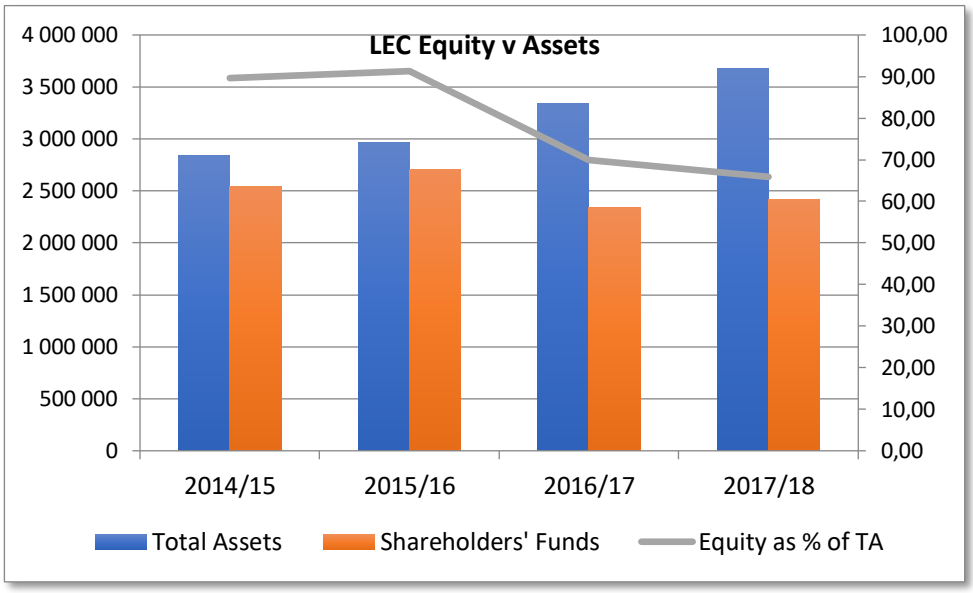
121. The performance trend for LEC is generally positive. Since 2014/2015 Revenue has increased by 65% and NOPAT has increased by 86%. However, as can be seen in Fig 14 changes in both year-on-year Revenue and NOPAT are erratic. Annual Revenue growth has been at between 5.42% and 23.35% per year, whilst annual changes to NOPAT have been between -25.37% and 66.38%. 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.

122. Figure 14: LEC Year on Year % Changes to Revenue and NOPAT



Source: LEC AFS Various Years

123. Figure 15 LEC: Equity v Assets



Source: LEC AFS Various Years

124. Figure 15 shows that whilst there is good growth in Total Assets there is not a corresponding level of growth in Shareholders' Funds, thus Asset growth is being financed by debt and the proportion of equity is declining.

125. Lesotho cannot currently generate all of the country's electricity requirements. LEC are importing power at a high cost (Maloti (M) 0.77 to 1.50 per kWh versus purchases from Muela at M 0.13 per kWh). Whilst currently generating profits, LEC's ageing infrastructure requires significant investment without which services and financial performance will deteriorate.

126. With regard to loans that have been guaranteed by GOL and on lent to LEC, the Auditor General's report 2017/18 indicates that LEC had made repayments on both principal and interest and had no arrears.

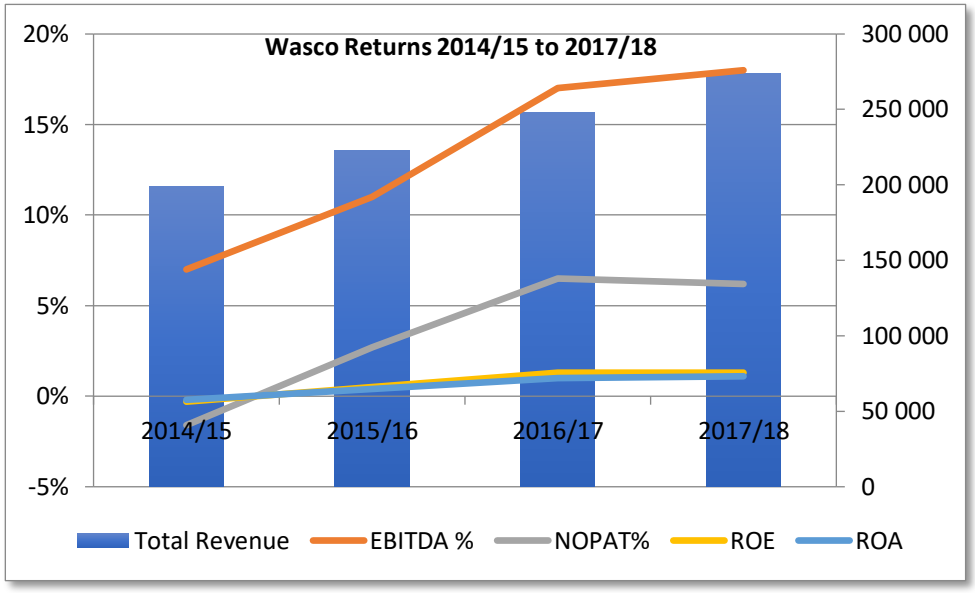
127. **Water and Sewerage Company** WASCO is a 100 percent government owned company, established by Law in 2010, to take over the assets and operations of the former Water and Sewerage Authority (WASA). It is responsible for providing potable water and waste water disposal for 17 urban areas of Lesotho 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.[9] WASCO has around 550 employees.

128. Reduction of non-revenue water is a key objective for the company in terms of both improving efficiency of supply and supporting revenue and profit growth. WASCO's target for non-revenue water for the financial year 2017/18 was set at 28% (which is still relatively high). However, the average non-revenue water figure for the year was actually 41.5%. To clarify this means that for every 100 litres of water that WASCO produces, 41.5 litres are simply 'lost' or wasted. Not only is this significant in terms of efficiency and the financial position of the company but it has major environmental implications - exacerbated by the devastating drought that has afflicted Lesotho.

129. The company is also hampered by delays in collections from Government customers and 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.

Figure 16: WASCO Returns 2014/15 to 2017/18

[9]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.



Source: WASCO AFS Various Years

130. WASCO's financial performance has been erratic and deteriorated in the past and the GoL has stepped in several times 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, WASCO has reported improvements and a return to profitability as from 2015/16.

131. Figure 16 highlights the apparent impressive growth in Revenue, EBITDA and NOPAT as well as ROE and ROA turning positive. However, the widening gap between EBITDA and NOPAT is probably a reflection of increasing debts.

132. Accounts Receivable Days showed some improvement but is still at a very high 141 days; which has a significant impact on cash flow.

133. Table 12 contains a more complete outline of WASCO's performance data for FY'18 :

Table 12: Performance Highlights – WASCO

Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18	4-yr Average
Total Revenue	198,665	222,837	247,809	273,983	223,104
Net Operating Profit After Tax	(3,160)	6,036	16,112	17,034	6,329
Capital Grants Receipts			105,828		168,663
Total Assets	1,351,220	1,458,702	1,552,253	1,594,101	1,454,058
Total Liabilities	202,706	274,196	317,824	322,829	264,909
Shareholders' Funds	1,148,514	1,184,506	1,234,429	1,271,272	1,189,150
EBITDA %	7%	11%	17%	18%	12%
NOPAT %	(1.6%)	2.7%	6.5%	6.2%	2.5%

Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18	4-yr Average
ROE %	(0.3%)	0.5%	1.3%	1.3%	0.5%
ROA %	(0.2%)	0.4%	1.0%	1.1%	0.4%
Current Assets / Current liabilities	2.04	2.11	2.26	1.93	2.14
Quick Ratio	1.45	1.39	1.49	1.20	1.44
Accounts Receivable Days	159	148	164	141	157
Assets Turnover	0.15	0.16	0.16	0.17	0.15
Debt / Equity Ratio	0.10	0.16	0.16	0.15	0.14

134. 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.

135. An adverse audit opinion for the period to 31 March 2018 was also issued relating to: its accounting for: Valuation of Property, Plant & Equipment and depreciation of Fixed Assets; Inventory; Accounts Receivable; Capital Grants and Long Term Loans; Accounts Payable; Overstatement of Revenue; And Total Expenditure. There is thus significant concern on the reliability of these financial statements.

136. Perhaps of greater concern is that similar qualifications have been given in each of the previous 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 any enterprise and especially one that is using up scare state capital.

137. In addition, the significant value of government investment in WASCO relating to on-lending guaranteed by GoL heightens concerns regarding government fiscal risk. At the end of the financial year WASCO was in arrears of M99,610,983 and M20,872,031 for principal and interest payments respectively relating to these loans. It is worth repeating that in 2016/17 WASCO did not make repayments of both principal and interest on all four on-lending accounts.

138. 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.

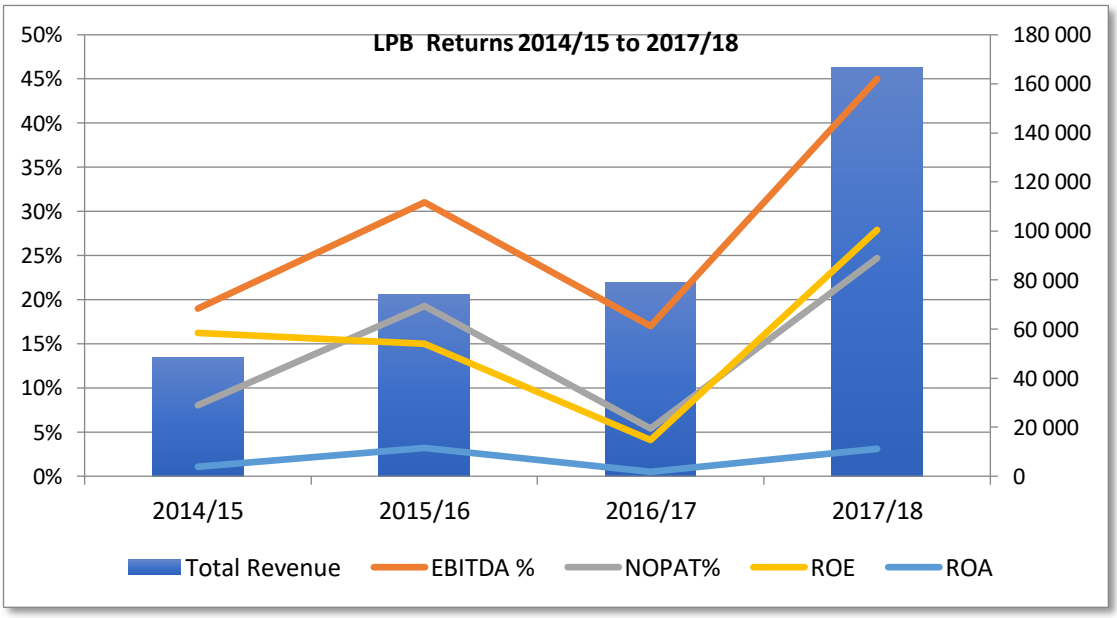
139. The proposal suggests that part of the recent improved profitability for WASCO is charging interest on overdue Government and customer accounts. One element of the funding plan is the roll-out of prepaid meters to try to improve billing and cash flow deficiencies.

140. **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.

141. 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 166.7m in 2017/18 while profitability turned around steadily from a loss of M18m in 2009 to a profit of M 41.2m in 2017/2018. The performance improvement is said to be a result of better management.

142. 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. Figure 17 below shows the impressive overall growth but also highlights that in 2016/17 whilst revenue growth remained almost flat, there were significant dips in profitability and efficiency to levels lower than the 2014 recovery.

Figure 17: LPB Returns 2014/15 to 2017/18



Source: LPB AFS Various Years

143. Relevant performance data for FY'18 is:

Table 13: Performance Highlights – LPB

Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18	4-yr Average
Total Revenue	48,609	74,203	79,104	166,688	92,151
Net Operating Profit After Tax	3,873	14,353	4,283	41,204	15,928
Capital Grants Receipts		17,663	53,000	35,000	26,416
Total Assets	347,289	444,886	808,566	1,329,574	732,579
Total Liabilities	323,415	349,197	704,119	1,181,830	639,640
Shareholders' Funds	23,874	95,689	104,447	147,744	92,939
EBITDA %	19%	31%	17%	45%	28%
NOPAT %	8.0%	19.3%	5.4%	24.7%	14.35%
ROE %	16.2%	15.0%	4.1%	27.9%	15.8%
ROA %	1.1%	3.2%	0.5%	3.1%	1.98%
Current Assets / Current liabilities	1.03	1.06	0.87	0.87	0.96
Quick Ratio	1.02	1.05	0.87	0.87	0.95
Accounts Receivable Days	17	15	37	38	27
Assets Turnover	0.14	0.18	0.12	0.15	0.15
Debt / Equity Ratio	11.98	3.11	5.64	6.82	6.89

144. Two less positive factors worth highlighting are the more than doubling of Accounts Receivable Days from 17 to 38 and the reduction in liquidity – the Current Ratio has declined from 1.06 in 2015/16 to 0.87 for 2016/17 and 2017/18.

145. Despite the impressive improvements in performance, LPB has not yet provided the GoL with any dividends.

146. Although LPB is not the largest SOE, the total remuneration to the LPB Board is greater than any other SOE's Board.

147. 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.

148. **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. Studies indicate that BEDCO has a history of overlap of functions with LNDC, overstaffing, inadequate service delivery and heavy dependence on subsidies from government. Recommendations have

included rationalising and revitalising BEDCO's operations, and folding BEDCO's functions back into LNDC.

149. 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.

150. 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 business objectives. BEDCO is behind in completing its financial statements – the last AFS relate to the financial year 2015/16. As from February 2020 BEDCO has a new CEO; the previous CEO left in 2019 after a 3 year term during which time no AFS were prepared. BEDCO, however, continues to receive funding from the Ministry for Small Business Development. In the most recent FS for the FY ending 31/03/2016 the Auditor-General declines to provide an Opinion on the financial statements with the following disclaimer "*I do not express an opinion on the accompanying financial statements of the Corporation. Because of the significance of the matter described in the Basis for disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements*". In the light of this, whilst we have provided a brief overview of BEDCO we cannot in any way confirm that the figures presented should be relied upon.

151. Indications are that in practice BEDCO operates less as a commercial entity and more as a provider of services paid for by Government. According to the accounts (but see previous paragraph) BEDCO's 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 17.45 m in 2015/16. 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 M2.5 m in 2015/16. 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 95 m, with assets consisting mainly of buildings and land.

152. There is no relevant performance data for FY'2017 to 2018 available:

Table 14: Performance Highlights – BEDCO

Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18	4-yr Average
Total Revenue	28,496	26,865			
Net Operating Profit After Tax	(279)	(1,507)			

Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18	4-yr Average
Total Assets	97,511	106,759			
Total Liabilities	8,677	11,724			
Shareholders' Funds	88,834	95,035			
EBITDA %	-1%	-6%			
NOPAT %	-1%	-5.6%			
ROE %	-0.3%	-1.6%			
ROA %	-0.3%	-0.3%			
Current Assets / Current liabilities	2.79	3.26			
Quick Ratio	2.72	3.21			
Accounts Receivable Days					
Assets Turnover	0.03	0.02			
Debt / Equity Ratio					

153. **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's vision is to be a catalyst for a diversified, globally competitive economy, underpinned by manufacturing and high-tech agro-processing industries. It is the Corporation's key responsibility to contribute to job creation, 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."

154. 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 theoretically raises most of its finance from property rentals and dividends from investments in companies. Other sources of revenue include interest on loans.

155. 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.

156. LNDC has been going through a process of restructuring to better serve 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. During this phase a draft strategic plan with 12 strategic objectives under 5 main goals was developed. This encompassed 38 relatively detailed and timebound strategic initiatives for implementation. However, LNDC has not produced an Annual Report in recent years (despite being required to do so under the PFMAA) so we cannot assess the implementation (or otherwise) of the company's non-financial key performance indicators.

157. 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.

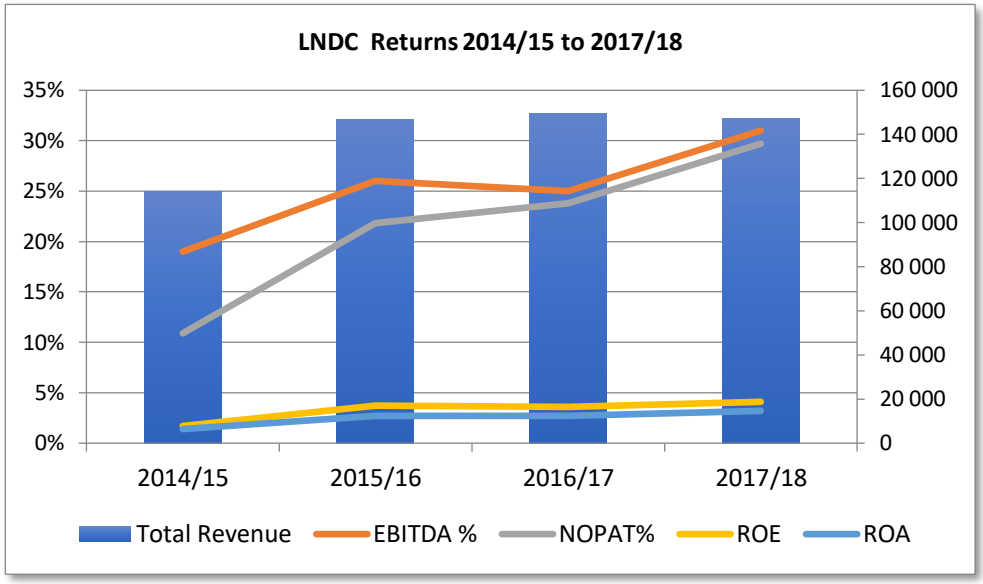
158. It is not necessary to retain shareholdings in companies that have been operating in Lesotho for some years to achieve the purpose of LNDC in promoting investment and economic development. Where a national development agency in a country holds shares in company start-ups as a form of support, it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

159. 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.

160. 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 and revenue appears to have stagnated during the past 3 years.

161. 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 18: LNDC Returns



Source: LNDC AFS Various Years

162. Relevant performance data for FY'18 is:

Table 15: Performance Highlights – LNDC

Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18	4-yr Average
Total Revenue	114,230	146,991	149,320	147,358	139,475
Net Operating Profit After Tax	12,435	32,068	35,590	43,825	30,980
Capital Grants Receipts		77,016	34,378		27,849
Total Assets	921,035	1,197,388	1,310,336	1,373,894	1,200,663
Total Liabilities	178,744	319,597	318,194	302,938	279,868
Shareholders' Funds	742,291	877,791	992,142	1,070,956	920,795
EBITDA %	19%	26%	25%	31%	25.25%
NOPAT %	10.9%	21.8%	23.8%	29.7%	21.55%
ROE %	1.7%	3.7%	3.6%	4.1%	3.3
ROA %	1.4%	2.7%	2.7%	3.2%	2.5%
Current Assets / Current liabilities	0.79	5.62	5.24	7.07	4.68
Quick Ratio	0.35	3.93	3.31	2.99	2.65
Accounts Receivable Days	193	212	348	333	272
Assets Turnover	0.07	0.06	0.06	0.05	0.06
Debt / Equity Ratio	0.19	0.32	0.28	0.25	0.26

163. 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.

164. A key issue that LNDC has to address is that of the property rental aspect of the business. From the table above we can see that Accounts Receivable Days has increased from a very high 193 days to what must be an unsustainable level of 333 days.

165. There is some confusion surrounding 2 of LNDC's 'subsidiaries'. Basotho Fruit and Veg Canners (100% owned by LNDC) is recorded as being 'Active' in the business registration database in June 2020 but reported by LNDC in its 2017 financial statements as being 'non-operational' though it is not clear what 'non-operational' means. The confusion is compounded in that according to the OAG (see Table 9) LNDC paid interest of M32,455 relating to a GoL guaranteed loan on behalf of Basotho Fruit and Veg Canners during FY 2017/18 and there is still (as at March 2018) arrears of interest payable of M33,058.

166. Lesotho Food Industries in which LNDC owns 39.7% of the equity is designated as being dormant in the latest LNDC financial statements yet in June 2020 is recorded as being 'Active' in the government's business registration database;

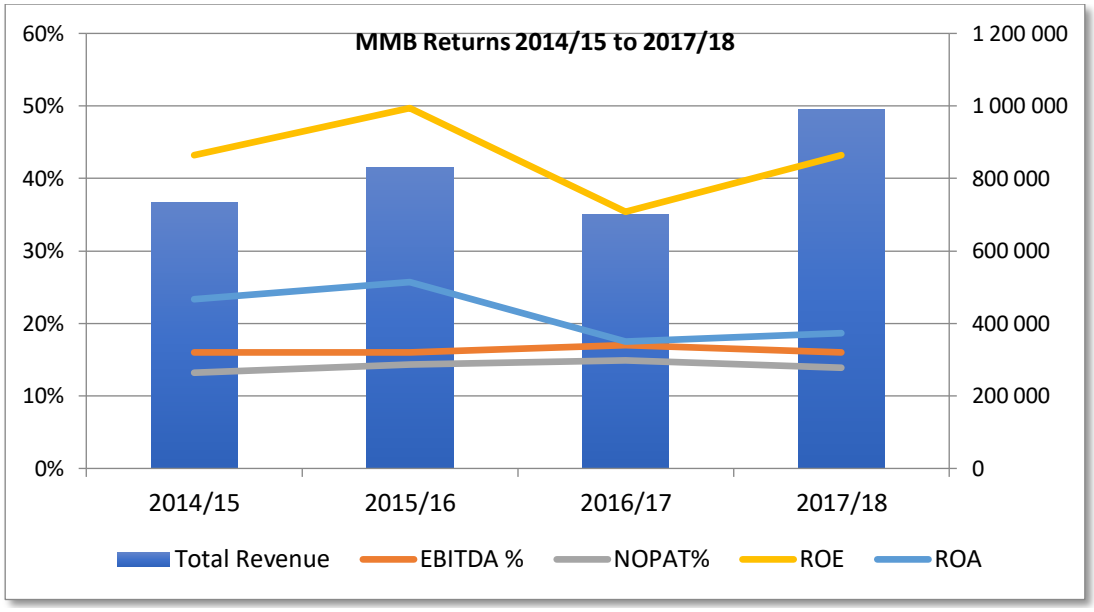
167. **Maluti Mountain Brewery (Pty) Ltd** MMB is controlled by Government through LNDC being the major shareholder (51%); GOL's 4.75% holding; Lesotho Unit Trust with 5.25%. AB InBev with 39% of the shares is also a significant but minority shareholder and has management contract to operate the brewery.

168. In 2018 there was a proposal to separate the soft drinks business from the alcohol side of the business and create two companies. MMB with AB InBev remaining as the strategic investor (though still a minority investor) would concentrate on beer production and the marketing and distribution of alcoholic drinks. The new company (NewCo) a 'joint venture' between a soft drink company and the government (LNDC/GoL) will produce, market and distribute the soft drinks.

169. Despite the 2 year timescale, there has not been any final decision made as to how and when the NewCo will be established.

170. The performance trend for MMB 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 Figure 19, 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, the dip in revenue growth is a direct result of reporting for a a 9-month period in comparison to the prior 12-month periods.

Figure 19: MMB Returns 2014/15 to 2017/18



Source: MMB AFS Various Years

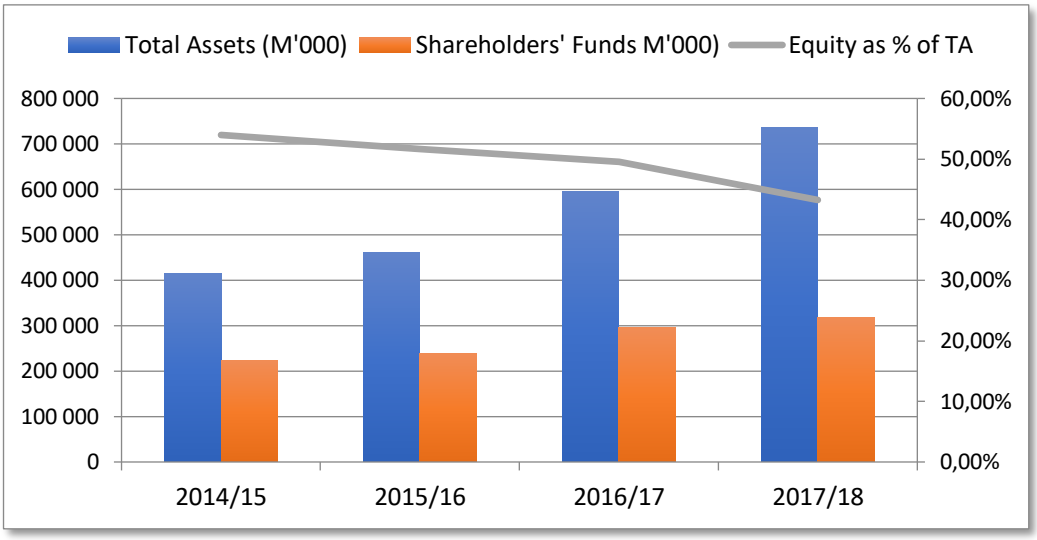
171. Relevant performance data for FY'18 is:

Table 16: Performance Highlights – Maluti Mountain Brewery

Performance Highlights (M '000)	2014/15	2015/16	9 months 2016/17	2017/18	4-yr Average
Total Revenue	733,666	830,793	701,387	990,845	814,173
Net Operating Profit After Tax	96,833	118,512	104,324	137,466	114,284
Dividends Paid to GoL	3,067	4,816	2,275	5,384	3,886
Total Assets	414,972	461,653	595,852	736,280	552,189
Total Liabilities	191,010	223,093	300,872	417,911	283,222
Shareholders' Funds	223,962	238,560	294,980	318,369	268,968
EBITDA %	16%	16%	17%	16%	16.25%
NOPAT %	13.2%	14.3%	14.9%	13.9%	14.08%
ROE %	43.2%	49.7%	35.4%	43.2%	42.9%
ROA %	23.3%	25.7%	17.5%	18.7%	21.3%
Current Assets / Current liabilities	0.63	0.77	0.96	1.05	0.85
Quick Ratio	0.25	0.43	0.75	0.90	0.58
Accounts Receivable Days	15	33	105	123	69
Assets Turnover	1.87	1.89	1.32	1.47	1.64
Debt / Equity Ratio	n/a	n/a	n/a	n/a	n/a

172. MMB is a capital intensive business Figure 20 below, highlights the proportion of the Total Assets that is Equity. Whilst Equity as a proportion of Total Assets has declined from 51.7% to 43.2% since 2014/15, the value of the equity has grown by some 42%.

173. Figure 20. Assets v Equity



Source: MMB AFS Various Years

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

175. MMB 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.

176. MMB has been a consistent provider of dividends. The 2017/18 dividends of M5,384,000 represents approximately 16% of total dividends received by GoL for the year and MMB's dividend is the largest of any SOE/GoL invested company for 2017/18.

177. MMB appears to be strong and should look forward to continued growth for 2018/19 but management are concerned as to the impact that the proposed alcohol levy of 15% may have on the future performance of the business.

178. **Loti Brick (Pty) Ltd.** Loti Brick is controlled by Government through LNDC being the major shareholder (73.6%). GoL has 22.8% and Lesotho Energy Enterprise has the minority shareholding of 3.6%. However, it is unclear who the minority shareholder actually is; Lesotho Energy Enterprises Ltd has been 'struck off' the business register, so there is no public information available. It is concerning that a shareholder cannot be identified.

179. The performance trend for Loti Brick is one of significant concern. The 2014/15 AFS were qualified and the 2015/16 AFS were given an adverse opinion. The AFS for 2016/17 and 2017/18 are 'in progress'. 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.

180. LNDC is the major shareholder and as indicated earlier in this report, LNDC needs to re-evaluate its role in ownership of industrial and trading companies, particularly where it does not appear

to be adding value to the management and performance of the company, nor ensuring compliance with the PFMAA and the Companies Act. LNDC has commissioned an external consultancy company to provide a detailed report on Loti Brick and how (or if) it can be restructured to ensure sustainability. The report has identified a number of issues relating to equipment maintenance, quality of output and reject products as well as some recommendations regarding consolidation of product lines that could support the restructuring and renovation of the business. It is hoped that decisions can be taken in the near future that will determine the future of the company.

181. Relevant performance data for FY'18 is:

Table 17: Performance Highlights – Loti Brick

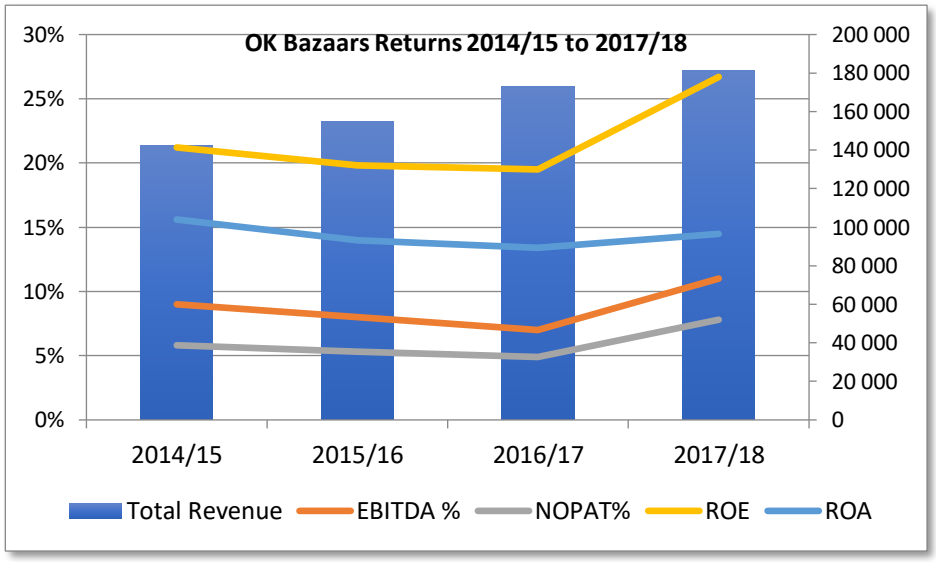
Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18	4-yr Average
Total Revenue	31,043	32,747			
Net Operating Profit After Tax	(9,371)	(11,892)			
Dividends Paid to GoL					
Total Assets	89,753	80,400			
Total Liabilities	35,950	34,087			
Shareholders' Funds	53,803	46,313			
EBITDA %	13%	12%			
NOPAT %	(30.2%)	(34.5%)			
ROE %	(17.4%)	(24.4%)			
ROA %	(10.4%)	(14.0%)			
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			

182. **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. As neither company holds a majority share the company's results are not consolidated in either LNDC's or Shoprite's accounts.

183. The business is commercial retail of grocery and housewares and it is difficult to see the continuous value in LNDC as a major owner. LNDC mandate is the support and promotion of investment opportunities but it does not need long-term direct ownership of companies such as OK Bazaars. There is no evidence of LNDC providing direct added value 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 21: OK Bazaars Returns 2014/15 to 2017/18



Source: OK Bazaars AFS Various Years

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

185. Relevant performance data for FY'18 is:

Table 18: Performance Highlights – Ok Bazaars

Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18	4-yr Average
Total Revenue	142,388	154,687	173,126	181,564	162,941
Net Operating Profit After Tax	8,317	8,214	8,525	14,232	9,822
Total Assets	53,475	58,575	63,813	98,203	68,517
Total Liabilities	14,290	17,145	20,159	44,818	24,103
Shareholders' Funds	39,185	41,430	43,654	53,385	44,414
EBITDA %	9%	8%	7%	11%	8.75%
NOPAT %	5.8%	5.3%	4.9%	7.8%	5.95%
ROE %	21.2%	19.8%	19.5%	26.7%	21.8%
ROA %	15.6%	14.0%	13.4%	14.5%	14.38%
Current Assets / Current liabilities	3.58	3.27	3.01	2.08	2.99
Quick Ratio	2.46	1.72	1.64	1.30	1.78
Accounts Receivable Days	25	38	32	34	32

Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18	4-yr Average
Assets Turnover	2.54	2.67	2.72	2.13	2.52
Debt / Equity Ratio	n/a	n/a	n/a	n/a	n/a

186. Whilst the company appears sound, the changes in revenue and NOPAT are a little erratic, particularly in 2017/18, as can be seen from Table 19 below

187. Table 19: OK Bazaars - Year on Year Change in Revenue and NOPAT

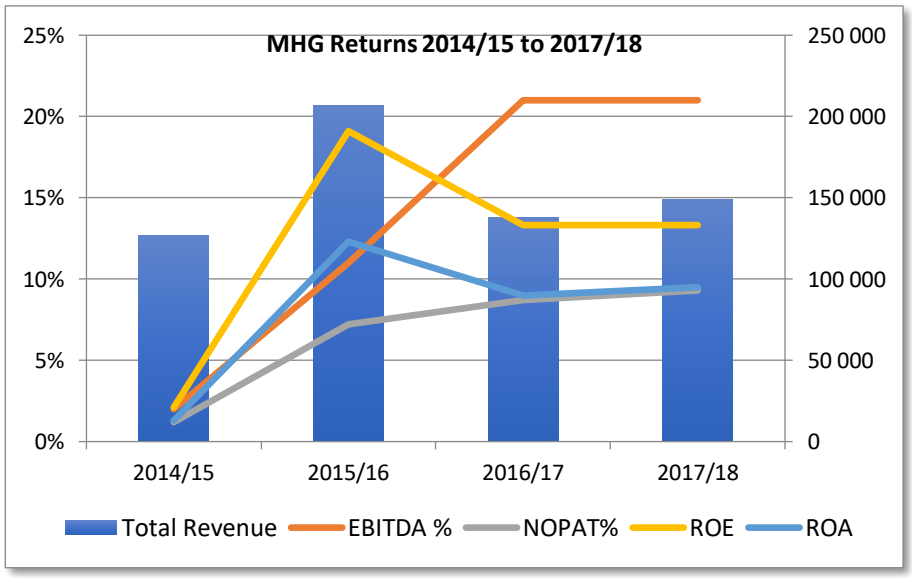
	2014/15	2015/16	2016/17	2017/18
% Change in Revenue	2.28%	8.64%	11.92%	4.87%
% Change in NOPAT	-29.76%	-1.24%	3.79%	66.94%

Source: OK Bazaars AFS Various Years

188. Ok Bazaars had an unqualified audit report.

189. **MHG Lesotho (Pty) Ltd t/a (Avani):** MHG is a hotel company trading under the Avani brand. It has 2 hotels in Maseru each with a casino. MHG is controlled by GoL with 53.1% ownership (split 36.4% GoL and LNDC with 16.7%). while MHG International Holding (Mauritius) has 46.9% of shares. MHG Avani had an unqualified audit report.

190. Figure 22: MHG Returns 2014/15 to 2017/18



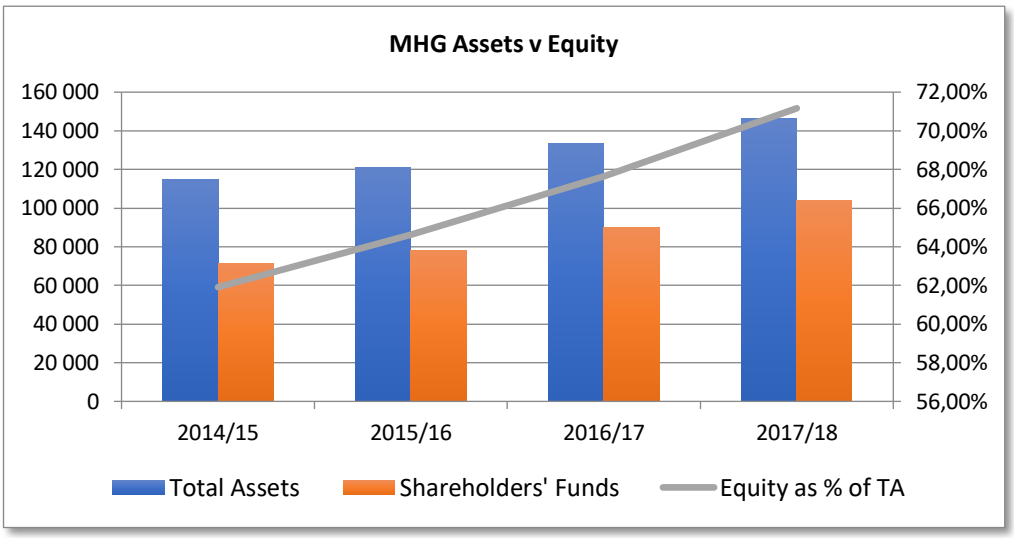
Source: MHG AFS Various Years

191. The performance trend for MHG Avani is mixed. Although recent years are profitable, the period to 2013/14 were loss-making. The 2015/16 results relate to an 18-month period and if

simply adjusted for 12 months show reasonable growth in revenue yet significant growth in NOPAT, such that the results for 2016/17 would appear a less dramatic change.

192. 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. The company reinvested profits into the upgrading of the Avani Maseru and as a result no dividends were paid during that time.

Figure 23: MHG Assets v Equity



Source: MHG AFS Various Years

193. There has been consistent growth in Total Assets and in Equity. What is also positive is that there has been growth in Equity as a proportion of Total Assets thereby increasing the GoL's value of the business.

Table 20: Performance Data – MHG Avani

Performance Highlights (M '000)	2014/15	18 months 2015/16	2016/17	2017/18	4-yr Average
Total Revenue	127,031	206,810	137,834	149,203	155,220
Net Operating Profit After Tax	1,484	14,929	11,952	13,868	10,558
Dividends Paid to GoL				2,548	
Total Assets	115,000	121,054	133,336	146,209	128,900
Total Liabilities	43,805	42,823	43,153	42,159	42,985
Shareholders' Funds	71,195	78,231	90,183	104,050	85,915
EBITDA %	2%	11%	21%	21%	13.75%
NOPAT %	1.2%	7.2%	8.7%	9.3%	6.6%
ROE %	2.1%	19.1%	13.3%	13.3%	11.95%
ROA %	1.3%	12.3%	9.0%	9.5%	8.03%
Current Assets / Current liabilities	0.25	1.00	1.16	1.06	0.87

Performance Highlights (M '000)	2014/15	18 months 2015/16	2016/17	2017/18	4-yr Average
Quick Ratio	0.25	0.94	1.11	0.95	0.81
Accounts Receivable Days	0	16	19	15	13
Assets Turnover	1.10	1.75	1.08	1.05	1.25
Debt / Equity Ratio	0.01	0.01	0.01	0	0.01

194. However, as businesses, clearly there is both potential and high-risk in hotels and casinos yet 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.

195. 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 vulnerable in its majority stake in this business group and fiscal risk is high.

196. **Lesotho Housing & Land Development Corporation** - Government controls LHLDC with a 75% direct shareholding and LNDC holding 25%. No data available for recent years. According to the Office of the Auditor-General the Financial Statements for audits for 2011/12 to 2013/14 were issued on the 19th of July 2019. AFS for 2015/16 and 2016/17 are in progress. There has been no submission for 2017/18.

197. 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.

198. 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.

199. 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.

200. Relevant performance data for FY'18 is:

Table 21: Performance Highlights – LHLDC

Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18	4-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					

201. **Lesotho Flour Mills Ltd**. LFM is 49% owned by Government, 50% by Seaboard Overseas Pty Ltd and the remaining 1% has been held by 3 different shareholders in recent years. In the Financial Accounts for the year ending October 2016 it states that: Malchy Grain Company Limited sold its 100 shares or 1% equity stake in the Company (ie LFM) on 19th of May 2017 to John Nel, Managing Director of Globakeries. At that time it seems that Seaboard was a shareholder /owner of Globakeries either directly or through its subsidiary / affiliate Gloridge Bakery (Pty) Ltd. There is a question as to whether GoL should have approved the sale under the shareholders' agreement.

202. LFM's 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 appoint expatriate executives to manage the Company (on generous salaries and benefits almost equivalent to the additional management fee); to be the primary supplier of raw materials and receive a premium on actual cost when supplying raw materials to LFM; to engage paid 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.

203. It is not clear in the accounts as to what share of total sales (or total exports) is accounted for by Globakeries. However it is clear that Globakeries are the largest of LFM's trade debtors. In 2018 receivables due from Globakeries was M22 million accounting for 40.3% of all trade receivables and in 2019 this rose to M25.7 million (35% of all trade receivables). As highlighted above, John Nel of Globakeries is the new minority shareholder.

It is difficult to conclude in a positive way regarding Lesotho Flour performance trends, from the Government's perspective. It seems questionable as to why Seaboard wishes to continue with the relationship when LFM has made no or almost no profits and declared precious little dividends in the past 20 years. 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.

204. Relevant performance data for FY'18 is:

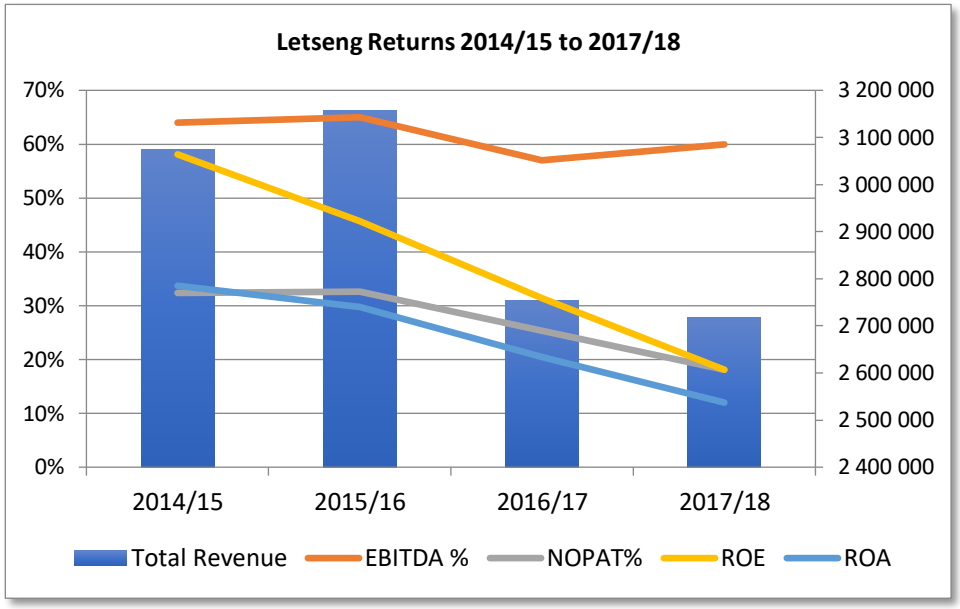
Table 22: Performance Highlights – Lesotho Flour Mills

Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18	4-yr Average
Total Revenue	645,141	603,948	870,887	797,321	729,324
Net Operating Profit After Tax	(12,175)	(15,301)	25,956	29,887	7,092
Dividends Paid to GoL	-	-	-		-
Total Assets	271,968	242,201	377,845	278,398	292,603
Total Liabilities	163,967	149,569	259,487	130,781	175,951
Shareholders' Funds	108,001	92,632	118,358	147,617	116,652
EBITDA %	(1%)	(2%)	4%	5%	1.5%
NOPAT %	(1.9%)	(2.5%)	3.0%	3.7%	0.58
ROE %	(11.3%)	(16.5%)	21.9%	20.2%	3.58
ROA %	(4.5%)	(6.3%)	6.9%	10.7%	1.70
Current Assets / Current liabilities	1.27	1.18	1.26	1.72	1.36
Quick Ratio	0.49	0.50	0.57	0.69	0.56
Accounts Receivable Days	41	38	51	37	42
Assets Turnover	2.63	2.35	2.81	2.43	2.56
Debt / Equity Ratio	0.17	0.14	0.18	0.10	0.15

205. Lesotho Flour had an unqualified audit report.

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

Figure 24: Letseng Returns 2014/15 to 2017/18



Source: Letseng Diamonds AFS Various Years

207. Letseng Diamonds performance has been strong in earlier years and had been the portfolio stand-out performer particularly in relations to providing dividends. However, despite the company being the largest in the country in terms of revenue, we can see all key indicators, excepting EBITDA, have declined dramatically since 2015/16.

208. Relevant performance data for FY'18 is:

Table 23: Performance Highlights – Letseng

Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18	4-yr Average
Total Revenue	3,075,278	3,157,091	2,753,132	2,716,880	2,925,595
Net Operating Profit After Tax	996,784	1,027,672	698,287	491,721	803,616
Dividends Paid to GoL	307,800	149,400	219,000	0	169,050
Total Assets	2,955,052	3,449,664	3,407,840	4,092,936	3,476,373
Total Liabilities	1,240,277	1,198,996	1,182,178	1,370,541	1,247,998
Shareholders' Funds	1,714,775	2,250,668	2,225,662	2,722,395	2,228,375
EBITDA %	64%	65%	57%	60%	61.5%
NOPAT %	32.4%	32.6%	25.4%	18.1%	27.13%
ROE %	58.1%	45.7%	31.4%	18.1%	38.33%
ROA %	33.7%	29.8%	20.5%	12.0%	24.0%
Current Assets / Current liabilities	1.75	2.34	1.70	3.09	2.22
Quick Ratio	1.27	1.74	0.65	1.91	1.39
Accounts Receivable Days	38	29	17	9	23
Assets Turnover	1.06	0.92	0.79	0.72	0.87

Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18	4-yr Average
Debt / Equity Ratio	0.09	0.04	0.01	0.07	0.05

209. Letseng's 2017/18 revenue has declined by 13.9% since 2015/16. More significantly this translates into a 51.6% reduction in tax payments to the government and 100% reduction in dividends to zero. Should this trend continue it will herald very uncertain times in terms of inflows to government.

210. **Econet (Telecom) Lesotho Pty Ltd.** Econet is 30% Government owned. The other 70% is owned by Mountain Communications (Pty) Ltd registered in Lesotho (also known as MKC). MKC is in turn owned Econet Wireless Global which is ultimately owned by Econet Group Ltd in Mauritius.

211. 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.

212. Despite repeated requests Econet has failed to provide PSD with a copy of its AFS for 2017/18 so it is not possible to provide a more up-to-date analysis of the company.

213. Relevant performance data for FY'18 is:

Table 24: Performance Highlights – Econet

Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18	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

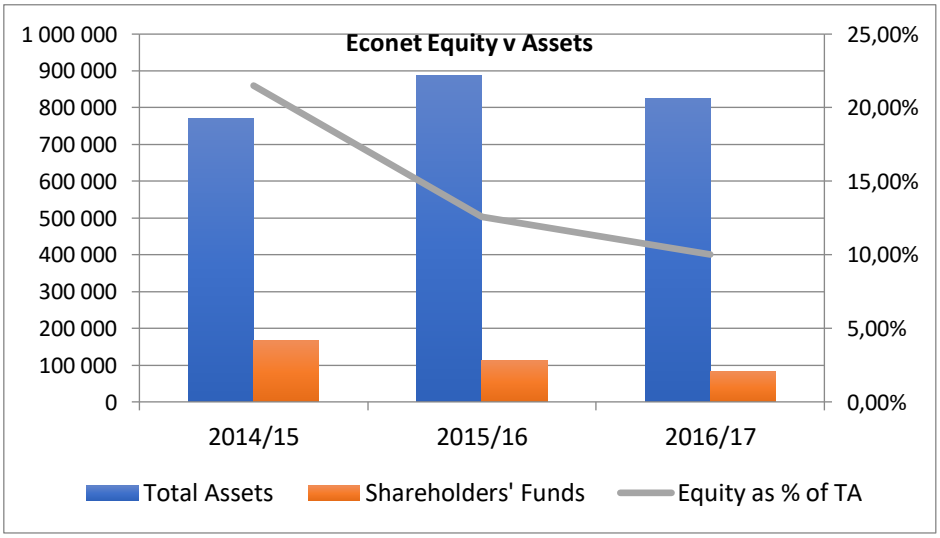
214. While the overall performance indicators are a cause of concern, the AFS indicate that the largest item of expenditure is the depreciation charge. This figure represents 26% of total expenditure of the FY17 year and warrants a better understanding as it suggests large costs of infrastructure (fixed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

215. Econet is a beneficiary of GOL's on-lending in relation to 2 loans from Exim Bank of China amounting to M 428,713,674. In 2016/17 Econet defaulted on one account and according to the Report of the Auditor-General 2017/18 "Econet had not made any principal repayment during the financial year 2017/18 and were in arrears of principal repayments of M15,549,751". Such on-lending is normally associated with SOEs and as GoL only has a minority stake of 30% in Econet, it is surprising that the larger shareholder is not providing guarantees for these significant loans.

216. 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. Econet's Fixed Line license expires on the 1st of November 2020. It is unclear what criteria will be used to evaluate Econet's licence renewal if the company is in such difficulties.

217. Figure 25 below highlights a concern that not only is the company unprofitable and defaulting on its loans, the equity value has declined by 50% over 2 years.

Figure 25: Econet Equity v Assets

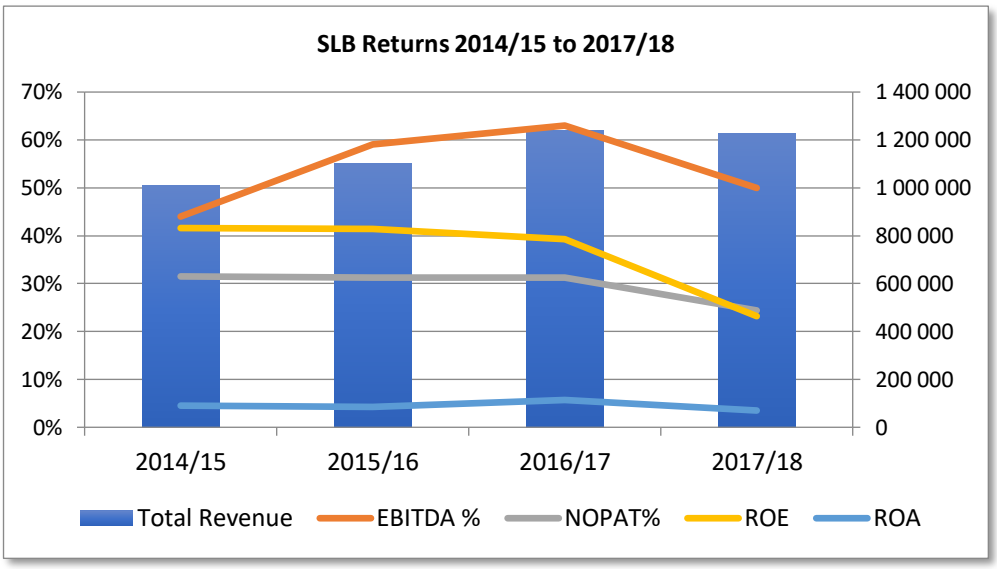


Source: Econet AFS Various Years

218. **Standard Lesotho Bank SLB** is 9.6% Government owned and the rest is owned by the Standard Bank Group of South Africa.

219. The performance trend for Standard has been strong and dividend pay-out has been increasing. Government's small investment offers little direct influence. Until 2017/18 there had been a steady return of around 40%, but 2017/18 has seen a drop in revenue and NOPAT and the ROE has dropped to 23%. 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's 9.6% equity in the SLB is valued at approximately M130m. To put this in perspective the 100% value of Lesotho Post Bank is approximately M147m.

Figure 26: SLB Returns 2014/15 to 2017/18



Source: SLB AFS Various Years

220. The falling trends depicted in the graph above is of concern, being that growth across each element (revenue, profits, assets and equity) had been strong over time. This might suggest SLB is facing stronger competition and cannot sustain rates of growth seen in the years before 2104/15.

221. Relevant performance data for FY'18 is:

Table 25: Performance Highlights – Standard Lesotho Bank

Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18	4-yr Average
Total Revenue	1,008,956	1,099,927	1,240,015	1,227,929	1,144,207
Net Operating Profit After Tax	317,752	344,261	387,698	299,575	337,322
Dividends Paid to GoL	19,200	24,000	24,000	24,000	22,800
Total Assets	6,995,120	8,214,930	6,834,533	8,640,583	7,671,292
Total Liabilities	6,231,345	7,383,817	5,849,131	7,346,949	6,702,811

Performance Highlights (M '000)	2014/15	2015/16	2016/17	2017/18	4-yr Average
Shareholders' Funds	763,775	831,113	985,402	1,293,634	968,481
EBITDA %	44%	59%	63%	50%	54%
NOPAT %	31.5%	31.3%	31.3%	24.4%	29.63%
ROE %	41.6%	41.4%	39.3%	23.2%	38.63%
ROA %	4.5%	4.2%	5.7%	3.5%	4.48%
Current Assets / Current liabilities	1.11	1.10	1.14	1.16	1.13
Quick Ratio	0.08	0.07	0.11	0.09	0.09
Accounts Receivable Days	n/a	n/a	n/a	n/a	n/a
Assets Turnover	0.14	0.14	0.16	0.16	0.15
Debt / Equity Ratio	n/a	n/a	n/a	n/a	n/a

222. Standard Bank had an unqualified audit report.

XI. CONCLUSIONS AND RECOMMENDATIONS

223. Companies in the GoL's portfolio are of significant importance to the country's economy. Total revenue of all companies in the portfolio is equivalent to 25% of GDP. However, much of this is concentrated in the largest 5 companies whose individual revenue is equivalent to more than 2% of GDP and collectively 19.3%.

224. Overall, the GoL's equity in the portfolio is increasing in value from approximately US$310 million in 2013/2014 to approximately US$447 million in 2017/18 and the portfolio has enjoyed sustained EBITDA growth. However ROE and ROA have not demonstrated similar improvements.

225. Whilst dividends and tax receipts have grown significantly they are vulnerable in that there is a dependency on the mining sector and Letseng Diamonds in particular. FY2017/18 has highlighted that vulnerability as Letseng's tax payments have decreased by approx. 51.6% and the company did not declare a dividend for the FY 2017/18 (the dividend for 2017 was M219,000,000) which has a major impact on GOL's direct inflows.

226. The backlog of audited financial statements detailed in the Auditor-General's Report; the difficulty faced by the PSD in obtaining audited financial statements; the apparent lack of effort by Boards to attend to issues highlighted in audits that receive qualified or adverse audit opinions; and, the level of non compliance with the PFMAA and/or the Companies Act highlights the poor corporate governance practices followed by companies in the GoL's portfolio. The Boards of these companies do not appear to be concerned about these issues. This is a reflection of the political nature of the Board appointments and the complete lack of sanctions / penalties that can be imposed on either individual members of the Board, the Board as a unit or the company itself. The GoL must address the issue of non-compliance and

sanctions / penalties either through amendments to the PFMAA and the Companies Act and / or the introduction of an SOE Act as recommended in the SOE Policy that was developed in 2019.

227. Good corporate governance by the GoL and by the SOEs themselves is critical if SOEs are to contribute effectively to the economic and social development of the country. In recent years SOEs have been perceived rather negatively; good governance is required to bring back some credibility to the sector and engender public confidence in the companies and in the way in which the GoL implements its oversight and performance evaluation.

228. The SOE policy should be applicable to all companies in which GoL directly, or through LNDC, owns more than 50% of the equity or is the majority owner. In respect of the other companies in which the state is has a significant investment, GoL should try ensure that the ownership policy is applied.

229. Although the PFMAA provides a level of direction and control of fiscal policy over SOEs there is no 'SOE Act', nor other overarching legislation that defines and controls how SOEs should operate, be governed and how oversight and monitoring and evaluation should be implemented.

230. Strengthening corporate governance and dividend policy should lead to: greater scrutiny of capital allocation, making it more difficult for managers to invest in bad projects; and enhancing shareholder wealth while minimizing the financial and fiscal risks of SOEs. Profitable SOEs should provide funds for public spending to improve the equity of key public services, such as education and health.[10] They are also much more attractive to potential investors as and when GoL decides each company is ready for divestment.

231. Moving the oversight of SOE's and invested companies away from Ministries to a centralized oversight structure and strengthening the governance of Board appointments would help depoliticize and support the professionalization of SOE Boards.

232. 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.

233. All Boards must attend promptly to issues raised in audits that have received qualified / adverse opinions. It is a failure of the regulatory environment and political will that such issues are not addressed and resolved.

234. SOEs should be required to present Corporate Plans to MoF highlighting a 3year (minimum) strategy with clear and measurable objectives (financial and non-financial key performance indicators).

235. The Corporate Plans of the 100% SOEs (LEC, WASCO, LNDC, LTDC, LHLDC, LPB, BEDCO) should highlight how their Plan is aligned with the Lesotho National Strategic Development Plan. These

[10] World Bank Governance Toolkit

companies, in particular, require performance to be assessed not just against commercial objectives but also social obligations and their contribution towards achieving the Lesotho National Strategic Development Plan.

236. There is a need to focus on improving the performance of almost all companies in the portfolio.

237. LEC needs to improve its efficiencies and in particular reduce the level of distribution losses and improve its debt collection. The GoL, ministries and government agencies and parastatals have to take responsibility to ensure that they are not delaying payment of their debts.

238. WASCO is failing badly in water losses at 41.5%. This is non sustainable in a country that suffers greatly from drought. It too requires the public sector to 'step-up' and settle WASCO's invoices timeously. Efficiencies need to be improved to enable WASCO to repay its loans (particularly those on-lent and guaranteed by GoL).

239. Lesotho Post Bank has made some impressive gains and are to be commended for their success. Payments to the Board increased by an average of 82% per person between December 2016 and Dec 2017 and then increased again the following year so that the LPB Board is the highest paid Board amongst SOEs. However, it seems inequitable that GoL is still providing government funding / grants but has not yet received any dividends. Whilst the old adage 'customers come first' is sensible, LPB also needs to work towards not requiring government funding and providing payback in the form of dividends.

240. There are a number of issues to address at Econet including the company's inability to repay the GoL guaranteed loans that have been on-lent from the EXIM Bank of China. However, without sight of the AFS it is difficult to understand the problems. It is understood that a detailed evaluation of Econet has been undertaken but unfortunately the PSD has not been privy to the results – it is recommended that the report should be provided to the PSD. In the meantime the following can be considered a) a review of the management contract that allows the private shareholder to receive management fees despite the company suffering losses yet the GoL receives no dividends; b) why Econet which is suffering financially, making losses and cannot pay dividends yet pays its Board 2.7 times more than Letseng Diamonds which until 2017/18 had been providing 80% of all dividends to GoL and was the greatest contributor to tax; and c) should an enterprise that appears to be incapable of making profits and repaying its debts be considered suitable as a candidate for renewing its landline licence in 2020 and its mobile licence in 2021?

241. LNDC's review of the potential to restructure Loti Brick must be acted upon with alacrity to minimise the continuing financial and reputational risk to GoL and LNDC.

242. LNDC requires to address the issue of debt arrears. As an SOE it is inappropriate that there is so much reliance on government financial support yet failure to manage the repayments accordingly. GoL cannot continue to cover these costs in these sever economic times. LNDC should also consider divesting the equity in purely commercial enterprises that it has held for many years so that it can reinvest the proceeds in new opportunities resulting in job and wealth

creation. In terms of its own business there is an immediate need to act on the issue of Accounts Receivable Days that currently stands at 333!

243. Basotho Fruit and Veg Canners (100% owned by LNDC) is recorded as being 'Active' in the business registration database in June 2020 but reported by LNDC in its 2017 financial statements as being 'non-operational' though it is not clear what 'non-operational' means. Lesotho Food Industries in which LNDC owns 39.7% of the equity is designated as being dormant in the latest LNDC financial statements yet in June 2020 is recorded as being 'Active' in the government's business registration database. LNDC (or any other company) should ensure that if they hold equity in a company that ceases operating, then that company shall be dissolved in a timely manner to ensure surpluses are distributed and liabilities and creditors are satisfied quickly and fairly. Any such companies should also have their business registrations cancelled at the same time.

244. With regard to LFM, from an external viewpoint the relationship between Seaboard and the GoL appears rather one sided in that Seaboard: receive a substantial Management Fee that is not in any way performance related and which Seaboard receives irrespective of whether LFM makes a profit or not; appoint senior management at significant cost to LFM (almost as high as the Management Fee); get paid $500 per day for the use of Seaboard's own experts who visit LFM at the request of the senior management (who are appointed by Seaboard); receive a premium of 4% of actual cost when supplying raw materials to LFM. This relationship needs to be renegotiated. Additionally a risk assessment should be undertaken as to the level of 'dependency' on one supplier (Seabaord) and one trade buyer (Glowbakeries) especially as they are both shareholders.

245. A review of the management contracts / shareholders agreements is required in general and would include MHG Avani; MMB; LFM; Econet; and Letseng.

246. LHLDC has not presented audited financial statements for more than 5 years, yet Board remuneration is the second highest of all SOEs. The Board must be held to account and AFS must be updated.

247. Whilst there is potentially a role for BEDCO, serious consideration has to be given as to the way it is funded if the company continues to fail to submit its AFS. The previous CEO left after a 3 year term without submitting a single set of AFS. It must be a condition of any new appointment that the resolution of this problem is a priority. It is inconceivable that BEDCO should continue to be funded in the same way when there are no checks and balances as to how the funding is used.

248. 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.

249. 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.

250. PSD aims to improve access to relevant information, and towards that end, will 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.

251. PSD must and will endeavour 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.

252. 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".

253. 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.

254. There is great value in this annual report. However, reporting has to be more dynamic to enable timely intervention as required. It is strongly recommended that the PSD improve the level of cooperation with the SOEs to enable more up-to-date reporting. At the same time the SOEs and other companies have to comply with the PFMAA and companies Act to enable the audited financial statements to be ready and available for inclusion in the report within 6 months of the end of each financial year. In making progress towards that target an effective step would be for the report that will be published in 2021 to include the FY2018/19 and FY2019/20.

255. The publication of this report on the government's website is itself promoting a greater level of transparency than has been experienced in the past. However, the SOEs (in particular) also require to move to a significantly enhanced level of disclosure and transparency: Annual

reports and financial statements; board appointments and remuneration should all be available to the public on each company's website. This, of course, presumes that each company has a website which is currently not the case

256. 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	