

# WORK FOR JUSTICE

The Newsletter of the Transformation Resource Centre

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## Still Lesotho's Tooth Fairy

Customs Revenue Continues to Dominate Lesotho's Economy





## Editorial Comments

# Whence Lesotho's money comes

We all need money in our pockets. Often we believe that that money comes from the customers who buy the things we sell or from the employers we work for. Yet we forget that they too, have to get the money from elsewhere.

As a unit of exchange money passes many hands and comes in many forms from bank notes to credit cards to bonds and securities. It however, has to be rooted to a primary resource, traditionally, gold. A country needs to have gold reserves to be able to print money worth the gold. In the absence of gold, oil, agricultural products, labour and other currency reserves among other things determine the value of the money a particular country has. No country can ever claim to be money rich if it's not resource rich.

Lesotho's agriculture once made her the granary of Southern Africa. But she has not managed and developed this advantage well enough to keep that enviable status.

South African Mines operating in an apartheid system made Migrant labour, to which Lesotho was a major contributor, extremely valuable. Lately, South Africa could not resist clean Lesotho water so she has been buying it since 1996. Even though Lesotho cannot produce textiles herself, she has attracted experienced Taiwanese factory owners to open clothing industries here, making Lesotho's geopolitical position a money-earning product.

Other products such as sand stone, handicrafts, professional skills, hold limited hope for Lesotho's money earning products. Lesotho's mountains, the beautiful geographical art that earned Lesotho the tag of 'kingdom in the sky', still need to prove themselves as major income earners which the country can depend on. The one truth is that Lesotho's money earning products have not been fully exploited to make Lesotho safely independent of

outside assistance. As a result the country continues to depend on the South African economy for products, networks and other infrastructure. The other truth is that since much of the money is not generated in Lesotho it ends up circulating more within South Africa, thus attracting Basotho business participants to follow it there. Goods, services and jobs are more lucrative in South Africa, making the republic the real centre of business activity.

It is not surprising that Lesotho buys more from South Africa than she sells (there) because Lesotho simply does not have enough to sell and South Africa has pretty enough to really need anything from Lesotho except maybe water. Still, if Lesotho needs to buy excessively from South Africa, she needs lots of money for that. Ironically, the bulk of that money comes from the Southern African Customs Union (SACU) which is dominated by South African exports to the other members, Botswana, Lesotho, Swaziland and Namibia.

Lesotho's share of this money does not depend on how much she contributes but on the mere fact of being a member. The currency, the Loti, according to another South African gesture, only carries a symbolic significance and is allowed to be at the same level as the South African Rand. Government employees contribute heavily to income tax, the second source of government revenue. The third largest income is from the two year old Value Added Tax, drawn from the sale of goods sold by a small group of mainly South African businesses operating in Lesotho.

This issue of WfJ will examine the role that the revenue collector plays in the Lesotho economy. Where does the collector collect Lesotho's revenue from? How efficiently, fairly and scrupulously does it do its job. How do the political masters spend the hard earned and hard-collected money?

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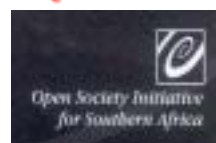
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# Between Baking and Ordering the National Cake

Clothing factories employing thousands of Basotho workers take advantage of Lesotho's proximity to South Africa for its ports and other infrastructure



Lesotho enjoys only an emotional separation from South Africa. Thankfully, the citizens of either country are not quick to evoke this separation as the links are too strong and the inequalities too embarrassing. Close to 100% per cent of Lesotho's trade is both with and inside the Republic. Through the Southern African Customs Union, the Migrant Labour remittances and the Lesotho Highlands Water Project (LHWP), South Africa and Lesotho enjoy organized institutional relations.

The three account for the major bulk of Lesotho's income with foreign donor income and the clothing industries making the other contributions to the national pie. Proximity to her technologically advanced neighbour boasting reliable ports is in fact one of the major reasons (other than cheap labour and a generally good infrastructure) why the mainly Asian factory owners elected to set up shop in Lesotho rather than go to other African AGOA (Africa Growth and Opportunity Act) members.

However, this relationship is heavily skewed in favour of South Africa as it keeps the kingdom in a perpetually dependent state. Lesotho has hardly moved from her role as a cheap resource reservoir since the height of the migrant labour system when Lesotho had the highest numbers of miners on South African Mines (apprx. 120,000 at peak). The LHWP offered a brief reprieve during its construction stage with the rise in local employment figures. That too has changed as

many unskilled, semi-skilled and a few local professionals have since left. It is not surprising that many of the Basotho engineers are now striking it rich on the South African engineering industry in a twisted resemblance of the exodus of unskilled Basotho miners.

Clearly, this has long discouraged the growth of indigenous and locally self-generated economic activity. It has also undermined whatever attempts at economic revival that Lesotho could ever imagine. In the eyes of local citizens and potential investors, Lesotho cannot justify its existence as an economy. In fact, the economy has long been dismissed as scarcely viable. If the few frontier economies leaning on the Lesotho border exhibit far greater organisation and vibrancy than that of Lesotho's major towns, why would South Africans, or indeed other foreign investors insist on crossing the border into Lesotho? After all, they have a few big South African cities such as Bloemfontein which are less than two hours from Maseru and which attract the bulk of significant Lesotho business anyway. The Lesotho border is in fact an unwelcome hindrance to the free flow of economic activity between the two countries.

The advantage of a stable sovereign state free from international political contamination and apartheid has long disappeared and exists only as a distant memory. In fact, it was firmly erased by the 1998 political upheavals, from which Lesotho has struggled to recover. Therefore, to say Lesotho has lost its economic and



political sex appeal would be a tasteless joke. Ironically, the Lesotho state gruesomely squeezes money out of whatever economy still remains. The heavy dependence on imports holds the brightest hope for the Lesotho taxman while the local business or employee taxpayer presents tax collection headaches to the Lesotho Revenue Authority (LRA) due to the small, slow and corruption-ridden business and administration environment.

The common frenzied scramble for jobs and business locally does not make Lesotho's case any less desperate. It is made even worse by the fact that whatever money is generated internally or received as donations or grants is used to buy South African imports. The stagnation of local production does little to offset the trade deficit occasioned by the trade imbalance. The now shrill cries for an export-led growth of the economy become hollow in the absence of any reliable commodity or wide resource based production sector capable of supporting industrial expansion. Apart from cheap labour, Lesotho's principal natural resources are water, agricultural products, sand stone, scenic mountain landscape (albeit cracked by gullies) and some diamond deposits. For these, South Africa remains the biggest and most convenient 'buyer' and would naturally bargain for a favourable rate as happened with the LHWP, thus worsening Lesotho's dependency.

The dependency is further exacerbated by the dominance of the Lesotho government as the major income recipient. The government is the major player in most businesses and is the second largest employer but pays the most salaries. This creates a largely undiversified local market to the extent that the decline in government income receipts quickly translates into poverty for the ordinary citizen. Moreover, as the single biggest business partner with her neighbour, the Lesotho government's corruption and mal-administration risks the growth of that very crucial trade relationship. In short, if the Lesotho government loses business, that loss virtually affects the country as a whole. The opposite is not that rosy either. The success of trade with the Lesotho government is not guaranteed to benefit the ordinary citizen.

Some Lesotho citizens have reacted to this in the most obvious way. Business did not come to Lesotho, so Basotho (those who could) went to business (in South Africa). They realized that they did not have to wait for money to come to Lesotho if they were to have it. Additionally, they have since transformed their identity by taking on a different economic citizenship. Since they participate in an economy located outside of their country's borders, they easily identify with it while they maintain only emotional ties with their mother country.

The reality of Lesotho being completely surrounded by South Africa, having a highly mobile labour force

and its piggy backing on South Africa's economic linkages and technological advancement actually points to a positive future for Lesotho's population. The goal is not necessarily for income flows to be nationally directed but rather regionally spread. This places more emphasis on individual income as opposed to the national income, or the closeness of each individual participant to the core of the market and the gains from it.

In simple terms, Basotho would prefer to become part of the huge South African market in order to take advantage of goods, services and employment which would directly benefit their lives rather than be confined within their national borders waiting for their government to proffer these benefits. This assumes Lesotho and South Africa as one region whose population benefit from an expanded common market. After all, it would be absurd to speak of any national income for Lesotho in the absence of any viable and effective indigenous production institutions.

Most businesses that operate in Lesotho, including banks and supermarkets, are only branches whose mother companies are located in South Africa. Since the collapse of a few indigenous enterprises and parastatals such as Lesotho Airways and Lesotho Bank, the localization of business entities within the Lesotho borders has been by way of local shareholding. This not only ensures the continued operation of such businesses within the country but also the increase of tax and employment opportunities for the benefit of the national economy. The promotion of this type of investment within Lesotho is clearly inspired by their success in South Africa with the advantages they will continually enjoy from the South African economy.

The development of a locally generated economy would suffer from a weak infrastructure, a small market and an inferior business culture, among other things. Even the exploitation of immobile resources such as land would still require external expertise thus risking the siphoning out of money. The rationale for local production is justified by the need to cut foreign spending through importing and balancing it with increased exporting. Agricultural production still needs to be competitive enough to achieve this goal.

Finally, if Basotho cannot produce surplus agricultural products to sell across the border, they should at least produce enough to feed themselves in order to spend whatever money on those commodities that are not produced locally. The protectionist tendencies of the government are often laughable as they are often based on incorrect assumptions. For instance, certain imports such as eggs, cabbages are prohibited on the assumption that Basotho produce enough for themselves within Lesotho. But local production tends to be so erratic that these embargoes end up being meaningless. All these refer to an economy that is compelled to survive despite the obvious disadvantages.





*A daily convoy of lorries line up to deliver imports to Lesotho. While the LRA attempts to reduce border delays, these lorries are seen waiting at the border for a good part of each morning.*

*Photo: TRC*

# Lesotho's Tooth Fairy

## The Southern African Customs Union (SACU)

Typical of customs unions, SACU's principal aim is the reduction of economic disparities between its members. South Africa is the strongest economy in the five-member Union and was until the entry of Namibia in 1990, the only member with access to the sea. The other three members have historically huddled together in the face of colonial and apartheid threats. Their political, social and cultural ties therefore made cooperation among them very easy. Ironically, the union brings back memories of South Africa's apartheid-era constellation expansion in which South Africa harboured ambitions of ensconcing herself as the sole occupant of the southern tip of Africa after invading and swallowing up her neighbours.

The first union agreement coincided with the birth of the modern South African state in 1910. It was renegotiated in 1969 and is currently undergoing a metamorphosis. While the current renegotiation of the union may bring about a degree of proportionality among the members it also has to embrace the South African-led NEPAD dream which emphasizes protection of the African economy. The small SACU members clearly enjoy the protection that comes with their membership against vulnerability to the vagaries of the world economy. While the union may protect South Africa from

its weaker members, it certainly overburdens her in international free-trade negotiations where she often has to consider her neighbours.

Despite the threats to Lesotho's revenue that are likely to come with the renegotiation of SACU, Lesotho's performance in the regional economy has largely been boosted by trade in water (with South Africa) and trade in clothing (through South Africa). The cleanness, acceleration and huge volumes of the highlands water as well as the cheap labour employed in the clothing factories have improved Lesotho's trade in these particular commodities. However, South Africa's apparent hesitancy in accelerating the complete signing of the five-dam scheme and the end of the multi-fibre agreement (MFA) in December 2004 pose real threats to Lesotho's revenue prospects in the foreseeable future.

After the decline of labour as a viable commodity in the early 1990s, water and cloth have become the major products that have stimulated Lesotho's participation in SACU trade. Indeed, SACU protects the member states trade external to SACU itself in terms of competitiveness and administration. This is made easy by membership of the SACU states to the Common Monetary Area (CMA), which pegs the member currencies at a par with the South African Rand. The CMA has argua-



*A Lesotho customs official checking goods in a lorry at the main Maseru border. Even though Lesotho imports close to 100% of all her goods from the SA, not many such lorries are seen at the border nor does the single train service deliver that much.*

**Photo: TRC**

bly undermined the value of the economies of its smaller members, to the extent of making these economies to be virtually dependent on the South African economy. South Africa represents these economies on the global stage. Indigenous companies within the SACU member states would not be able to compete independently in international markets without access through South African companies. For example, Standard Bank South Africa (Banking), South African Breweries (Brewing), JCI (mining), Shoprite Checkers (Retail), Sun International (Hospitality); Eskom (Energy), South African Airways (Travel) dominate business in these member states. Even some South African football teams are the best loved in these countries and beyond.

The influence of South Africa within intra-SACU trade therefore cannot be overemphasized. It is even gratifying that South Africa's attitude is towards the continuation or even further building of these intra-regional linkages based on NEPAD thinking. This also means that South Africa herself benefits from these advantages as the bulk of her exports are destined to her neighbours. It is important that transport and communications infrastructure in these countries is improved to further improve trade relations within the customs union.

The combined intra-SACU imports for South Africa's SACU members amounted to more than R51 billion at the end of 2004. At little over a billion rand more than her gross domestic product, Lesotho is the only member with the heaviest dependence on SACU revenue. South Africa, on the other hand is the lowest importer from the region. This has more to do with the

quality and quantity of products that satisfy the South African market and the size of the South African economy itself than her preference for other imports. In short, South Africa only imports from her neighbours if she has to.

Exceptions are Lesotho's water which the South African industries in the rich Gauteng province are in desperate need of. The sale of water to South Africa has greatly increased Lesotho's purchasing power thus providing more linkages with the Lesotho economy. In addition, it created added employment opportunities in small-scale enterprises. The Lesotho textile industry, the highest employer albeit with proportionally lower unskilled employee wages, uses South Africa as an outlet to US markets. Apart from the largely minimum-wages paid to the workers the Lesotho factories do not contribute significantly to Lesotho economy.

Lesotho's promotion of locally produced agricultural and handicraft products mainly for the South African market, is not backed by reliable and large production. Neither does it hold bright prospects for large scale employment. According to SACU's demands, each country is required to improve its export capacity in order to become a significant player in regional trade as a meaningful competitor. But the small size of Lesotho's agricultural and small-scale manufacturing sector means that these local products hardly make it beyond Lesotho's borders, thus losing out on the benefits of SACU trade. The interest from the US, the European Union and Canada mainly for handicraft products has seen a decline in recent years. This has obviously had to alter Lesotho's industrial policy to target those products which are labour intensive, do not require a high

level of mechanization and are free from the vagaries of Lesotho's unreliable climate.

While agriculture does not seem likely to be abandoned despite these drawbacks, the focus is fast shifting towards the increased production of sand stone products. However, the few and small sand stone industries have so far benefited from the import of machinery from South Africa but have not yet brought significant earnings from exports. The result therefore, of the inward-focused strategy of promoting small-scale industries to serve the small domestic market was very limited.

With the bleak prospects facing the domestic market as well as the decline in extra-SACU/Africa trade following the end of the MFA, including the impact of the strong Rand, Lesotho is forced to rely on the SACU trade that has proved to be the long-standing lifeblood of the country's economic survival. This depends on more favourable policies on immigration and customs as well as the improvement of transport infrastructure.

Already, Lesotho has done a lot in this regard with the vast improvement of roads within the country, stimulated by the LHWP and expected to grow further with the establishment of the new Local Government. The latter in particular, should target the growth of markets on the inner South African periphery where South African frontier towns are expected to stimulate trade with adjacent Lesotho mountain towns. The development of these outlets should improve Lesotho's access to South African suppliers provided better roads do indeed cut transport costs. Accessibility to Lesotho's (hitherto) immobile resources has the potential to create more growth areas and hence greater flow of money into the country. Collection of the increased customs revenue on the notoriously porous highland

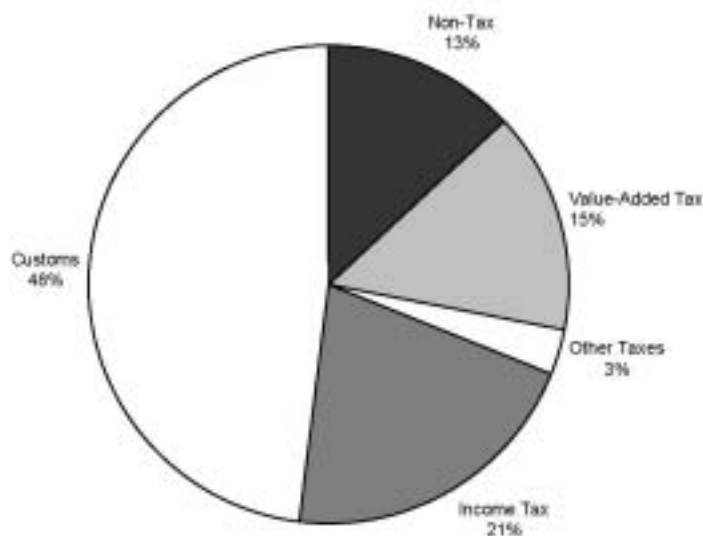
borders would, however still prove a long-term challenge unless urgently addressed.

An improved road network should also accelerate the growth of the Maluti-Drakensberg Transfrontier Project as a viable tourism initiative. The project geographically fuses the two countries on an eco-tourism opportunity. By co-owning the Maluti-Drakensberg mountain range as a stronger economy, South Africa would naturally believe that it possesses a stronger bargaining position over her weaker neighbour hence more benefit from the project despite the evident agreements. Like the LHWP, South Africa would like to minimize costs in any scheme that gave her access to Lesotho's resources.

Apart from the fact that water is about Lesotho's only resource that South Africa really covets, South Africa saves a lot of money from not having to pump it to its Gauteng destination and from its reluctance to pay compensation for the LHWP's social impacts. Whatever measures Lesotho may implement to attract South African money, South Africa may simply not be interested if the returns are not worth it and opt for better investments such as the Maputo corridor with Mozambique.

In conclusion, the disadvantages that beset Lesotho within the context of SACU emanate from her status as a small state forced to depend on a powerful neighbour who completely surrounds her. Any implementation of SACU policies that ignore this fact would very unfairly disadvantage Lesotho. While basic trade standards are met across SACU members, certain concessions regarding product types, taxes, transportation policy, health and environmental standards may be considered in Lesotho/SACU negotiations if Lesotho is to survive her severely inferior position.

**Figure 1 Sources of Lesotho Government Revenue March 2005**



Source : Central Bank of Lesotho

*Even though almost half Lesotho's revenue comes from customs, other revenue sources are not too unrelated to the economy's heavy dependence on South Africa as the customs revenue suggests or from other types of external assistance. Other taxes are directly or indirectly not influenced by indigenously generated sources. Highlands Water royalties for instance, which are part of non-tax revenue are received from South Africa. The construction stage of the project generated much trade between the two countries and is still expected to until the project is finally completed. Value Added Tax is paid mainly on goods whose main origin is South Africa. Much of the income tax is collected from government salaries.*



*“The imminent reduction of customs receipts (which currently constitute over 50% of government revenue) caused by the renegotiation of the SACU revenue sharing agreement, the introduction of free trade arrangements between SACU and Europe, the United States of America, and SADC were also underlying factors in the review of tax administration. The uncertainty surrounding the impact of Lesotho’s exports and Lesotho’s ceasing to have preferential treatment under the Africa Growth and Opportunity Act (AGOA) on the investment climate have also been identified as some of the factors likely to reduce tax revenues”.*

**-Lesotho Revenue Authority**

## Short notes on the New SACU Agreement

The new SACU agreement was signed in 2002 and was renegotiated from 1994. It was renegotiated because the 1969 Agreement did not have common policies and common institutions. With this new Agreement, institutions are democratic to ensure equitable trade benefits to member states. It is different from the last SACU agreement in that the institutions are now democratic. For Lesotho it means that its revenue may decline over time due to the possible reduction of the customs pool brought about by Free Trade Agreements (FTA). The FTA will result in the reduction of tariffs which would ultimately reduce the size of the customs pool. However, the new SACU agreement may not have any adverse implications on bilateral relations between Lesotho and South Africa. Instead, the revenue sharing formula calls for enhanced bilateral relations between Lesotho and RSA specifically on customs administration. A substantial amount of revenue comes from the Customs component which works the revenue share in proportion of intra-SACU imports. Given the new formula, more of Lesotho’s share comes from intra-SACU imports. Importers are encouraged to declare the goods at the border so that the value of goods imported is recorded. This will help in increasing the value of imports.

Source: Lesotho Revenue Authority

**Table 2 REVENUE SHARES 19/12/2004**

Variable	Botswana	Lesotho	Namibia	Swaziland	South Africa	TOTAL
Total Customs duties forecast less budget share						10,483,989,474
total Excise duties forecast less excise share						14,557,782,126
Mean GDP per capita for all member states						18,264
Total intra SACU imports	17,164,738,024	8,072,616,600	13,943,121,601	12,453,173,670	7,045,300,000	58,678,960,894
Gross Domestic Product	57,539,066,000	7,370,100,000	31,550,000,000	12,581,000,000	1,209,497,000,000	1,318,537,166,000
Population	1,728,000	2,230,000	1,910,963	1,056,030	46,000,000	52,924,893
GDP per capita	33,298	3,305	16,510	11,913	26,293	91,320
15 % of Estimated Excise Revenue						2,183,667,319
Customs revenue Share	3,066,774,579	1,442,311,202	2,491,177,455	2,224,972,741	1,258,763,498	10,483,989,474
Excise Revenue share	539,988,577	69,166,396	296,088,220	118,069,283	11,360,802,331	12,374,114,807
Development Component	400,783,583	472,503,858	440,927,651	451,918,957	417,533,289	2,183,667,319
	4,007,546,719	1,963,981,456	3,228,193,326	2,794,960,981	13,027,099,118	25,041,781,600
SACU Secretariat Budget						38,218,400
Proportionate share of customs pool						16,000,526
Proportionate share of excise pool						22,217,874
Total customs pool less budget share						10,483,989,474
Total excise pool less budget share						14,557,782,126
Revised total pool						25,041,781,600

Source: Lesotho Revenue Authority



*The LRA has grown to become one of the largest employers with a staff totalling nearly 500 .*

**Photo: TRC**

# Democracy's Real Lifeblood

## The Role of the Lesotho Revenue Authority in Lesotho's Democratic Governance

**B**y establishing the Lesotho Revenue Authority (LRA) in 2003, the Lesotho parliament exercised the legitimacy conferred upon it by the electorate. This recognised the principle that government could legally claim taxes from the tax payer only if it had been popularly elected in a free and fair election. The tax payers on the other hand, have the right to demand accountability and transparency on the use of the taxes they have paid. Clearly, the LRA is a vital institution in Lesotho's democratic governance.

Economically speaking, the LRA is an important building block in the enhanced formalisation of Lesotho's economy where the efficient collection of revenue earns Lesotho respect in trade and investment promotion. In addition, Lesotho needed a credible and efficient revenue collector to represent Lesotho's revenue interests in national and regional institutions such as SACU and the South African Revenue Authority (SARS).

The creation of the LRA also symbolised the government's recognition of the importance of revenue in

the life of the state hence the need for an efficient revenue collector. The LRA follows the previous tax regime which was under an extension of government bureaucracy notorious for its excesses of corruption and maladministration.

Operating under the general supervision of the Finance Minister, the LRA's primary function according to its establishing Act (2001), is "the assessment, collection and receipt of specified revenue". The LRA is therefore simply a middleman responsible for the transfer of money from the revenue sources to the government, a function the parastatal is obstinately protective of. The other sides are served by the Lesotho National Development Corporation (LNDC) and the Central Bank (CBL).

This middleman role tends to be problematic for an economy that desperately needs to become self-sufficient. For this to succeed, the government needs to embark on policies that encourage more exports that would ameliorate the trade imbalance that Lesotho currently experiences. These exports would benefit from



*An LRA officer at work*

*Photo: TRC*

increased production through investment in large scale indigenous resources such as agricultural products, water, sand stone and lately diamond mining. Currently, government spending does not seem to cover this since the bulk of it is taken up by salaries and services.

#### *From Whom to Collect*

As the church collects offerings from its congregants so does the state collect taxes from its citizens. Collection of taxes has been obligatory on the payer since biblical times, making it somewhat sacrosanct. Still, many tax payers view tax collection as another form of state brutality against its own citizens especially when the tax thus paid does not result in any tangible benefit but is often the subject of corruption and misappropriation by state officials.

It is worse for the collector who is the face of the tax collecting regime. Paying tax may be viewed as the payer's acknowledgement of the opportunity the state provides for the revenue generating activity to take place on that land. The state deserves taxes for the opportunity it grants for the transfer or circulation of money. Taxes are paid on salaries paid or received, sales or any form of taxable money from one source to another.

The state also receives revenue in the form of penalties such as fees, levies, fines, charges, surcharges and so on. It is clear that the state needs to increase the opportunity for the transfer of money if it is to maximise its revenue. The circulation of money is in fact what defines the economy of any country. It is not surprising that the slowing down of that circulation is termed a recession at best or a slump at worst, in which trade, the buying and selling of goods and services has declined.

Apart from SACU money, the LRA collects revenue internally in the form of taxes and penalties from par-

ticipants in the small local economy. Ironically, the government is the major participant in the economy by its partial ownership of major enterprises. As a recipient of revenue the state needs to create an enabling environment for the safe and profitable conduct of business by local and foreign investors. This implies that the revenue thus received should be re-invested into the economy through the improvement of infrastructure and security systems.

Procedures, regulations and attitudes should ensure the smooth and quick investment. For instance, the smooth operation of businesses needs to be assured of quality and reliable services such as information and communication technologies (ICTs), electricity, water supply, sanitation and security. These will help in attracting business to Lesotho.

However, the LRA still collects money which Basotho spend in South Africa when Basotho buyers declare their purchases at the border upon returning. Doubts still remain as to their keenness to declare such amounts, an attitude that may be nullified by LRA's strictness to collection procedures. This attitude is not different to the people's general unwillingness to pay tax.

That the greatest contribution of the total tax collected last year (M1371 .94 million) comes from Personal Income tax (M505 million) and VAT (M519 million) shows that the individual still carries the bulk of the tax burden. LRA's efficiency in tax collection must ensure that the tax indeed reaches the government to avoid businesses keeping the money as phoney tax.

#### *Strategies for Collection*

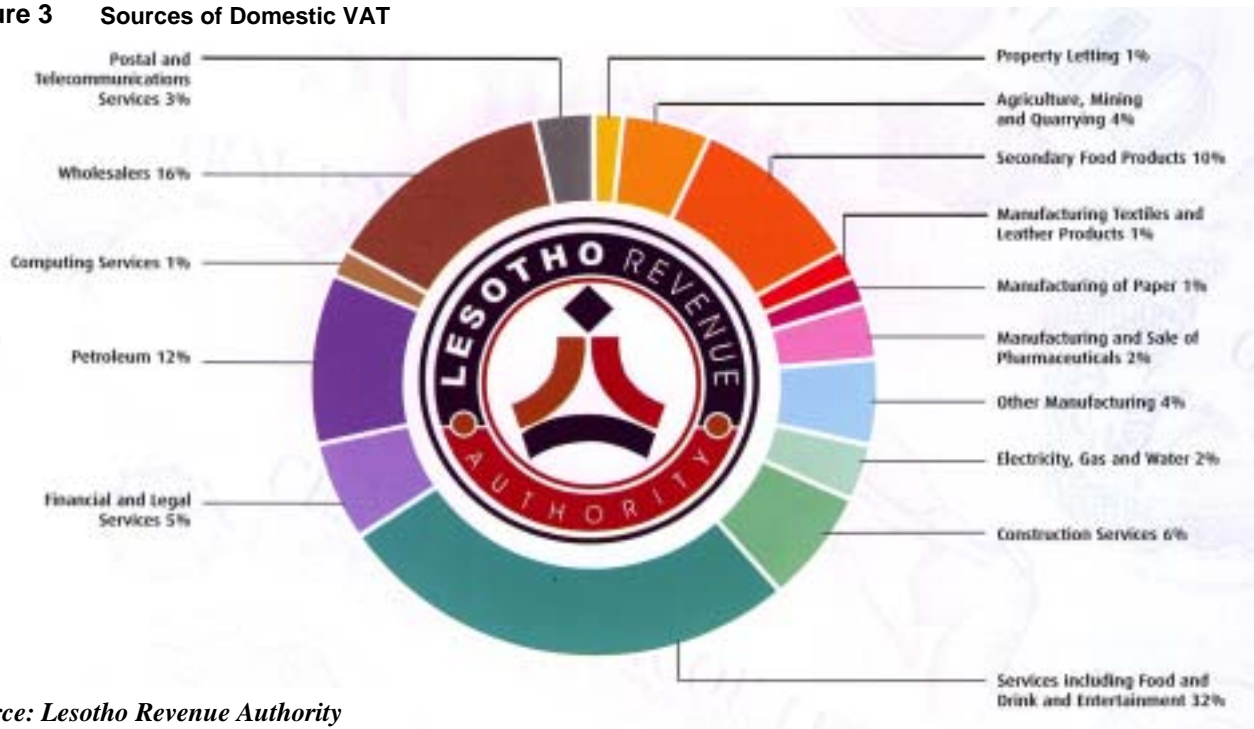
Even though paying tax is obligatory on the taxpayer, the LRA promotes the taxpayer's voluntary compliance with the tax laws. It does not mean, however, that the LRA will not act against tax defaulters or fraudulent tax evaders. The enforcement of tax laws independently or with the assistance of other law enforcement agencies is the LRA's other mandate. However, the avoidance of legally prising tax out of collectors requires the LRA to develop a somewhat humane or benign tax collection system.

This implies the 'invisible' movement of tax from the tax payer to the authority with the taxpayer not actually making a direct tax transaction or physically making proffering the tax money. This is why it is important that the tax is included in the money transferred from one person to another. This philosophy is based on the notion of taxpayers not feeling the payment but the payment being made nonetheless.

Information dissemination and sensitization is therefore the greatest tool in cushioning taxpayers against tax payment; encouraging a positive tax payment attitude as well as deepening tax knowledge among taxpayers and related economic issues. The LRA's motto "pay tax and build Lesotho's future" is meant to



**Figure 3** Sources of Domestic VAT



Source: Lesotho Revenue Authority

achieve this very purpose. The LRA's public relations campaign includes the establishment of the advice centre coupled with regular tax clinics. The LRA also uses radio, television and newspaper to broadcasting revenue related events and policies. This way the authority attempts to endear itself to its clients.

#### Revenue targets

Doubts remain as to whether the government sets revenue targets which recognize the economy's capacity to churn out the expected revenues. Past performance has informed the government of the expected revenue. But as projections indicate declines in revenue for the, the government is not expected to set lower targets. The result is added pressure on the LRA to collect as much tax as possible to meet government targets. Sometimes business performance in the country struggles to support government's tax demands. On the other hand the targets serve as a standard for to regulate business. This important given the previously bad reputation associated with old business practices, in which tax administration was allegedly fraught with corruption.

The fact that customs revenue is both the largest share of total revenue collection and is not ordinarily included in total collections makes the LRA's job much easier as collection sites are generally centred at relatively fewer and clearly recognizable areas. That the LRA exceeded Government targets for the year 2003/04 financial year by 19% demonstrates not only the collectors' efficiency in collecting but also the potential of the economy to raise money for the government. However, the LRA's efficiency is also suspected

to be behind the slow recovery of some businesses from the 1998 political upheaval as well as the hesitant entry of new ones. The challenge is on the government to set responsible targets which recognize the true potential of the economy as well to use the revenue collected to stimulate the growth of the economy.

#### Image of the LRA

The LRA has received mixed perceptions from the public. Some have viewed its establishment as long overdue. Others, mostly the poor, view it as tool for government's financial tyranny. Whatever perceptions people may have of the LRA, the truth is that it has contributed to the formalization of Lesotho's economy, taking the baton from financial institutions such as the Central Bank. These institutions are charged with providing an efficient management system of the country's finances so that the little money that the economy generates is not lost through inefficient management or plain corruption. Indeed, the LRA could not afford to be inefficient as the new SACU formula requires accurate record keeping using the latest technology and improved procedures. Under the new SACU revenue sharing formula, each country's share depends on the accuracy of its records on intra-SACU imports.

Finally, the LRA has also become one of the largest employing institutions since the Lesotho Highlands Development Authority (LHDA). As did the LHDA, the LRA has also contributed to the growth of the Lesotho middle class with young and vibrant executives dominating its management structures. The growth of any economy is usually led by a metropole dominated by high-powered technocrats.





# “Don’t kill the goose that lays the golden egg”

**Interview with Mr. Malefetsane Nkhahle, National Director of the Media Institute of Lesotho (MILES) and a pensioner interested in tax issues.**

*Should the government review its tax policy?*

I really think that the time is right for the government to review its tax policy. We need to look at the entire tax regime – income taxes, VAT, customs duties, and perhaps even some levies. Our income tax law of 1993 was a fairly comprehensive legislation but it was incomprehensible to many people. First of all, it is to make it simpler. But I think secondly and most importantly, our tax law should make space for growth, for entrepreneurship. At the present time even though it is a fairly comprehensive piece of legislation it does not help businesses to grow, in that it does not recognize legitimate investment expenses. A business ought to be able to classify expenditures in such a way that it can bring in tax deductibles. There should be tax relief for mortgage repayments. There ought to be relief from savings which would encourage people to save. There ought to be tax incentives in activities which the government is not necessarily involved in such as sponsorships in things like sports and donations to charitable causes. All those things should be included in our tax regime. The last time we reviewed our tax bands was in 1996 when moved from the one that was established in 1993. The applicable rates then were 25% and 35% respectively. Over a period of 9 years the value of money has so depreciated the LRA and the government are benefiting from a default situation, in which over-recovery is attributable only to our ignoring the necessity to periodically revise these thresholds. The effect is that people are being overtaxed because of the omission of adjustments to cover for inflation over the 9 years. In addition, tax credit was M220 in 1996. According to me, that figure should now be M480. For a very poor household, that amount can buy a basketful of food for a month.

*Are you saying that our tax rates should enjoy the same dynamism as the economy?*

Absolutely, they should. I think this should be recognized in every budget speech. I feel that each budget should be made



after addressing the tax issue. You will recall that certain things are adjusted downwards either because you have performed so well, you have even overrun your targets. Others may need to be increased because there is always a balance between getting a little bit more on the other hand. Let us not forget things like the sin taxes on cigarettes, alcohol and other luxuries. You can impose other differential taxes on those as distinct from ordinary taxes such as VAT which is currently at the rate of 14%. VAT may be looked at in terms of saying you increase VAT on certain other items which perhaps may compensate for what you lose in giving back to the taxpayer in certain other areas.

*How can the economy support the current tax policy?*

Normally, you’d imagine it’s the other way round. So, in theory, if government can no longer collect tax it does mean that government services can grind to a halt because there would be just not enough money to implement programmes, even just to service our national debt. So, we have all the time to be thinking that as we tax people, we should do it judiciously. You know the old adage of killing the goose that lays the golden egg. If you kill the goose, it will stop laying the eggs, as it will be dead. So, the absence of a tax policy that is equally responsive to the needs of the economy as it is to those

of the people who sustain it, requires a revisit such that it is able to sustain economic activity in the country.

*Don’t you think that the government is pressured by its social spending requirements to be able to sufficiently stimulate the same economy that it gets taxes from?*

Yes. Precisely. Often it is the level of government spending that is always critical in establishing the viability of these regimes. You will recall during the days of the military government that we were under structural adjustment. This imposed a certain discipline on the government spending, impressing upon it how it spent public money, because only then can we guarantee some form of a recovery of our economy and hopefully be able to stimulate our economy through investment in activities that will generate wealth. We must aim to reduce the recurrent portion of the budget, especially personnel emoluments, to ensure that we can maximize our resources for the greatest impact. So, government spending is important. It is the key to the upliftment of our communities out of poverty and the channeling of resources against challenges such as the HIV/AIDS pandemic.

*Our tax policies should show an equitable share of money between the taxpayer and the government.*

Yes. It should do that. It must also seek to narrow the inequalities between those have it and those who don’t. Because the people who have the most are the ones who contribute

the least. We need to create tax policies which promote equity.

*How are the vulnerable sections of the population affected by this tax policy.*

The vulnerable are very adversely affected by this tax policy because it does even take account of the needs of the vulnerable people such as the unemployed, the aged, pensioners, the AIDS afflicted and the like. If you tax such a person you are certainly driving them to an early death. Our tax policy should recognize that we have a huge population who are vulnerable. Now we are being told that about 400 000 people in this country cannot have access to one square meal a day. If you're looking at tax, obviously we've got to look at our minimum wage. Some officials at the LRA insist that everybody should pay tax, the so-called widening of the tax net. When you go into a café, a supermarket you are going to pay tax. Whether you are unemployed or not. In theory, there is no person who doesn't pay tax. It's silly when somebody says that everybody must pay tax. Surely, people who are on retirement incomes should pay less tax (or none at all) than those in the prime of their economic participation. The lowering of taxes for the elderly should be in recognition of the contribution that they made when they were still economically active. It's criminal to tax the elderly. Also, how on earth do you tax even retirement gratuities? It's contrary to the spirit of acknowledgement that is being shown. All these things should be reviewed in order to have a better deal for the vulnerable.

*What fairer tax policy would you then propose?*

The setting of these parameters and thresholds should be a much more comprehensive exercise. Remember, we said that there are some extremely wealthy people in this country. This should inform our need to create equity. We need a tax regime that encourages growth and entrepreneurship. This regime would encourage people to start small businesses and grow them. If you are a start up businessman, you would only be able to realize your profits in the fourth year. This means that you need a tax breather in your initial years. If you're lucky, in the first years you might break even. Then in the second and third year you might start to see progress. Maybe in the fourth year you might start to see real profits if you're really running your business well. But they start demanding your tax clearance just after you've started! This requirement precludes people from growing. If I'm just starting and tendering for a government contract. They'll require a tax history from me!!

*How should civil society advocate for a better tax policy?*

Organizations such as TRC, LCN and so on can conscientize the public about the need to advocate for a fair tax policy. I remember, we had people from the Freedom of Expression Institute who said that we needed an organization which would help conscientise people on social justice issues which concern the privatization of critical things like water, for instance. These organizations should ensure that such policies do not violate people's rights. In the same way tax

issues impinge very much on our rights. The media must also play their part. The media ought to be able to buy into such advocacy strategies and of course trumpet those attitudes. The media must partner with policy-makers and law-makers to bring about a general awareness of the need for these changes. After all, these people are also taxpayers.

*We know that the LRA is primarily a revenue collector. But it also has to advise government on tax policy. How well do you think it performs this latter role?*

Frankly, I don't see them performing this function well, if at all. In my view the LRA is not being proactive in terms of reviewing the law. As a tax collector, they say there is need to identify every possible revenue source. Particularly, I'm appalled by the proposed taxes to be charged on "malaene" (rented property). In Lesotho, "malaene" are a housing solution that has been very unique to Lesotho. One thing that it has done is to help this nation to avoid urban squatter settlements such as you see across the border. Remember, the problem of slums has bothered the whole world so much that the UN has listed the eradication of slums as one of its millennium development goals. We must accept that it is not everyone who comes into the city to settle here. People come here mainly for jobs. So, "malaene" have absorbed a large bulk of the housing demand from temporary city sojourners. Secondly, these flats hardly generate significant profits for their owners. Rents invariably serve as retirement income for their owners. So, you wonder on what rationale taxation on "malaene" is based.

*So, you're saying our tax policy should demonstrate a lot more sensitivity to the people's condition.*

The LRA is best placed to understand the tax landscape in the country. It would be inconceivable for government to set any arbitrary tax rates. The ideas to increase revenue must come from the LRA itself. It must do research and analyse the impacts of widening the tax nets to be able to determine the best tax regime and also to identify other tax sources which may not necessarily affect the people's incomes negatively. The pressure on LRA would not be so great if the government were completely transparent about other revenue sources such as the LHWP royalties. Even government spending on its vehicle fleet would certainly invite negative reactions from the public especially as the LRA seems intent on squeezing taxes out of them.

*Can revenue collected from Foreign Direct Investment save smaller taxpayers from the LRA?*

There is a perception that it does not contribute much to the national cake, if one looks only at the textile factories. Even though I do not have the statistics, I've been informed that the industries repatriate most of their profits to their mother countries and elsewhere. These funds are not accounted for in our monetary system. The contribution they make in minimum wages is negligible. So, overall, the impact of the factories in the national economy is very small and the small taxpayer remains exposed to LRA's relentless, inexorable and punitive revenue collection regime.



# All we pay tax?

## Tax Justice and The Rights of the Taxpayer

**T**he state defines the ordinary person by its interaction with them. You are a citizen when the state counts you in a census; a subject when your allegiance is demanded; a voter to send a government to power and a taxpayer when the government needs your money. These identities seem to confer more power on the government than on he who gives it political and financial power – the individual. Unlike the vote, tax is not voluntary on the taxpayer. While the voter has the right not to vote the taxpayer has no right not to pay tax. We all have to pay tax. But do we?

As much as it is the state's right to receive tax from the taxpayer, the taxpayer too, has rights. As a democratic activity, taxpaying must be subjected to the same democratic standards of transparency and accountability in its establishment, collection and use. All tax collectors usually parrot these principles but the jury is still out on their commitment to them. People need to know how much tax they need to pay, why they need to pay so much, how it is collected and what it will be used for. The principal right of the taxpayer is to know that they have rights as taxpayers and also to know how the tax system works.

Unlike the electoral system, the tax system is often shrouded in mystery and negative assumptions and has historically been abused by colonial authorities to ex-

tend political control on subjects. Dog tax used to be imposed on hunters to subject them to cheap wage labour. Hut tax was primarily used as a tool against polygamy. As such, taxpaying would at best inspire suspicions of oppression by the government. At worst, it has been construed as plain fleecing and extortion of the taxpayers.

Through taxes the state ensures that everyone is part of the money economy, also aptly expressed as the widening of the tax net by the collector. No one should be exempt from paying taxes. By committing to a principle of fairness, the LRA promises no discrimination and a fair administration of the tax system. However, since the local economy generates little money, people are inclined to hold on to their money and that includes tax. Moreover, they assume that the state recognizes this fact and would sympathise with the taxpayers.

In a situation that requires severe belt-tightening, any unfair tax practices, real or perceived, are bound to raise an outcry from the taxpayer. The collector's commitment to incorruptibility would also certainly be under threat. The often lofty values that the collector seeks to uphold are expected to not only be maintained in a political and economic environment characterized by severe weaknesses and also expected to rub off on other national institutions. This is the context within

which the taxpayer's rights should be protected, expressed and promoted.

The relationship between the taxpayer and the state is symbiotic: The taxpayer gives money to the state so that the government is able to provide the environment for the taxpayer to live a safe and healthy life. That includes not only protection from external and internal dangers (through the Defense Force and the Police) but also education, health services, infrastructure etc.

To make this system work there needs to be a rule in place that states that everybody living in that state has to contribute to its well-being (no tax exemptions) and how much everybody has to contribute. The latter is commonly determined by the ability to contribute or to put in more simple those who have more contribute more, those who have little contribute little. Even the fixed rate of VAT is based on that idea: as a consumer's tax those who (can) consume a lot pay more into the public purse than those who (can) consume little.

As opposed to other forms of revenue taxes are not linked to a specific spending. The tax on fuel will not be used exclusively for infrastructure, and the VAT paid at a shop will not be used to improve the service in the store, whereas for example school fees will go directly into the educational sector. This detachment from a specific purpose often causes frustration among the taxpayers. Paying into the public purse to many means throwing the money into a black hole. But after all taxpayer's ultimate question is "What do I get out?"

This poses a serious challenge to the Government and its revenue collectors. If they expect the ordinary citizen to contribute to the state and to even do it happily, they have to assure this citizen that his money is used wisely and to the benefit of the country. The citizen is not at the mercy of the Government: It is his right as a taxpayer to know how his money is spent. The Government and its institutions, in Lesotho's case LRA are obliged to be transparent.

The reality however, is different. To the ordinary man and woman the whole tax collection system is complicated and in-transparent. That does not seem to be coincidental. It keeps the ordinary taxpayer ignorant and at the mercy of the tax collectors. It might go as far as criminalizing ordinary Basotho who unintentionally violate tax laws simply because they fail to understand them. And it creates loopholes, that usually can be used by those who can afford clever tax consultants or specialised lawyers.

LRA's purpose according to its mission statement is "to maximise revenue collection through effective, sustainable and transparent systems...". While it has succeeded in establishing *effective* systems, it has failed miserably in making them *transparent*.

The Government as the body that determines on how much its middle man LRA has to collect from the

citizens, is not any better. Through its history of in-transparency, poor management and corruption it has created a serious lack of credibility among taxpayers.

### *Which tax?*

In a democracy, it is assumed that the public is part of tax legislation. The LRA is empowered by parliament to implement the tax laws that it makes, such as the Customs and Excise Act of 1982, the Income Tax Act of 1993, the Sales Tax of 1995, the Value Added Tax of 2001. The LRA does not make tax laws but may propose any suitable changes to the government, mainly to ensure that it collects taxes easily. The public needs to know which types of tax they need to pay. Of the types, Income tax (Personal and Company) and



Customs duty, the Value Added Tax (VAT) or former Sales Tax (GST) is the most common as it is the most widely, commonly and regularly practised.

The money economy ensures that we buy the things we need to survive and we pay tax on them in the process. Of every 1 Loti that is paid for something, 14 lise of it goes to the government as VAT. This is actually up from 13% that GST charged. But it is so common that taxpayers do not feel it. When VAT was introduced in 2003 after a few failed attempts by the previous institution, it was widely welcomed by most consumers as it saved them the torture of seeing their money go away in tax. VAT hid the tax within the prices of goods and services.

VAT was also not felt by most taxpayers as it was paid when taxpayers were happy and enjoying themselves with food, drink and entertainment, which raised the largest domestic VAT at 35% last year. This was by far higher than any of the 'supply' VAT collected from



manufacturing, for instance. It also exposes local taxpayers as more consumers than producers. The truth of VAT as not so much a furtive as it is a friendly tax is exposed as the prices of goods and services increase. Taxpayers are wont to complain of paying tax if the prices of commodities rise. Sellers too are hard hit as high prices frighten away buyers. But VAT remains the people's tax for it is the one that they know most about and 'live with' daily.

Perhaps the most hated of taxes is the Personal Income Tax or PayAsYouEarn (PAYE). Ironically but unsurprisingly, it contributed almost 60% of all Income Tax revenues last year and is arguably the perennial chief contributor of Income tax revenues. Employees hate PAYE because they it reduces what would have been much needed reward for services rendered. It is worse for government employees when the government keeps some of the pay due to the employee to itself as tax. Any employee looks forward to payday when they are 'fully' paid but not to pay back some of what they are paid.

But perhaps the most vexing aspect of PAYE is the ignorance about its rate. This ignorance extends to other types of tax such as fringe benefit tax. Last year, some teachers marking the national end-of-year examinations were angered when their marking fees were reduced by 35% as fringe benefit tax. Grueling as the marking of examinations may be, the fees the teachers earn from marking become the only Christmas bonus for the lucky ones who make the marking team. The fees constitute a much needed extra income to some of the most lowly paid of professionals. The teachers' indignation at the 35% deductions was therefore understandable. For teachers earning an average of M3000.00 net salary, how are they expected to accept more to be deducted from what is about the only pecuniary fringe benefit they get? This negative attitude towards taxation or generally to the state's apparently unfair and unbalanced remuneration of its officials resurfaced when parliamentarians recently received salary increases of 84%. Again teachers cried foul.

The lesson from this and other incidents is that

money matters should be handled with the highest levels of sensitivity. Clearly, teachers and others who would be affected by such forms of taxation should have been well informed about the deductions, especially as it was the firms time such deductions were made. For many of these teachers, 35% deductions were too high to accept. It will be observed that occurrences such as have been outlined are the likely result of inefficient or totally non-existent information about taxation.

How do you justify to a teacher that you take away 35 per cent of his small extra income for markers fees, yet an unsuccessful foreign football coach gets an advance of €40,000 (M320,000 – more than 100 times of a teacher's monthly salary) and a monthly paycheck of €10,000 (M80,000) paid out of the public purse, hence

the same teacher's taxes? And how do you justify milking ordinary employees, who could only dream of owning their own car, yet the Government purchases posh limousines and petrol-guzzling, tank-like 4x4 vehicles for its top officials and judges from these employees' taxes?

While these might be minor issues in a rich country, this obvious imbalance even further frustrates the very citizens that are expected to support the state in their own interest. It only adds to the experience that Government does not fulfill its side of the deal. Does it provide security? The army of private security

officers protecting not only private property but even government buildings says a lot about the effectiveness of the police. In rural areas people rather take the law in their own hand than waiting for the police. Education? Schools are falling apart, books arrive late if at all, teachers are de-motivated because of their low salaries. Health services? A look at the Ombudsman's report on the state of the government hospitals reveals the shocking truth.

Consequently, after successfully establishing LRA as an effective revenue collector, Government urgently has to establish transparency, accountability and adequate service delivery in all its realms. Only then can it regain credibility and trust from the citizens. Only then can it expect people to contribute to the state.

#### PAY AS YOU EARN (PAYE)

**PAYE is the tax deducted from employment income. Examples of employment income include wages, salaries, overtime pay, leave pay, sick pay, strike pay, a return to work pay, commission, bonus, gratuity (including a contract gratuity), allowances, stipend, pension (that is payable monthly or shorter interval or lump sum pension). Examples of monthly income tax deductions in Maloti.**

Income	Deduction
930	232.50
1000	250.00
2000	500.00
3000	787.50
4000	1137.50
5000	1487.50
6000	1837.50
7000	2187.50
8000	2537.50
9000	2887.50
10 000	3237.50



# All tax- payers unite!

Towards the  
strengthening of  
taxpayers' advocacy  
for Poverty Reduction  
in Lesotho



*Waste management measures should also invite stiffer tax  
advocacy from civil society* **Photo:TRC**

Critics of lobbying and advocacy tend to dismiss it as the lazy man's whingeing. Advocators retort by saying they would rather cry like the proverbial child who would die on its mother's back. A democracy worth its name would allow citizens to demand their basic rights from the authorities. The include fair and equitable budgeting and taxation. The value of effective and broad-based advocacy in Lesotho has been the establishment of democratic governance followed by important reforms and institution building. However, these still need to be followed up by greater participation of the civil society in the formulation and implementation of national plans such as the Poverty Reduction Strategy (PRS), the National Vision 2020 supported by efficient use of resources.

For all its criticisms, the PRS, which has just been approved by the International Monetary Authority (IMF) is recognised as a comprehensive campaign to channel inclusive national poverty reduction activities. As the principal leaders of this campaign, the government is expected to make effective use of financial resources drawn mainly from revenue sources (taxes, donations, loans and grants). The PRS Paper (PRSP) itself was meant to convince donors of Basotho's ability to organise themselves against what is arguably one of their most daunting challenge yet - poverty.

While the preparation of the PRSP drew a lot of public support through community consultations, it is the implementation of the PRS that requires greater public participation. The people must be involved as the integral players and not as distant recipients. The implementation process will depend largely on the public's familiarity with the management of scarce financial resources. So far, the most glaring division between the government and civil society has been in the management of public funds. It is in recent times when the scarce resource fall far short of addressing the immediate needs of a people afflicted by a triple threat of poverty, HIV and AIDS and unemployment. Every cent (revenue) needs to be distributed (budget) well such that it meets the dire needs of those most vulnerable to the triple threat.

The government cannot be allowed to arrogate unto itself the monopoly of knowledge for priority setting on PRS priorities nor should it be left alone to implement PRS alone without proper civil society checks. Implementation of PRS's necessary adjustments should be dictated by direction, magnitude and speed. Certain allocations may respond to immediate interventions while others take the form of long term investments. Constant civil society inputs are therefore necessary to enable resources to have the desired impact on their



targets. Relevant state institutions such as the anti corruption unit and the public accounts committee should make this easy.

#### *Taxpayers' Advocacy*

As the main source of public funds, the public must be better organised to effectively argue, lobby and advocate for the proper use of those funds. This makes the establishment of a taxpayer's advocacy organisation long overdue. As a result the government is able to formulate and implement tax policies without sufficient consultation with the public. A tax advocacy organisation would act as a civil society partner with the government taxing regime, in this case the LRA. Its main function would be to protect and promote the rights of taxpayers. Since tax matters are often hidden from public engagement, the tax advocacy organisation would bring people closer towards the management of public affairs.

The taxpayer's advocacy body would not limit its focus only on the rights of individual taxpayers, in matters, of say, just and relevant tax requirements on the taxpayers. Generally, it would be required also to challenge and scrutinize the national tax policy, its formulation, philosophy and implementation. For instance, tax may be used as a stick or a carrot to regulate the behaviour of big investors. Tax concessions are notoriously some of the incentives used by governments to attract foreign direct investment. Despite the many advantages of establishing factories in Lesotho, some Asian clothing companies are reported to have been promised monetary incentives such as tax breaks, reduced (if any at all) and they are alleged to have put pressure on the government to reduce the minimum wage for unskilled workers. In addition to this, a lot of the money that they should otherwise plough into the local economy is siphoned off to South African bank account, rents for South African residences and so on.

If (foreign) business is spared the responsibility of carrying the tax burden then at least tax could be used to force it to address some of its destructive and hazardous tendencies. For instance, prime land should be made more expensive to discourage it from being used being occupied by factories that spew poisonous waster such as the 'blue river' from some of the Thetsane factories. Delays to build water treatment facilities and other waster management measure should also invite stiffer tax advocacy from civil society. In developed countries and elsewhere, taxation (and advocacy around it) has been used to regulate 'sin' habits such as smoking and alcohol abuse. The drive for cleaner fuels has also contributed to higher petrol price in some highly industrialised countries which forever choke under a cloud of thick smoke from industrial effusion.

The inability or unwillingness by the government to use tax as a bargaining tool in international trade nego-

tiations should be used by civil society not only as one of the issues around which to organise itself but also to put pressure on government to protect the rights if its citizens.

#### *Budget Advocacy*

Civil Society Organisations (CSOs) should advocate for a decentralized National Budget since the current centralized budget system does not allow the monitoring of how it has an impact on the intended beneficiaries and the access of resources by districts and communities. This has been occasioned by current centralized practices in revenue sourcing, administration and allocation. The budget allocations should be decentralized. The current situation is that the structure of the budget does not allow the Ministry of Finance and Development Planning (MOFDP) and CSOs to analyse allocations per district and the utilization because the allocation for all districts is not separated.

This is not surprising since the decentralization of governance itself has not taken root, with the local government election having held a mere six months ago (see WfJ 72). Besides, decentralized financial planning requires extensive training to ensure efficiency, transparency and accountability. Currently security, storage and communication infrastructure necessary for the proper decentralization of financial management is not ready to handle huge allocation challenges.

This does not imply that even at its currently centralized format, the financial system is watertight. The system needs to be updated to accommodate contractual issues with Government hence Ministries do not get involved in the information system of MOFDP. The problem arises when Ministries have to report and declare the funds committed directly by donors. The capacity of MOFDP needs to be strengthened to monitor national funds. There should be an attempt to close the gap between PRS and the Budget since the Budget is based on Ministerial Programmes while the PRS is based on objectives.

CSOs should be engaged in all the stages of the Budget process to enable them to influence the decision/policy-makers in pro-poor policy formulation. The CSOs should engage the MPs in public hearings on the national budget issues. CSOs should advocate for the transparent budget process that engages all sectors of the society from the bottom line to the national level. CSOs should also advocate for feedback mechanisms to the communities on the progress on the utilization of public funds.

Finally, a comprehensive and well coordinated financial management system guided by the central government with the partnership of the local government as well as CSOs holds the best hope for the acceleration of implementation of development activities where they are most needed.





*Spending on local small scale hand craft production has not yet yielded significant profits as local producers suffer stiff competition from South African producers. However, local tapestry producers do get to sell some of their products from their shops or at exhibitions.*

**Photo: TRC**

# Revenue for Development

## Ensuring that revenue contributes to economic growth

In her search for things to spend money on, Lesotho has very few viable options which can make a meaningful impact. For a long time agriculture has been the immediate choice as a viable investment, purely because of its closeness to the traditional village life of its majority rural population. Recently, our agricultural economy has received major threats from erosion, unfavourable rainfall patterns and reduced labour caused by HIV/AIDS deaths, increased urban migration to town-located textile industries and other cross border migrations.

The textile factories themselves have recently proved not to be a long term viable investment as they have suffered shocks from the end of the multi-fibre agreement at the end of 2004, which reduced Lesotho's preferential status. Spending on local small scale hand craft production does not yield significant profits as local producers suffer stiff competition from South African producers. The biggest money spinner in recent times has been the production of Lesotho's 'white gold' - highlands water, flowing mainly from melted mountain glaciers and snow.

This has also not contributed either directly to the livelihoods of rural communities living adjacent to the project sites. In fact, the project's construction activi-

ties, including huge Dams, roads and buildings have effectively impoverished those communities they were meant to develop and rehabilitate, in terms of corruption-ridden and ill-administered compensation and resettlement programmes. Or, the royalties from the sale of water have not significantly contributed to national revenue, that revenue being far outstripped by tax related and customs related revenue. Investment in mining and tourism can hardly be relied upon as these areas have not proved to be serious income earners or large scale employment generating alternatives.

Without any meaningful investment to act as a reliable safety net, Basotho are at a very high poverty risk. The World Food Programme (WFP) is already battling to save thousands from severe hunger. The IMF estimates that one a quarter of the population is in need of emergency food assistance. Programmes to combat HIV/AIDS still have not made significant inroads into core targets of behavioural change and impact mitigating habits such as condom and anti-retroviral use. Governance investment in Local government will certainly take time, a long time, to bear fruit given the haphazard way in which it was started as well as the slow and directionless manner it is currently being handled.

However, as has become common in Lesotho, plans



have been completed (well beyond schedule) on addressing the poverty situation. The Poverty Reduction Strategy (PRS), the blueprint for a comprehensive national campaign against poverty will, as has been the case with similar other plans, take time to be implemented.

Of the nine priority areas identified in the PRS, perhaps agriculture and food security as well as employment creation need the most attention. This is not simply because they receive the most mention by majority of people but are also identified by donors as the key emergency components (including HIV/AIDS) of a triple threat facing the nation. Needless to mention that immediate interventions require large cash injections to lay the ground for long-term investment strategies as is informed by the PRS and the UN's Millennium Development Goals (MDG). The real pressure for delivery on these imperatives is not necessarily the deadlines stated or implicit in these plans but the reality of a nation fast dying of hunger and poverty.

It is important that Lesotho therefore identifies an area of meaningful investment if it is to avoid certain fate. Lesotho's two-pronged funding challenges remain limited funding sources and viable investment outlets. The former may still be addressed at least in the short term from national revenue sources and project funding but the latter will need a water tight money receptacle. No single investment can become a panacea for Lesotho, though. However, in spite of few options available a few ideas which hold much promise or potential may be considered.

Economists have often suggested the development of Lesotho's fruit, mainly the peach, producing potential. Already the peach is the most ubiquitous fruit in Lesotho with almost each household boasting at least one peach tree. With drought affecting much of agricultural production, perhaps the time has come to focus on the production of peaches on an industrial scale for much needed foreign exchange and employment creation. The irony is that currently much of the peaches that are consumed in Lesotho are imported from South Africa, even from farms on the South African border with Lesotho. This only underscores the favourability of Lesotho's geographical climate to the fruit. It is the economic climate that perhaps needs improvement to help support the peach industry. Transport infrastructure is reasonably well developed to support the development of this industry. It is issues such as safety and security, marketing, banking and trading culture that need to meet such initiatives half-way.

Since the peach idea would build on a known peach growing tradition, tourism would follow as another area that would take advantage of another strength the country has demonstrated for along time, cross border movement of people. Unlike migrant labour which saw the mainly South Africa-bound movement of male dominant workers to the mines, tourism could stimulate the movement of tourists, shoppers and investors into Lesotho. The development of tourism would therefore act as a springboard for the growth of other industries which have the long term potential to create employment generate money.

Currently, tourism is at best not fully appreciated or at worst grossly undermined. If anything, developing tourism would strengthen Lesotho's economic ties with South Africa which is the first stop for most tourists to Southern Africa. This calls for the greater spending in the development of creative and innovative tourism products. Landscape, cultural and event tourism are just some of the ideas that the government needs to promote with generous cash investments. It has to be accepted that the mountains alone cannot be a tourist attraction. It is only when they are developed as tourist centres that they will begin to serve this long-cherished purpose.

The number of business opportunities arising from tourism should not be exaggerated in terms of profits and employment, though. Tourism has been known to stimulate the development of mainly service industries as opposed to manufacturing ones. The latter holds the hope for real economic growth, due to the exploitation of indigenous resources as opposed to skills. Already, the economy is flooded with service businesses as was witnessed at the annual Morija Arts and Culture Festival. Apart from the pottery, ceramics, dressmaking, tapestries, there are hardly any locally produced commodities even at a micro level. Brick making from sand stone and clay is about the only industry that uses indigenous raw materials. The expansion of these industries has environmental implications in terms of the resultant expansion of gulleys clay brick production and seismic disturbances for sand stone blasting. But an economy desperate for large scale indigenous raw materials cannot afford not to take risks.

In conclusion, current development finance tends to yield temporary and remedial results by intervening in crisis situations of extreme poverty, natural disasters, crop failure and so on. Real money needs to be injected into long term investments which recognize indigenous potential in a number of areas. Investment in marketable skills is a note worthy example which should be met with viable absorption strategies.

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