



Central Bank of Lesotho

**REPORT ON THE
PRIVATE CAPITAL FLOWS SURVEY 2006**

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June 2007



FOREWORD

Central Bank of Lesotho (CBL) has adopted an international framework for monitoring private capital flows (PCF) through annual surveys. These surveys are conducted in collaboration with key stakeholder institutions namely; Bureau of Statistics (BOS), Lesotho National Development Corporation (LNDC), Ministry of Finance and Development Planning (MOFDP) and Lesotho Textiles Exporters' Association (LTEA).

This report presents the findings of the PCF survey, which was conducted in 2006 for data relating to the year 2005. The survey covered a sample of 300 enterprises with significant foreign assets and liabilities (FAL) across the country.

Information contained in this report is essential in improving Lesotho's macroeconomic statistics base; particularly Lesotho's Balance of Payments (BOP) and the International Investment Position (IIP). These findings will benefit the private and public sectors in undertaking investment and other policy decisions.

I would like to thank the cooperation of the private sector through provision of valuable information, which facilitated meaningful analysis and contributed to the validity of this report. The survey would not have been successful without the participation of the various stakeholders; which formed part of the National Working Group on Private Capital Flows (NWG-PCF). The CBL is grateful for technical assistance provided by the International Monetary Fund (IMF). The experiences of the Bank of Uganda (BOU) helped us in the formulation of the questionnaire, survey design and methodology.

We look forward to your continued cooperation in our efforts to monitor private capital flows and I am sure that the findings of this Report will be useful in formulating appropriate and timely sectoral policies.

M.P. Senoana
Governor
Central Bank of Lesotho

ACRONYMS

BOP	Balance of Payments
BOS	Bureau of Statistics
CBL	Central Bank of Lesotho
FDI	Foreign Direct Investment
FAL	Foreign Assets and Liabilities
GDDS	General Data Dissemination System
GDP	Gross Domestic Product
IIP	International Investment Position
IMF	International Monetary Fund
LNDC	Lesotho National Development Corporation
LTEA	Lesotho Textiles Exporters' Association
MOFDP	Ministry of Finance and Development Planning
MOU	Memorandum of Understanding
NWG	National Working Group
PCF	Private Capital Flows

DEFINITIONS

Non-resident:

An individual, enterprise or other organisation ordinarily domiciled in a country other than Lesotho. Lesotho branches and subsidiaries of non-resident companies are residents of Lesotho. Similarly, foreign branches and subsidiaries of Lesotho companies are non-residents.

Foreign Direct Investment Enterprises:

- Non-residents branches and subsidiaries of the enterprise or its subsidiaries
- Non-resident enterprises in which the enterprise or its subsidiaries have equity of 10 per cent or more
- Subsidiaries or associates of the direct investment enterprises of the enterprise.

Non-resident direct investor:

A non-resident entity (or group of related non-residents) that owns equity of 10 per cent or more in this enterprise. Non-resident enterprises related to the non-resident direct investor are also considered non-resident direct investors in the enterprise. Common examples of non-resident direct investors are foreign head offices (for branches) and foreign parent companies (for subsidiaries). An enterprise may have more than one direct investor, and these direct investors may reside in different countries. An investor need not have the largest shareholding to be considered a direct investor.

Other non-residents

Are those that are not direct investors or direct investment enterprises.

Non-equity:

All other financial instruments including loans, bonds, money market instruments, currency and deposits

Foreign liabilities

Obligations to foreign enterprises/ institutions.

Foreign assets

Claims on foreign enterprises/ institutions.

Equity

Shares held in entities or the equivalent ownership interest in unincorporated entities. This includes stocks (shares) and other equity, such as investment in branches. Non-voting preferred stock (preference shares) should be recorded under *bonds*.

Trade credits

Are commercial credits extended by exporters to importers and prepayments made by importers to exporters

Operating profit

Is profit from the operations of enterprises.

Financial Services

These services include fees for intermediation services such as lending, financial leasing, letters of credit, bankers acceptances, lines of credit, foreign exchange transactions and travelers' cheques transactions; commissions and fees associated with security brokerage, placements of issues, underwriting, redemptions, swaps, options, and commodity futures; and portfolio and other financial management fees.

Royalties and License Fees

These include fees associated with the use of (and purchases and sale of) patents, copyrights, trademarks, industrial processes, franchises, etc., and licensing agreements associated with manuscripts, paintings, sculptures, etc.

Trade-related Services

These services include commissions on goods and services associated with commodity brokerage, auction sales, sales of ships and aircraft, etc.

Operational Leasing

Operational leasing includes leasing of machinery and equipment—other than transportation equipment with crew—and excludes items under financial lease.

Advertising and Market Research

These activities include the design, creation, marketing, placement, and purchase of advertising; trade fair exhibition services; and promotion, market research, and public opinion polls.

Legal, Accounting, and Management Services

These services include legal advice, representation, and documentation; accounting, auditing, bookkeeping, and tax-related services; planning, organization, cost projecting, and human resource management; and public relations.

Architecture, Engineering, and Other Technical Services

These services include architectural design of urban and other development projects; planning, project design, and supervision of dams, bridges, airports, turnkey projects, etc.; and surveying, product testing and certification, and technical inspection services.

Computer and Information Services

These services include data base development, storage, and on-line time series facilities; data processing, tabulation, processing services (on a time-share or specific basis), and processing management services; hardware consultancy' software design, development, and customized implementation and programming'; maintenance and repair of computers and peripheral equipment; and news agency services.

SYMBOLS

The following conventions used in this report have the following interpretations:

- Data not available
- 0 Zero or values less than M1,000

NOTE: All amounts are expressed in Maloti and in market values

EXECUTIVE SUMMARY

A survey to collect data from private enterprises with significant foreign assets and liabilities during 2005 was conducted during the third quarter of 2006 using a questionnaire. Out of 300 enterprises targeted, 221 enterprises responded representing a response rate of 73.7 per cent.

The bulk of liabilities to non-residents were found to be in the form of non-equity. These accounted for about 57.8 per cent of total liabilities, whereas equity liabilities to non-residents accounted for about 42.2 per cent of the total. Enterprises within the manufacturing sub-sector had the highest value of liabilities to non-residents; followed by the transport and communication sub-sector. Enterprises based in Maseru had the largest share of liabilities to non-residents, followed by those located in the Southern region. South Africa, Taiwan, United States and Netherlands ranked as the leading four source countries of liabilities for Lesotho resident enterprises. Other source countries were Belgium, China, Singapore and United Kingdom.

A large portion of claims on non-residents were in the form of non-equity. These accounted for about 70.3 per cent of total assets, whereas equity assets to non-residents accounted for about 29.7 per cent of the total. Similar to the case of liabilities to non-residents, enterprises within the manufacturing sub-sector had a high value of claims on non-residents. This was followed by the transport and communication sub-sector. Enterprises based in Maseru had the largest share of claims on non-residents, followed by enterprises located in the Southern region. However, enterprises in the Northern region reported absence of claims on non-residents. South Africa, Taiwan and United States ranked as the leading three source countries of assets for Lesotho resident enterprises.

Enterprises within the building and construction sub-sectors remitted the largest portion of total dividends to non-residents. These are followed by enterprises within the manufacturing sub-sector. The other sectors that registered high values of dividends to non-residents include; wholesale and retail trade, transport and communication, and finance and insurance. A large portion of dividends remitted to non-residents were concentrated in South Africa, Taiwan, Netherlands and Israel. The other countries were Belgium, China, Israel, Singapore, Swaziland, United Kingdom and United States.

The bulk of the value of transactions in services was acquired from non-residents and this compares with a low value of services provided by Lesotho resident enterprises to non-resident enterprises. Among the

value of transactions in services provided to non-residents, a large proportion was provided to South African enterprises and the remaining portion to other countries. Similarly, among the value of transactions in services acquired from non-resident enterprises, a large proportion was acquired from South African enterprises.

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CHAPTER 1: INTRODUCTION

1.1 Background

Since the emergence of financial crisis in different parts of the world, particularly in the East Asian economies, the issue of monitoring private capital flows (PCF) has gained prominence in macroeconomic policy making. Countries have found it important to know the magnitude, the composition, and sectors within economies to which capital is flowing. The 1990s was characterised by high volatility of capital flows which necessitated stronger policies on crises prevention, management and containment.

Like many developing countries, Lesotho has partly liberalised the capital account. Controls on the current account were abolished in 1998 while limited controls on the capital account were adopted in 2003. Trade liberalisation poses various challenges for different countries. Like many developing countries, Lesotho faces the challenge of monitoring and managing PCF for better macroeconomic policy management in general and price stability in particular. Empirical research has proved that PCF contributes to economic growth. Therefore, recognising the importance of monitoring PCF, the Central Bank of Lesotho (CBL) embarked on developing a system to measure and monitor capital flows.

As part of the process, the CBL, in collaboration with the Bureau of statistics (BOS) and Lesotho National Development Corporation (LNDC) carried out the first PCF survey 2006, which collected data on PCF for the year 2005. The activities were carried out jointly by the stakeholders under a Memorandum of Understanding (MOU). The CBL has been mandated by the Bureau of Statistics (BOS) under the Statistics Act 2001 to take part in the compilation, analysis and dissemination of the Lesotho BOP statistics. In addition, section 59 of the CBL Act 2000 states "...the Governor or any officer authorized by him, may require from any person any information, estimates, returns or particulars, subject to the same procedures and restrictions as are set out in the Statistics Act 1965". In order to ensure confidentiality, information generated by the survey is presented and published in aggregate form.

1.2 Objectives of the Survey

The objectives of the PCF survey were as follows:

- a) To collect information on private capital flows, stocks and related income variables among entities in Lesotho, which have significant foreign financial assets and liabilities.
 - These statistics would be used as an important tool in understanding the nation's relationship with the rest of the world and in formulating appropriate macroeconomic policies.
 - The statistics would then be used to update the BOP and IIP statistics.
- b) To meet international standards on compilation of BOP data.
- c) To strengthen policy making by providing timely and accurate statistics on PCF

1.3 Organisation of the Survey

The survey consisted of several activities which included among others, institutional coordination, capacity building, study tours, information gathering, training of enumerators and supervisors, sensitization campaigns, fieldwork, analysis, discussions of the report and dissemination.

In order to coordinate the PCF activities, a National Working Group on Private Capital Flows (NWG-PCF) was established and had representatives from the CBL, BOS, LNDC, Lesotho Textiles Exporters' Association (LTEA) and the Ministry of Finance and Development Planning (MoFDP). The NWG-PCF had Terms of Reference (TOR) as shown in Appendix 1. The Research Department within the CBL coordinated the whole survey exercise and served as the Secretariat.

Capacity building activities included; technical assistance from the International Monetary Fund (IMF) and Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI), study tour at the Bank of Uganda, training of enumerators and supervisors and a short-term course hosted by MEFMI in collaboration with Development Finance International (DFI). A sensitization campaign was also embarked on and this was in the form of workshops, press releases and media briefings.

1.4 Organisation of the Report

The report is divided into four chapters. The second chapter deals with the methodology while chapter three presents survey findings and analysis. The conclusions are discussed in chapter four.

CHAPTER 2: METHODOLOGY

This chapter presents the methodology which includes sampling, survey instruments, data processing and analytical techniques.

2.1 Sampling

The survey started with an initial exploratory survey (ES) that was carried out a year prior to the main survey with the main objective of identifying all entities operating in Lesotho which have significant foreign assets and liabilities (FAL) and which could then be targeted for follow-up with a main survey questionnaire. The ES was just designed to identify enterprises in Lesotho which have significant FAL and which would then be followed up during the main survey. The ES found out that out of 293 enterprises that responded, only 73 enterprises indicated the presence of FAL. All the 73 enterprises identified in the ES were followed-up in the main survey. However, due to the fact that no sensitisation campaigns were carried out prior to the ES, it was deemed prudent that the sample size could be increased in the main survey, so as to incorporate the other enterprises which might have significant FAL although not initially identified by the ES. Consequently, an additional 227 enterprises were identified during fieldwork, bringing the final sample size to 300 enterprises.

2.2 Survey Tool and Techniques

Survey tools included a questionnaire and enumerators' manual and guidelines. In addition to the ES carried out in November 2005, a pilot survey of 5 enterprises was also carried out during the sensitisation campaign in September 2006.

2.2.1 Survey Questionnaire

A generic survey questionnaire was adopted from the IMF's Balance of Payments Compilation Guide and customised to Lesotho's situation with the assistance of the IMF technical assistance. This survey questionnaire was designed with the objective of collecting basic data on PCF. The questionnaire was reviewed and adopted by the NWG-PCF. Ultimately, the questionnaire was presented at the sensitisation workshop and the comments received were later incorporated.

2.2.2 Enumerators' and Supervisors' Manual

In addition to the questionnaire, an enumerators' manual was adopted from the Bank of Zambia and customized to the Lesotho's situation. The manual was designed for the training of Enumerators and Supervisors to familiarise them with the objective of the survey, its methodology and underlying basic concepts.

2.2.3 Pilot Survey

The pilot survey covered a sample of five enterprises randomly selected from a list of enterprises that attended the sensitisation campaign workshop. All the selected enterprises responded, representing a response rate of 100 per cent. The pilot survey revealed that the questionnaire was long, detailed and too technical. Hence it required a lot of time, accounting and finance-related skills to complete and also required the use of several financial statements.

2.3 Fieldwork

In order to carry out the field activities, ten enumerators were used. Three staff members of the Department of Research supervised the work of enumerators. Four enumerators were assigned to Maseru region and three enumerators were assigned to the Northern region and other three to the Southern region¹. One supervisor was assigned to each region. Prior to the fieldwork, the enumerators and supervisors were trained on undertaking the survey. The fieldwork lasted twenty five working days starting from the 23rd October ending on 24th November 2006.

2.3.1 Questionnaire Distribution

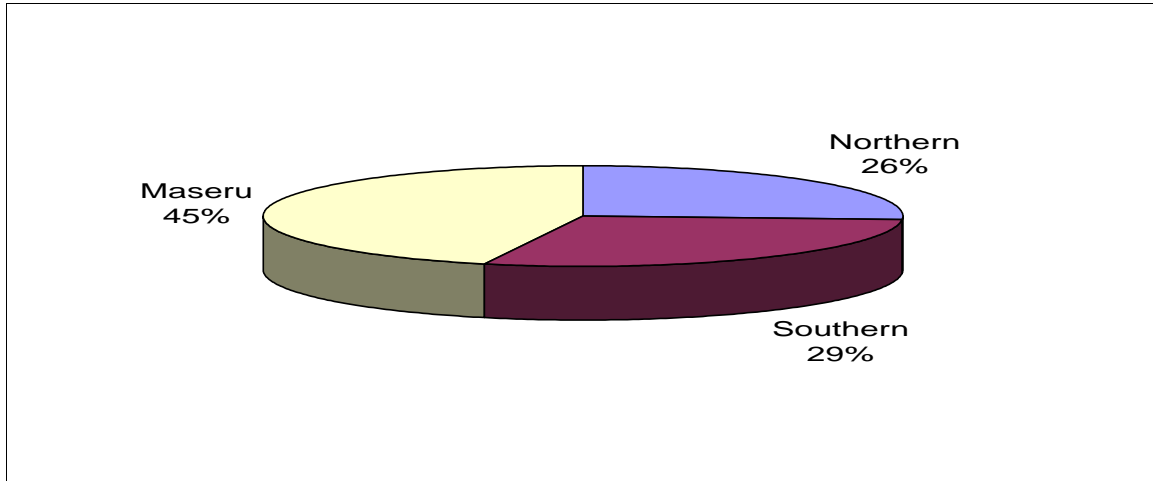
Distribution of questionnaires was carried out by enumerators and supervisors and this activity lasted two weeks (10 working days). In all cases, interviewees were required to acknowledge receipt of the questionnaire. A total of 300 questionnaires were physically delivered to various enterprises as follows: Northern region (Berea, Leribe and Butha-Buthe) 78, Southern region (Mafeteng, Mohale's Hoek and Quthing) 87, and Maseru 135. Figure 1 below shows the percentage questionnaire distribution by region.

¹ Maseru: Includes Central business district, Morija, Roma

Northern region includes: Berea, Butha-Buthe, Maputsoe, Leribe and Teyateyaneng

Southern region includes: Mafeteng, Mohale's Hoek and Quthing

Figure 1: Questionnaire Distribution (percentage of total)

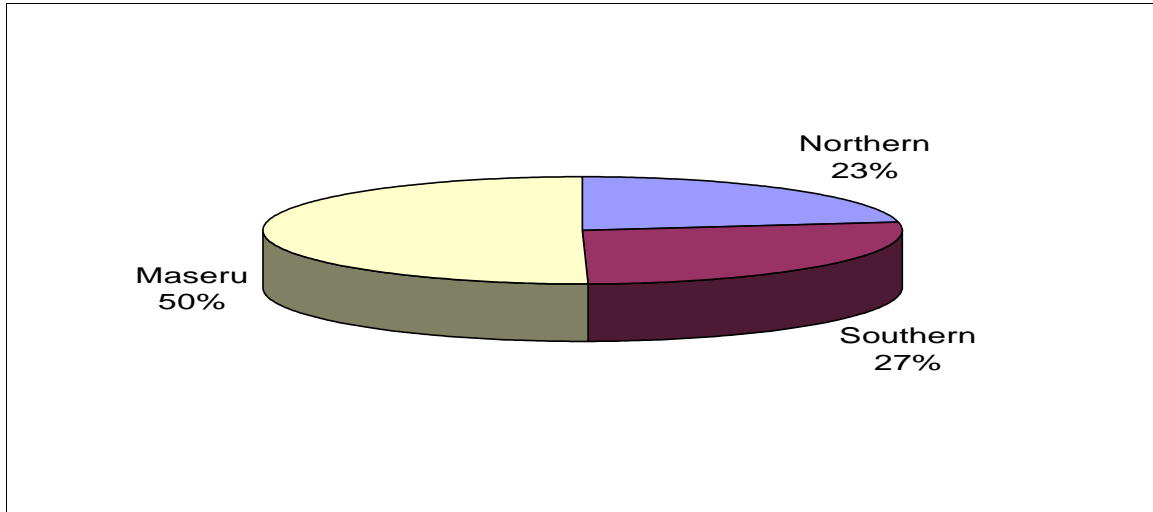


2.3.2 Data Collection

A total of 221 questionnaires were collected from various enterprises as follows: Northern region 50, Southern region 60, and Maseru 111. Figure 2 below shows the percentage questionnaire collection by region. To ensure completeness and consistency, further checking and editing was carried out by the supervisors and where need arose, additional follow-ups were made by the supervisors and senior economists of the Department of Research. Administrative measures, in the form of reminder letters, were issued to induce response from those entities that had not returned the questionnaires by the closing date.

Follow-up visits were carried out for various reasons including non-response and further clarification on some concepts embedded within the questionnaire.

Figure 2: Questionnaire Collection



2.4 Data Processing

2.4.1 Response rate

A response rate of 73.7 per cent was realised as shown on Figure 3. Among the 221 enterprises that responded, 50.2 per cent were located in Maseru 27.2 per cent in the Southern region and 22.6 per cent in the Northern region. Table 1, shows the number of questionnaires dispatched, collected and the percentage response by region. However, only 120 questionnaires were found to have significant FAL as discussed above.

Table 1: Location of dispatched and collected questionnaires

Region	No. of questionnaires dispatched	No. of questionnaires collected	Per cent returned by region
Maseru	135	111	82.2
Southern Region	87	60	68.9
Northern Region	78	50	64.1
Total	300	221	73.7

Table 1 depicts that Maseru recorded the highest response rate of 82.2 per cent, followed by the Southern region with 68.9 per cent while the Northern region recorded 64.1 per cent. The high response rate in Maseru is attributable to the fact that the sensitisation campaign

workshop was held in Maseru and majority of them were able to attend. Furthermore, Maseru is the capital city (hub of business) of Lesotho and most enterprises are located in this district.

Figure 3: Response Rate by Region

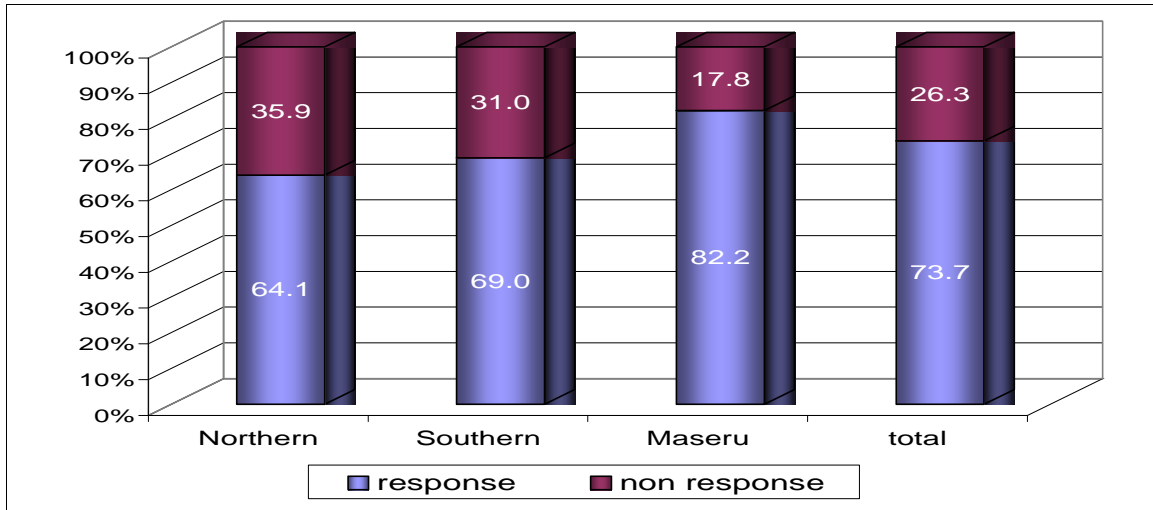
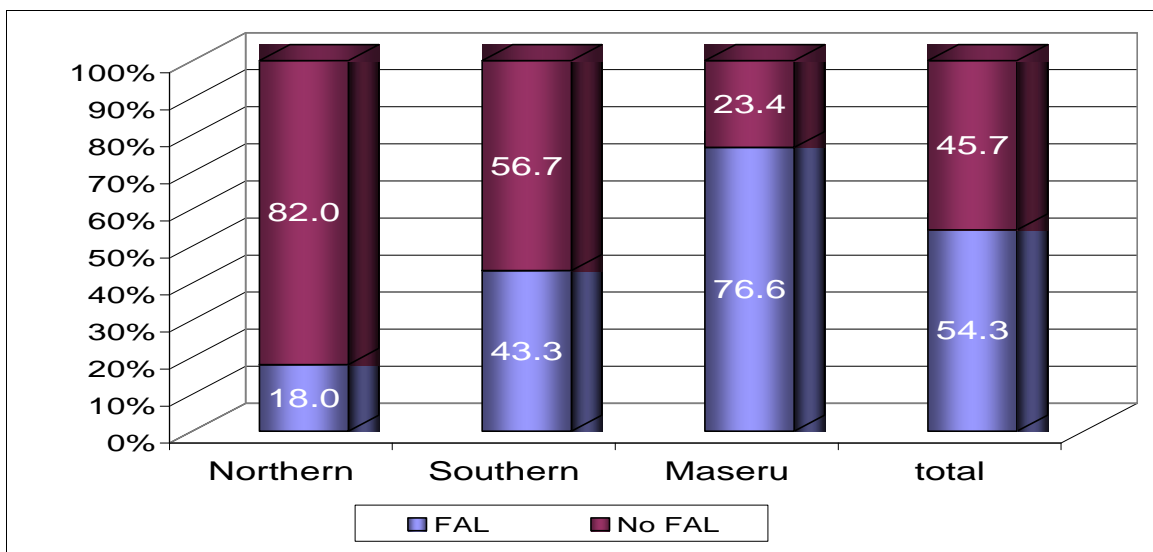


Figure 4 below depicts that in all the collected questionnaires, 54.3 per cent were found to have significant FAL and 45.7 per cent were found not to have significant FAL². This means that the coverage of the survey was broad and the results would capture the true picture of the PCF in the country. Therefore the analysis of the results in subsequent parts of this report is based on data extracted from 120 questionnaires.

Figure 4: Enterprises with FAL versus enterprises without FAL



² Exceeding M10,000

CHAPTER 3: FINDINGS AND ANALYSIS

3.1 Presentation of Findings

The findings are presented in five sections: General information, liabilities to non-residents, claims on non-residents, retained earnings and international transactions in services in accordance with the sequence of the questionnaire (see appendix 2) used in the survey.

3.1.1 General Information

Table 2 groups the questionnaires with FAL according to the System of National Accounts (SNA).

Table 2: Industrial Classification

Industrial Classification	Number responded	%
Agriculture	0	0
Mining and Quarrying	1	1
Manufacturing	28	23
Building and Construction	7	6
Wholesale and Retail Trade	65	54
Catering	3	3
Transport and Communication	7	6
Finance and Insurance	7	6
Real Estate and Business Services	2	2
Ownership of Dwellings	0	0
Education	0	0
Health	0	0
Total	120	100

The results of the survey indicate that 54 per cent of enterprises with FAL engaged in wholesale and retail trade. The manufacturing sub-sector followed with 23 per cent. The rest of the sub-sectors accounted for less than 10 per cent.

3.1.2 Liabilities to Non-Residents

This section gives information on the total liabilities and distribution of liabilities to non residents in relation to location, source and sector.

i) Total Liabilities to Non-Residents

The value of the opening position of total foreign liabilities to non-residents amounted to M1.1 billion at the beginning of 2005. However, due to change in position during the year, the closing position as at December 2005 amounted to M1.2 billion. Table 3 depicts that liabilities to *non-resident direct investors* had the largest share (50.72 per cent) at the end of 2005. This was followed by the liabilities to *other non-resident direct investors* at 49.25 per cent. Liabilities to *foreign direct investment enterprises* had the smallest share throughout the year.

Table 3: Liabilities to Non-residents (In Million Maloti)

	Opening position	Change in Position	Closing position	Income payable
To Non Resident Direct Investors	456.80	158.46	615.26	0.75
<i>Equity</i>	336.63	168.23	504.86	0.51
<i>Non-Equity</i>	120.17	-9.78	110.40	0.24
To Other Non Resident Investors	641.09	43.67	597.42	0.04
<i>Equity</i>	6.59	0.02	6.61	0.005
<i>Non-Equity</i>	634.50	43.65	590.81	0.035
To Foreign Direct Investment Enterprises	0.14	0.20	0.34	0.00
<i>Equity</i>	0.14	0.20	0.34	0.00
<i>Non-equity</i>	0.00	0.00	0.00	0.00
Total Foreign Liabilities	1,098.02	202.33	1,213.02	0.79

Table 4 presents the liabilities to non residents in terms of percentage of total. The equity liabilities to *non resident direct investors* had the largest share of 30.7 per cent at the beginning of 2005. In addition, due to changes in financial positions during the year, emanating from, among others, exchange rate movements, reclassification and increase in investment during the year, the share of equity liabilities to non resident direct investors closed the year higher at 41.6 per cent.

On the contrary, non-equity liabilities to *other non resident investors*, had the largest share of 57.8 per cent at the beginning of the year, compared to 48.7 per cent at the end of the year.

Table 4: Liabilities to Non-residents (Percentage of total)

	Opening position	Change in Position	Closing position	Income payable
To Non Resident Direct Investors	41.60	78.32	50.72	94.94
<i>Equity</i>	30.66	83.15	41.62	64.56
<i>Non-Equity</i>	10.94	-4.83	9.10	30.38
To Other Non Resident Investors	58.39	21.58	49.25	5.06
<i>Equity</i>	0.60	0.01	0.54	0.63
<i>Non-Equity</i>	57.79	21.57	48.71	4.43
To Foreign Direct Investment Enterprises	0.01	0.10	0.03	0.00
<i>Equity</i>	0.01	0.10	0.03	0.00
<i>Non-equity</i>	0.00	0.00	0.00	0.00

ii) Sectoral Distribution of Total Liabilities to Non-Residents

Most of the liabilities to non-residents were in the manufacturing sub-sector and they amounted to 58.39 per cent at the end of 2005. The transport and communication sub-sector was second at 23.63 per cent followed by mining and quarrying at 10.8 per cent. Wholesale and retail trade sub-sector came fourth at 5.22 per cent. The respective values are presented in Table 5.

The fact that a large proportion of liabilities to non-residents emanated from the manufacturing sub-sector is in line with the fact that the manufacturing sub-sector is among the largest contributors to GDP in the country. Furthermore, a large portion of these manufacturing enterprises (especially textiles and clothing firms) are foreign owned.

Table 5: Sectoral Distribution of Liabilities (Million Maloti)

	Opening position	Change in Position	Closing position	closing position (Per cent)	Income payable
Mining & Quarrying	212,85	-81.82	131.03	10.8	0.00
<i>Equity</i>	47.40	63.42	110.83		0.00
<i>Non-Equity</i>	165.45	-145.24	20.20		0.00
Manufacturing	721.73	223.57	708.23	58.39	0.00
<i>Equity</i>	126.98	273.69	230.62		0.00
<i>Non-Equity</i>	594.75	-50.12	477.61		0.00
Building & Construction	23.52	-2.63	20.89	1.72	0.38
<i>Equity</i>	4.6	-0.19	4.41		0.14
<i>Non-Equity</i>	18.92	-2.44	16.48		0.24
Wholesale & Retail Trade	60.71	2.56	63.28	5.22	0.029
<i>Equity</i>	23.27	3.06	25.33		0.018
<i>Non-Equity</i>	37.44	-0.50	37.95		0.011
Transport & Communication	226.10	60.59	286.68	23.63	0.00
<i>Equity</i>	185.91	60.92	246.83		0.00
<i>Non-Equity</i>	40.19	-0.33	39.85		0.00
Finance and Insurance	1.19	0.039	1.23	0.10	0.39
<i>Equity</i>	0.61	0.13	0.74		0.36
<i>Non-Equity</i>	0.58	-0.091	0.49		0.03
Real Est. & Bus. Services*	1.66	0.021	1.68	0.14	0.00
<i>Equity</i>	0.003	0.00	0.003		0.00
<i>Non-Equity</i>	1.357	0.021	1.677		0.00
Total	1,098.02	202.33	1,213.02	100	0.79

*Real estate and business services

iii) Liabilities to Non-Residents by Location

More than 90 per cent of the liabilities to non-residents were concentrated in Maseru, followed by 7.8 per cent and 0.17 per cent in the Southern and Northern region, respectively. The regional distribution of liabilities is shown in Table 6.

Table 6: Liabilities to non-residents by location

	Opening position	Change in Position	Closing position	closing position (Per cent)	Income payable
Maseru	988.24	209.3	1,115.86	91.9	0.79
<i>Equity</i>	336.96	168.46	505.42		0.51
<i>Non-Equity</i>	651.28	40.84	610.44		0.28
Northern	2.7	-0.73	2.01	0.17	0
<i>Equity</i>	0.003	0.001	0.004		0
<i>Non-Equity</i>	2.7	-0.73	2.01		0
Southern	107.05	-17.54	95.15	7.84	0
<i>Equity</i>	6.39	0	6.39		0
<i>Non-Equity</i>	100.66	-11.89	88.76		0
Total	1098.02	202.33	1,213.02	100	0.79

iv) Source Countries of Liabilities

Table 7: Source of Liabilities (Million Maloti)

	Opening position	Change in Position	Closing position	closing position (Per cent)	Income payable
South Africa	673.34	19.65	639.87		0.08
<i>Equity</i>	524.95	33.29	505.12	52.75	0.15
<i>Non-Equity</i>	148.39	-13.64	134.75		-0.1
Taiwan	308.07	137.81	445.88		-
<i>Equity</i>	38.97	39.79	78.76	36.76	-
<i>Non-Equity</i>	269.10	98.02	367.12		-
Netherlands	33.50	-4.99	28.51		0.36
<i>Equity</i>	2.16	-	2.16	2.35	0.36
<i>Non-Equity</i>	31.34	-4.99	26.35		-
China	12.39	-0.68	11.72		-
<i>Equity</i>	3.75	-0.34	3.41	0.97	-
<i>Non-Equity</i>	8.64	-0.34	8.31		-
United States	50.22	15.33	65.55		-
<i>Equity</i>	29.95	-	29.95	5.40	-
<i>Non-Equity</i>	20.27	15.33	35.60		-
Singapore	16.71	0.39	17.12		-
<i>Equity</i>	3.79	-	3.79	1.41	-
<i>Non-Equity</i>	12.92	0.39	13.33		-
Belgium	0.58	0.37	0.95		-
<i>Equity</i>	0.58	0.37	0.95	0.08	-
<i>Non-Equity</i>	-	-	-		-
United Kingdom	3.21	0.19	3.40		0.38
<i>Equity</i>	0.01	-	0.01	0.28	0.14
<i>Non-Equity</i>	3.20	0.19	3.38		0.24
Total	1,098.02	168.07	1,213		0.79

At the end of 2005 the following were the leading four source countries of liabilities for Lesotho resident companies; South Africa, Taiwan, United States and Netherlands. Out of the total reported value, the shares from the above-mentioned countries were 52.8 per cent, 36.8 per cent, 5.4 per cent and 2.4 per cent, respectively as depicted in Table 7.

3.1.3 Claims on Non-Residents

This section gives information on the total assets and distribution of assets on non residents in relation to location, source and sector.

i) Total Assets on Non-Residents

The value of total foreign assets on non-residents amounted to M151.15 million at the beginning of 2005. However, due to change in position during the year, the closing position as at December 2005 amounted to M361.04 million (see Table 8).

Table 8: Claims on Non-residents (In Million Maloti)

	Opening position	Change in Position	Closing position	Income payable
On foreign Direct Investment Enterprises	6.03	73.64	79.67	-
<i>Equity</i>	5.43	73.63	79.06	-
<i>Non-Equity</i>	0.6	0.01	0.61	-
On other Non-resident investors	145.12	136.25	281.37	0.03
<i>Equity</i>	15.21	12.99	28.21	-
<i>Non-Equity</i>	129.91	123.25	253.16	0.03
On Foreign Direct Investors	-	-	-	-
<i>Equity</i>	-	-	-	-
<i>Non-equity</i>	-	-	-	-
Total Foreign Assets	151.15	209.89	361.04	0.03

Table 9 presents claims on non residents in terms of percentage of total. The claims on *other non-resident direct investors* had the largest share (77.9 per cent) at the end of the year under review. This was followed by the claims on *foreign direct investment enterprises* at 22.1 per cent. The equity claims on *other non-resident investors* had a share of 10.1 per cent at the beginning of 2005. In addition, due to change in position during

the year, emanating from, among others, exchange rate movements, the share of equity claims on *other non-resident investors* closed the year lower at 7.8 per cent.

On the contrary, non-equity claims on *other non-resident investors*, had the largest share of 85.9 per cent at the beginning of the year, compared to 70.1 per cent at the end of the year.

Table 9: Claims on Non-residents (Percentage of total)

	Opening position	Change in Position	Closing position	Income payable
On foreign Direct Investment Enterprises	3.99	35.09	22.07	-
<i>Equity</i>	3.59	35.08	21.90	-
<i>Non-Equity</i>	0.4	-	0.17	-
On other Non-resident investors	96.01	64.91	77.93	-
<i>Equity</i>	10.06	6.19	7.81	-
<i>Non-Equity</i>	85.95	58.72	70.12	-
On Foreign Direct Investors	-	-	-	-
<i>Equity</i>	-	-	-	-
<i>Non-equity</i>	-	-	-	-

ii) Sectoral Distribution of Total Assets to Non-Residents

Most of the assets on non-residents were in the manufacturing sub-sector and they amounted to M361.74 million at the end of 2005. Transport and communications sub-sector came second with M0.88 million. The respective values are presented in Table 10.

Table 10: Sectoral Distribution of Assets (Million Maloti)

	Opening position	Change in Position	Closing position	Income payable
Manufacturing	149.15	212.59	361.74	-
<i>Equity</i>	20.29	86.64	106.92	-
<i>Non-Equity</i>	128.86	125.95	254.82	-
Building & Construction	0.05	-	0.04	-
<i>Equity</i>	0.05	-	0.04	-
<i>Non-Equity</i>	-	-	-	-
Wholesale & Retail Trade	1.06	-2.69	-1.63	0.03
<i>Equity</i>	-	-	-	-
<i>Non-Equity</i>	1.03	-2.69	-1.63	0.03
Transport & Communication	0.88	-	0.88	-
<i>Equity</i>	0.3	-	0.3	-
<i>Non-Equity</i>	0.58	-	0.58	-
Total	151.15	209.89	361.04	0.03

iii) Claims on Non-Residents by Location

More than 95 per cent of the assets on non-residents were concentrated in Maseru, followed by the Southern and Northern regions, respectively. The regional distribution of assets on non-residents is shown in Table 11.

Table 11: Claims on Non-Residents by Location (Million Maloti)

	Opening position	Change in Position	Closing position	closing position (Per cent)	Income payable
Maseru	112.71	247.69	360.39		0.03
<i>Equity</i>	20.64	86.63	107.28	99.9	-
<i>Non-Equity</i>	91.47	161.06	253.13		-
Northern	-	-	-		-
<i>Equity</i>	-	-	-	-	-
<i>Non-Equity</i>	-	-	-		-
Southern	38.44	-37.80	0.64		-
<i>Equity</i>	-	-	-	0.1	-
<i>Non-Equity</i>	38.44	-37.15	0.64		-
Total	115.15	209.89	361.03		0.03

iv) Source Countries of Assets

At the end of 2005 South Africa, Taiwan and United States were ranked the leading three source countries of assets for Lesotho residents. Out of the total reported value, the shares from the above countries were 27.1 per cent, 70.3 per cent and 2.6 per cent, respectively. The fact that in 2005, Taiwan had the largest share of total claims is not surprising since most of the manufacturing firms in the country, particularly, textiles and clothing firms, originate from Taiwan. Table 12 shows details about the claims' source countries.

Table 12: Claims' Source Countries (Million Maloti)

	Opening position	Change in Position	Closing position	closing position (Per cent)	Income payable
South Africa	66.43	31.48	97.91		0.03
<i>Equity</i>	-	69.55	-	27.12	0.03
<i>Non-Equity</i>	66.43	-38.07	97.91		-
Taiwan	79.87	173.96	253.82		-
<i>Equity</i>	0.2	13.95	14.15	70.30	-
<i>Non-Equity</i>	79.67	160.01	239.67		-
United States	4.85	4.45	9.31		-
<i>Equity</i>	-	4.45	9.31	2.58	-
<i>Non-Equity</i>	4.85	-	-		-
Total	151.15	209.89	361.04		0.03

3.1.4 Reinvested Earnings and Dividends Paid

Some enterprises reported profits while some enterprises reported losses. The net profit position for all entities combined amounted to M72.36 million. Retained earnings during 2005 were recorded at M15.94 million.

Table 13: Retained Earnings during 2005 (In Million Maloti)*

Category	Amount
Operating Profit	72.36
Taxes	20.29
Dividends	36.13
Retained Earnings	15.94
5% of Retained Earnings	0.79

* The figures are low because some enterprises did not fill in this section.

(i) Dividends Paid to Non-residents by Sector

A total of M36.13 million was remitted to non-residents as dividends and M20.29 million was paid as taxes. Investors in Building and Construction reported dividends remitted during the year 2005 accounting for 39.4 per cent. The manufacturing, transport and communications, wholesale and retail trade, and finance and insurance;

contributed 36.2 per cent, 13.1 per cent, 6.7 per cent and 4.6 per cent, respectively.

Table 14: Dividends paid to non residents by sector (Million Maloti)

	Industrial Classification	Amount Paid	Percentage
1.	Manufacturing	13.06	36.15
2.	Building & Construction	14.24	39.40
3.	Wholesale and Retail Trade	2.42	6.70
4.	Transport and Communication	4.75	13.13
5.	Finance and Insurance	1.67	4.62
	Total	36.13	100

(ii) Dividends by Country of Destination

In 2005, a large portion of dividends paid to non-residents was concentrated in South Africa and Taiwan. The shares were 57.1 per cent, 23.3 per cent, 8.8 per cent and 5.7 per cent for South Africa, Taiwan, Netherlands and Israel, respectively as presented in Table 15 below.

Table 15: Destination of dividends paid (Million Maloti)

	Country	Amount	Percentage
1.	China	0.23	0.63
2.	Israel	2.08	5.74
3.	Netherlands	3.19	8.83
4.	Singapore	0.02	0.04
5.	South Africa	20.64	57.12
6.	Swaziland	0.97	2.67
7.	Taiwan	8.40	23.25
8.	United Kingdom	0.12	0.33
9.	United States	0.50	1.38
	Total	36.13	100

3.1.5 International Transactions in Services

The value of transactions in services provided to non-residents amounted to M17.80 million, with M15.91 million (89.4 per cent) provided to South African enterprises and the remaining M1.89 million (10.6 per cent) to other countries. The value of transactions in services acquired from non-residents amounted to M182.66 million, with M160.19 million (87.7 per cent) acquired from South African enterprises and M22.49 million (12.3

per cent) from other countries. Therefore, this implies a net position of an outflow of M164.86 million.

Table 16: International Transaction in Services (Million Maloti)

	Services provided to non-residents			Services acquired from non-residents		
	SA	Other	Total	SA	Other	Total
Financial Services	0.28	0.00	0.28	12.79	5.53	18.32
Royalties	0.00	0.00	0.00	0.56	10.00	10.56
Trade-related	7.23	1.88	9.11	14.98	0.21	15.19
Operational Leasing	0.00	0.00	0.00	50.65	0.25	50.91
Advertising ^a ...	0.05	0.00	0.05	5.91	2.86	8.77
Legal ^b ...	0.15	0.00	0.15	3.79	3.36	7.15
Architecture ^c ...	0.00	0.00	0.00	12.18	0.00	12.18
Computers ^d ...	3.76	0.01	3.77	6.68	0.22	6.89
Other	4.43	0.00	4.43	52.67	0.02	52.69
Total	15.91	1.89	17.80	160.19	22.49	182.66

^a: Advertising and market research

^b: Legal, accounting and management consulting

^c: Architecture, engineering, and other technical services

^d: Computers and information services

Trade-related services provided to non-residents accounted for 51.2 per cent, followed by computers and information services, at 1.2 per cent. A large proportion of all the services were provided to South African companies. Operational leasing acquired from non-residents accounted for 27.9 per cent, followed by financial services acquired from non-residents at 10.0 per cent. All other services transactions acquired from non-residents had a share of less than 10 per cent in 2005. Similarly services acquired from non-residents were largely from South African companies.

Table 17: International Transactions in Services (percentages)

	Services provided to non-residents			Services acquired from non-residents		
	SA	Other	Total	SA	Other	Total
Financial Services	1.77	0.00	1.58	7.98	24.61	10.03
Royalties	0.00	0.00	0.00	0.35	44.52	5.78
Trade-related	45.46	99.40	51.19	9.35	0.95	8.32
Operational Leasing	0.00	0.00	0.00	31.62	1.12	27.87
Advertising ^a ...	0.32	0.00	0.29	3.69	12.74	4.80
Legal ^b ...	0.94	0.00	0.84	2.37	14.96	3.92
Architecture ^c ...	0.01	0.00	0.00	7.60	0.00	6.67
Computers ^d ...	23.66	0.60	21.21	4.17	0.98	3.78
Other	27.83	0.00	0.00	32.88	0.11	28.85

CHAPTER 4: CONCLUSIONS

This chapter presents conclusions drawn from the findings.

4.1 Technical Conclusions

Based on the results of the survey, the following conclusions were made:

4.1.1 Liabilities to non-residents

- The bulk of liabilities to non-residents were in the form of non-equity. These accounted for about 57.8 per cent of total liabilities, whereas equity liabilities to non-residents accounted for about 42.2 per cent of the total.
- Enterprises within the manufacturing sub-sector had a high value of liabilities to non-residents, amounting to 58.4 per cent followed by the transport and communication sub-sector at 23.6 per cent.
- Enterprises based in Maseru had the largest share of liabilities to non-residents at 91.9 per cent, followed by those enterprises located in the Southern region at 7.8 per cent.
- South Africa, Taiwan, United States and Netherlands ranked as the leading four source countries of liabilities for Lesotho resident enterprises. Other source countries were Belgium, China, Singapore and United Kingdom.

4.1.2 Claims on non-residents

- A large portion of claims on non-residents were in the form of non-equity. These accounted for about 70.3 per cent of total assets, whereas equity assets to non-residents accounted for about 29.7 per cent of the total.
- Similar to the case of liabilities to non-residents, enterprises within the manufacturing sub-sector had a high value of claims on non-residents followed by the transport and communication sub-sector.
- Enterprises based in Maseru had the largest share of claims on non-residents, followed by those enterprises located in the Southern region. Enterprises in the Northern region reported absence of claims on non-residents.
- South Africa, Taiwan and United States were the leading three source countries of assets for Lesotho resident enterprises.

4.1.3 Dividends

- Enterprises within the building and construction sub-sectors remitted the largest portion, 39.4 per cent of total dividends, to non-residents. This was then followed by enterprises within the manufacturing sub-sector at 36.2 per cent.
- The other sectors that registered high values of dividends to non-residents include; wholesale and retail trade, transport and communication, and finance and insurance.
- A large portion of dividends remitted to non-residents were concentrated in South Africa, Taiwan, Netherlands and Israel. The other countries were Belgium, China, Israel, Singapore, Swaziland, United Kingdom and United States.

4.1.4 Transactions in Services

- The bulk of the value of transactions in services was acquired from non-residents and this compares with a low value of services provided by Lesotho resident enterprises to non-resident enterprises.
- Among the value of transactions in services provided to non-residents, a large proportion, 89.4 per cent, was provided to South African enterprises and the remaining 10.6 per cent to other countries.
- Among the value of transactions in services acquired from non-resident enterprises, a large proportion, 87.7 per cent, was acquired from South African enterprises and 12.3 per cent from other countries, such as Swaziland.

4.2 Administrative Conclusions

- i) The monitoring of PCF on an annual basis is necessary in order to keep track of the impact on Lesotho's economy for the purpose of evaluation and formulation of appropriate policies given the volatility of these flows.
- ii) Investments from other countries are significant and continue to grow.
- iii) New investors emerge, while others fold, change location and the magnitude of investment. Therefore, there is a need to constantly update the database and monitor PCF development.
- iv) The survey results show that foreign investment mainly comes from few countries. Hence there is a need to diversify sources of foreign investment.

APPENDICES

Appendix 1: Terms of Reference of the NWG

Introduction

In an effort to improve the overall macro-economic statistics, analysis and policy, the Central Bank of Lesotho (CBL) has identified as a priority area, the improvement of data on private capital flows (PCF). For this purpose, the CBL has sought technical and financial assistance from the International Monetary Fund (IMF) to undertake a survey of PCF to the economy of Lesotho.

As demonstrated by consequent international financial crises, PCF may be highly volatile and thus have negative economic implications. This creates a need for a sound monitoring system for these flows. In the case of Lesotho, this is particularly important for various reasons. Firstly, private sector activity in the country has grown considerably in the recent past. As a result, foreign direct investment (FDI) and other capital flows are likely to grow. Secondly, Lesotho's membership of the Common Monetary Area (CMA) - with South Africa, Namibia and Swaziland - which allows free mobility of capital among the member countries, increases statistical challenges for the country. Lastly, the CBL has started the process of implementing gradual reforms to the capital account in an endeavour to harmonise Lesotho's exchange rate regime with the rest of CMA and thereby boost its external competitiveness. This is expected to increase the movement of capital between Lesotho and the rest of the world.

Through the PCF project, the intention is to meet the aforementioned statistical challenges by collecting data on PCF. This will facilitate the provision of timely and reliable statistics to all users. The data will provide the basis for macroeconomic analysis, which would in turn facilitate decision making by the private sector and policy formulation by the Government.

Membership of the NWG will be drawn from various divisions within the CBL, the Bureau of Statistics (BOS), the Lesotho National Development Corporation (LNDC), the Ministry of Trade and Industry, Cooperatives and Marketing (MTICM), Lesotho Textiles Exporters Association (LTEA) and the Lesotho Chamber of Commerce and Industry (LCCI).

To enhance the success of the project, the NWG will maintain consultation with key private sector bodies. These include the Lesotho Association of Employers (LAE) and Lesotho Institute of Accountants (LIA).

Detailed Functions of the NWG

The NWG will be responsible for the implementation and coordination of the PCF project. This involves determining the coverage of the project, sample size and composition, methodological approach, implementation period, identifying human and financial resources requirements and ensuring that they are mobilised appropriately. In addition, the NWG will sensitise the private sector. It will assume the overall responsibility for the execution of the survey, including collection of responses, follow-up on non-responses, compilation and analysis of data, and the production of reports for the dissemination of results to the private sector and the international community.

Initially, the NWG will take responsibility over the following specific functions:

Scope

- Determine the scope of the PCF survey; and.
- Adapt the Development Finance International Ltd. (DFI) enumerator manual for PCF to Lesotho's needs taking into consideration what the methodology should cover.

Periodicity

- Determine the periodicity for the collection of data.

Sample size, composition and methodological approach

- Determine the sample size and composition for the survey. A comprehensive investor population framework could be established, based on various company lists that already exist as well as the register of companies. The target population will comprise enterprises with (a) foreign equity liabilities, (b) foreign non-equity liabilities, (c) foreign equity assets and (d) foreign non-equity assets.

- ❑ Decide on the methodological approach. This should cover three annual surveys on foreign investment and related transactions, banks on their own and on their customer's behalf, and pension and life assurance companies.

Implementation programme

- ❑ Approve and modify the implementation programme and timetable for the survey in line with the IMF's recommendations.

Identify, Mobilise and Account for Resources

- ❑ Determine the human and financial resources to be devoted to the project. The number of officials will depend, to a large extent, on the amount of funds available and, to some extent, on the number of organisations that will be taking part.

Sensitisation of the Private Sector

- ❑ Launch a comprehensive awareness campaign to sensitise the private sector about the project and its benefits to both the private and public sectors. This could be done in various ways such as seminars, newspapers, some of the private sector publications and national radio broadcasts.
- ❑ Urge the private sector to respond to survey questionnaires and assure them of confidentiality of their information, which will only be used for statistical purposes.

Training

- ❑ Hold a workshop to train personnel (supervisors and enumerators) on survey implementation, major concepts in the forms and interview techniques prior to the launch of the survey;
- ❑ Organise training for the NWG and officials from key participating institutions in BOP data editing and checking techniques, compilation and analysis; and
- ❑ Arrange training on survey software.

Implementation of the survey

- ❑ Supervise the implementation of the survey to ensure that activities are carried out according to the timetable. The task force will also give

progress reports to the IMF, seek advice where there are problems and wherever possible suggest solutions.

Compilation of Information

- Decide, with assistance/recommendations from the IMF, on the software to be used in compiling and processing the information that will have been gathered.

Data compilation, analysis and feedback

- Design a database for capturing the data and the format for both the statistical and analytical reports, so as to capture all the necessary information in a user friendly manner;
- More importantly, ensure that information is reported in a manner that does not compromise confidentiality of information pertaining to individual enterprises; and
- Identify the manner in which the findings of the survey will be reported to the private sector. This could include invitation to a closing workshop of public and private sector senior officials and reports in CBL's as well as private institutions' publications.

Composition of the NWG

The NWG will consist of representatives of various divisions within the CBL and of other major stakeholders, as follows:

- a) CBL (Chair and Secretariat);
 - (i) BOP Section, Research Department;
 - (ii) Policy and Exchange Control Division; and
 - (iii) Public Relations Division
 - (iv) Information and Communications Technology Department
- b) BOS
 - (i) Economics Statistics Division; and
 - (ii) Field Organisation Division
- c) LNDC;
- d) Ministry of Trade and Industry, Cooperatives and Marketing.
- e) Ministry of Finance and Development Planning (MOFDP): Debt Office
- f) Lesotho Chamber of Commerce and Industry (LCCI)
- g) Lesotho Textiles Exporters Association (LTEA)

Frequency of meetings

The NWG will meet as and when it is necessary to ensure that all the activities run smoothly and on schedule.

Appendix 2: The PCF Survey Questionnaire



CONFIDENTIAL

PRIVATE CAPITAL FLOWS SURVEY 2006

Form 1A	Balance of Payments Survey FOREIGN FINANCIAL ASSETS AND LIABILITIES OF ENTITIES IN LESOTHO Year ended 31 December 2005		
	<input style="width: 100%; height: 15px;" type="text"/> Reference number	Balance of Payments Division Research Department Central Bank of Lesotho Telephone: +266-22314281 Facsimile: +266-22310051	
	Name and address of enterprise	OFFICE USE ONLY Rec. <hr style="width: 80%; margin: 5px 0;"/> Edit <hr style="width: 80%; margin: 5px 0;"/> Check <hr style="width: 80%; margin: 5px 0;"/>	

PLEASE READ SECTION (A) AND (B) BEFORE COMPLETING THE FORM

A. GUIDELINES

Confidentiality: Information requested in this questionnaire will be used for statistical purposes and be published at the aggregate level only. The *Central Bank of Lesotho (CBL)*, *Bureau of Statistics (BOS)* and the *Lesotho National Development Corporation (LNDC)* guarantee that data relating to individual organizations will be treated as confidential and used strictly for statistical, economic analysis and policy formulation purposes only. Persons employed by these stakeholders are therefore bound to secrecy by the respective Acts.

Purpose of data collection: The CBL plans to improve its compilation of the balance of payments statistics (BOP) for Lesotho. These statistics are used as an important tool in understanding the nation's relationship with the rest of the world and in formulating appropriate macroeconomic policies. Therefore, the CBL in collaboration with LNDC and BOS, is conducting this BOP survey to collect information on the private capital flows, stocks and related income variables among entities in Lesotho, which have significant foreign financial assets and liabilities.

Reporting instructions: This form should be completed by the enterprise (and any subsidiaries in Lesotho)—unless different arrangements have been made with the CBL.

Reporting period: This questionnaire asks for data on a calendar year basis; (i.e. from 1st January to 31st December 2005). If your enterprise's accounts are prepared other than on calendar year basis, please indicate this period on the form.

Units of reporting: Please report all data in actual amounts. For example, enter four million two hundred and thirty five thousand as 4,235,000 (and not 4.235m). **(IN OTHER WORDS, PLEASE DO NOT ROUND-OFF THE FIGURES)**

Obligation for compliance: Enterprises are legally bound to provide the information requested and should be encouraged to comply voluntarily. However, failure to do so could result in legal and/or administrative action being taken in extreme cases

Due date: The due date for return of the completed questionnaire to the Director, Research Department, Central Bank of Lesotho, P. O. Box 1184, Maseru 100 is within fifteen (15) working days after the dispatch. You are supposed to acknowledge receipt of the questionnaire and hand it over to the enumerator. If you are having problems in meeting the due date, please call us as soon as possible before the deadline. Otherwise, the enumerator will collect the duly filled questionnaire on the due date or earlier as agreed.

Estimates: If some of the data requested are not readily available from your records, **careful estimates** will suffice, should be indicated as such. **Enterprises are requested to provide the copies of their financial statement to be used for cross checking.**

Assistance: For queries or assistance regarding this form, please call 22314281 for Mr. Monaheng Seleteng on ext. 2056 or Mr. David Maleleka on ext. 2165

Retain a copy: After you complete this form, please retain a copy for your records.

Person in your organisation who should be contacted if any queries arise regarding this form:

NAME:..... Telephone No:
POSITION:..... Facsimile No.:.....
SIGNATURE:..... Email address:.....

ALTERNATIVE CONTACT PERSON

NAME:..... Telephone No:
POSITION:..... Facsimile No.:.....
SIGNATURE:..... Email address:.....

B. DEFINITIONS

Unincorporated Branch: A division of the main enterprise that is not formed into a legal corporation.

Proprietorship/Individual Ownership: The enterprise is wholly owned by one person.

Proprietary (limited company): A private company whose owners are legally responsible for its debts only to the extent of the amount of capital they invested.

Partnership: An enterprise that is owned by two or more people as partners.

Subsidiary: An enterprise that is controlled by the parent company and in which the parent company holds more than 50 percent of ordinary shares.

Associate: An enterprise in which the one being interviewed/ responding to the questions owns 50 percent or less of ordinary shares.

Non-resident equity interest: Shares or ownership interest in non-resident enterprises.

Branch: An unincorporated enterprise that is a division of the main enterprise and is wholly or jointly owned by the main enterprise.

Foreign liabilities: Obligations to foreign enterprises/ institutions.

Foreign assets: Claims on foreign enterprises/ institutions.

Other Foreign Transactions: Any other foreign transactions, except those that result in foreign assets and liabilities. These include transactions in goods and services.

Statutory body: Either an individual or a collective body of a legal entity authorized to act on its behalf. The statutory body of a limited liability company could be, for example, one or more authorized representatives.

Non-equity: All other financial instruments including loans, bonds, money market instruments, currency and deposits

Structure of Questionnaire

This form collects annual information regarding the financial claims of your enterprise and its subsidiaries on non-residents and the liabilities of your enterprise and its subsidiaries to non-residents. The form requests data on financial liabilities to non-residents, related financial transactions, reconciliation items (other changes in positions), and income (Part A), similar data for assets (Part B), valuation of direct investment equity (Part C) profits and retained earnings (Parts D and E), and international transactions in selected services (Part F).

Valuation

All values should be reported in thousands of maloti. Please convert amounts expressed in foreign currencies to maloti, and state the exchange rate used.

Country classification

Country refers to the country of residence of the creditor or debtor.

Relationships Between Data Items

Information reported in parts A and B should reflect the following relationships:

closing position = opening position + change in position
change in position = net financial transactions + other changes
net financial transactions= *increases* (transactions relating to the acquisition of assets or liabilities) - *decreases* (transactions relating to the disposal of assets or liabilities)
other changes= valuation changes (caused by exchange rate changes, market price changes, and write-downs) + residuals (caused by reclassification of items and arithmetical errors)

Positions, Transactions, Other Changes, and Income

Opening position refers to the value of the liabilities (part A) and assets (part B) of your enterprise and its subsidiaries at the beginning of the year. The **closing position** refers to the value of the claims and liabilities of your enterprise and its subsidiaries at the end of the year.

Positions denominated in foreign currencies should be converted to maloti at the **midpoint** of the appropriate buy and sell exchange rates applicable on the reference dates.

All valuations should be made at *market values*. For valuing equity positions at market value, one of the following methods, which are listed in order of preference, may be used:

- the midpoint of the stock market buy and sell rates on the reference date
- a recent transaction value
- directors' value
- net asset value

Net asset value equals total assets, including intangibles, less liabilities and the paid-up value of non-voting stock. Assets and liabilities should be recorded at current, rather than historical, values.

Financial transactions are transactions relating to the acquisition or disposal of your enterprise's financial claims on, or liabilities to, non-residents. Purchases of stock made by your enterprise (and its subsidiaries) in non-resident companies, purchases of your enterprise's shares by non-residents, issuances and purchases of bonds, increased deposits in bank accounts, and drawdowns of loans are examples of transactions that increase assets or liabilities. Sales of stock by your enterprise (and its subsidiaries) in non-resident companies, sales of your enterprise's shares by non-residents, redemptions and sales of bonds, withdrawals from bank accounts, and repayments of loans are examples of transactions that decrease assets or liabilities.

Income refers to: (1) income receivable by your enterprise from its ownership of claims on non-residents; and (2) income payable by your enterprise as a result of its liabilities to non-residents. The most common forms of income are *dividends*, *remittances of profit*, and *interest*.

Dividends and *remittances of profit* refer to income earned from the ownership of stock (shares) or equivalent equity interest in enterprises. These amounts should be recorded on the basis of dividend (or remittance) payments dates. *Interest* relates to income earned from the ownership of financial assets other than equity assets. Income includes discounts. A discount is the difference between the value of a financial instrument when it issued and its final redemption value. Interest should be recorded on an accrual basis. The difference between income accrued and income payable should be recorded as a financial transaction in the instrument to which the interest relates. Any interest in arrears should be recorded as a financial transaction in the **other** category of financial instruments.

For direct investment (see definition provided in Part A), income relating to reinvested earnings should be excluded from parts A and B. This type of income is reported in parts D and E.

Financial transactions and **income** denominated in foreign currencies should be converted to maloti by using the **midpoint** of the appropriate buy and sell rates applicable on the date of the transaction. Financial transactions and income should be recorded on a *gross basis*—that is, before the deduction of commissions, brokerage fees, and withholding taxes.

GENERAL INFORMATION

A. Industrial Classification. Give a brief description of the major activities of the reporting entity and its subsidiaries:

.....
.....
.....
.....

B. List names of all subsidiaries of your enterprise which are resident in Lesotho

.....
.....
.....

C. List names, countries of location and percentages of equity held by each non-resident enterprise or other foreign entity that owns 10% or more equity interest in your enterprise:

<u>Name of non-resident enterprise</u>	<u>Country of Location</u>	<u>Percentage of equity held</u>
.....
.....
.....

D. List names, countries of location and percentages of equity held by your enterprise in any foreign entity in which your enterprise owns 10% or more of the equity, and any foreign branches of your enterprise:

<u>Name of non-resident enterprise</u>	<u>Country of Location</u>	<u>Percentage of equity held</u>
.....
.....
.....

Part A: Liabilities to Non-residents

(Report in thousands of Maloti)

Liability Item	Opening Position at 1 January 2005 A	Change in Position During Period		Closing Position at 31 December 2005 D = (A+B+C)	Investment Income payable during 2005 E
		Net Transactions B	Other Changes C		
		[Show decreases with a minus sign]			
LIABILITIES TO NON-RESIDENT DIRECT INVESTORS					
1. Equity
2. Other
3. <i>Sub-total (1+2)</i>
of which:					
to South Africa
to other countries
LIABILITIES TO OTHER NON-RESIDENT INVESTORS					
4. Equity
5. Bonds and money/market instruments
6. Long-term loans
7. Short-term loans
8. Trade credits
9. Other
10. <i>Sub-total (4 to 9)</i>
of which:					
to South Africa
to other countries
LIABILITIES TO FOREIGN DIRECT INVESTMENT ENTERPRISES					
11. Equity
12. Other
13. <i>Sub-total (11+12)</i>
of which:					
South Africa
Other countries
14. <i>Total foreign Liabilities (3+10+13)</i>

A *non-resident* is any individual, enterprise, or other organization ordinarily domiciled in a country other than Lesotho. Lesotho branches and subsidiaries of non-resident companies are *residents* of Lesotho. Similarly, foreign branches and subsidiaries of Lesotho companies are non-residents.

Foreign direct investment enterprises are:

Non-resident branches and subsidiaries of your enterprise or its subsidiaries

Non-resident enterprises in which your enterprise or its subsidiaries have equity of 10 percent or more subsidiaries or associates of the direct investment enterprises of your enterprise.

A *non-resident direct investor* is a non-resident entity (or group of related non-residents) that owns equity of 10 percent or more in this enterprise. Non-resident enterprises related to the non-resident direct investor are also considered non-resident direct investors in your enterprise. Common examples of non-resident direct investors are foreign head offices (for branches) and

foreign parent companies (for subsidiaries). An enterprise may have more than one direct investor, and these direct investors may reside in different countries. An investor need not have the largest shareholding to be considered a direct investor. *Other non-residents* are those that are not direct investors or direct investment enterprises.

Part B: Claims on Non-residents

(Report in thousands of Maloti)

Asset Item	Opening Position at 1 January 2005 A	Change in Position During Period		Closing Position at 31 December 2005 D = (A+B+C)	Investment Income receivable during 2005 E
		Net Transactions B	Other Changes C		
		[Show decreases with a minus sign]			
CLAIMS ON FOREIGN DIRECT INVESTMENT ENTERPRISES					
1. Equity
2. Other
3. Sub-total (1+2)
of which:					
on South Africa
on other countries
CLAIMS ON OTHER NON-RESIDENT INVESTORS					
4. Equity
5. Bonds and money/market instruments
6. Long-term loans
7. Short-term loans
8. Trade credits
9. Other
10. Sub-total (4 to 9)
of which:					
on South Africa
on other countries
CLAIMS ON FOREIGN DIRECT INVESTORS					
11. Equity
12. Other
13. Sub-total (11+12)
of which:					
on South Africa
on Other countries
14. Total foreign assets (3+10+13)

Financial Instruments

Equity: Shares held in entities or the equivalent ownership interest in unincorporated entities. This includes stocks (shares) and other equity, such as investment in branches. Non-voting preferred stock (preference shares) should be recorded under *bonds*.

Bonds and money market instruments include bonds, debentures, commercial paper, promissory notes, certificates of deposit, and other tradable non-equity securities other than financial derivatives. Bonds include instruments issued with original maturities of more than 12 months. Instruments with original maturities of 12 or fewer months are included in money market

instruments. In parts A and B, bonds and money market instruments should be included in the **bonds, etc.** category. Also include in this category **financial derivatives** - these include all tradable derivatives or secondary market instruments such as options, futures, and forward contracts

Loans include loans and financial leases. Long-term loans are those with original maturities of 12 months or more. Short-term loans are those with original maturities of less than 12 months.

Trade credits are commercial credits extended by exporters to importers and prepayments made by importers to exporters.

Other includes all other financial assets and liabilities, such as arrears.

Part C. Valuation of Direct Investment Equity

Please record the method of valuation (e.g., stock market valuation of shares, a recent transactions value, directors' valuations, net asset value based on current values, net asset value based on book values) used in parts A and B, item 1D.

.....

Part D. Retained Earnings of Foreign Direct Investment Enterprises

(For all items except 5, report in thousands of maloti.)

	Total
1. Operating profit plus net income during the year	
2. Taxes (on profits) due for payment during the year	
3. Dividends paid or profits remitted during the year	
4. Retained earnings (1 - 2 - 3)	
5. Percentage of equity owned by direct investors at end of period (%)	
6. Retained earnings attributable to reporting enterprise (5 % of Retained earnings)	

Part E. Retained Earnings of Reporting Enterprises

Operating profit is profit from the operations of enterprises. When operating profit is calculated, depreciation should be determined on the basis of replacement cost. Exchange rate gains and losses, special tax provisions (such as accelerated depreciation), and any extraordinary items should be excluded from the calculation.

Net income received equals interest, dividends, and any undistributed profits from the ownership of subsidiaries and associates attributable to the enterprise(s) concerned, less interest payable by the enterprise(s).

Taxes on profits should be recorded when due and without penalty.

Part F – International Transactions in Services^a
(Report in thousands of maloti)

<u>residents</u>	Services Item	<u>Services provided to non-residents</u>			<u>Services acquired from non-</u>		
		South	Other Africa	Total countries	South	Other Africa	Total
	countries						
1.	Financial Services	.....	.....	.....	.....	.....	.....
2.	Royalties and license fees	.....	.....	.....	.....	.....	.....
3.	Trade-related services	.....	.....	.....	.....	.....	.....
4.	Operational leasing	.....	.....	.....	.....	.....	.....
5.	Advertising and market research	.....	.....	.....	.....	.....	.....
6.	Legal, accounting and management Consulting	.....	.....	.....	.....	.....	.....
7.	Architecture, engineering, and other technical services	.....	.....	.....	.....	.....	.....
8.	Computer and information services	.....	.....	.....	.....	.....	.....
9.	Other services (please specify)	.....	.....	.....	.....	.....	.....
10.	TOTAL	.....	.....	.....	.....	.....	.....

a. Exclude transportation and travel-related services, which are collected via other sources; also exclude insurance services arranged through resident insurers or their resident agents or brokers (although insurance placed directly with non-resident insurers should be included above).

Definitions of Services Items above

Financial Services. These services include fees for intermediation services such as lending, financial leasing, letters of credit, bankers acceptances, lines of credit, foreign exchange transactions and travelers' cheques transactions; commissions and fees associated with security brokerage, placements of issues, underwriting, redemptions, swaps, options, and commodity futures; and portfolio and other financial management fees.

Royalties and License Fees. These include fees associated with the use of (and purchases and sale of) patents, copyrights, trademarks, industrial processes, franchises, etc., and licensing agreements associated with manuscripts, paintings, sculptures, etc.

Trade-related Services. These services include commissions on goods and services associated with commodity brokerage, auction sales, sales of ships and aircraft, etc.

Operational Leasing. Operational leasing includes leasing of machinery and equipment—other than transportation equipment with crew—and excludes items under financial lease.

Advertising and Market Research. These activities include the design, creation, marketing, placement, and purchase of advertising; trade fair exhibition services; and promotion, market research, and public opinion polls.

Legal, Accounting, and Management Services. These services include legal advice, representation, and documentation; accounting, auditing, bookkeeping, and tax-related services; planning, organization, cost projecting, and human resource management; and public relations.

Architecture, Engineering, and Other Technical Services. These services include architectural design of urban and other development projects; planning, project design, and supervision of dams, bridges, airports, turnkey projects, etc.; and surveying, product testing and certification, and technical inspection services.

Computer and Information Services. These services include data base development, storage, and on-line time series facilities; data processing, tabulation, processing services (on a time-share or specific basis), and processing management services; hardware consultancy' software design, development, and customized implementation and programming'; maintenance and repair of computers and peripheral equipment; and news agency services.

C: ACKNOWLEDGEMENT OF RECEIPT OF THE QUESTIONNAIRE

<p>I, _____ of _____ <i>(name and surname of recipient)</i> <i>(name of entity/company/enterprise)</i></p> <p>acknowledge receipt of the Balance of Payments (BOP) Survey 2006 questionnaire</p>	
Position:	.....
Signature:	.....
Date:	.....
Enumerator:	.....
<p>THANK YOU FOR RECEIVING THE QUESTIONNAIRE</p>	

Note: Please note the *due date* for return of the questionnaire to the Director, Research Department, Central Bank of Lesotho, P. O. Box 1184, Maseru 100 is within fifteen working (15) days after the dispatch.

This page should be filled-in by the person who is receiving the questionnaire on behalf of the entity, enterprise or company at the time of delivery of this questionnaire by the enumerator. After it is signed, the enumerator should retain the original copy of this page.

Appendix 3: PCF Survey Teams

A: NWG Members

Institution

Mrs. M. Monyau (Director of Research)	CBL
Mr. M Seleteng	CBL
Mr. D. Maleleka	CBL
Mrs. S. Khoabane	CBL
Mr. T.,Mohasoa	CBL
Mr. M. Sekoati	CBL
Mrs. M. Keta	CBL
Mrs. T. Matsimane	LNDC
Mrs M. Bizabani	LNDC
Mr. T. Mpeka	BOS
Ms. M. Molato	BOS
Mrs. M. Makhele	MoFDP
Ms. J. Chen	LTEA

B. Coordinators

Mr. M. Seleteng	CBL
Mr. D. Maleleka	CBL

C. Supervisors

Mr. T. Lephoto	CBL
Mrs. M. Makatise	CBL
Mrs. T. Phatela	CBL

D. Enumerators

Mr. K. Lechesa
Mrs. K. Masheane
Mrs. M. Pae
Mrs. M.Ntlhane
Mrs. M. Seithleko
Ms. M. Mabejane
Mrs.M. Lintoane
Ms. M. Maboe
Mr. T. Bereng
Mr. T. Ntho

E. Special Thanks

Dr. D. Scoullar (Technical Assistant)	IMF
Mr. R. Masenyetse	CBL
Mr. T. Bereng	CBL
Mr. L.Matela	CBL
Ms. R. Putsoe	CBL
Mr. M. Matsoso	CBL