



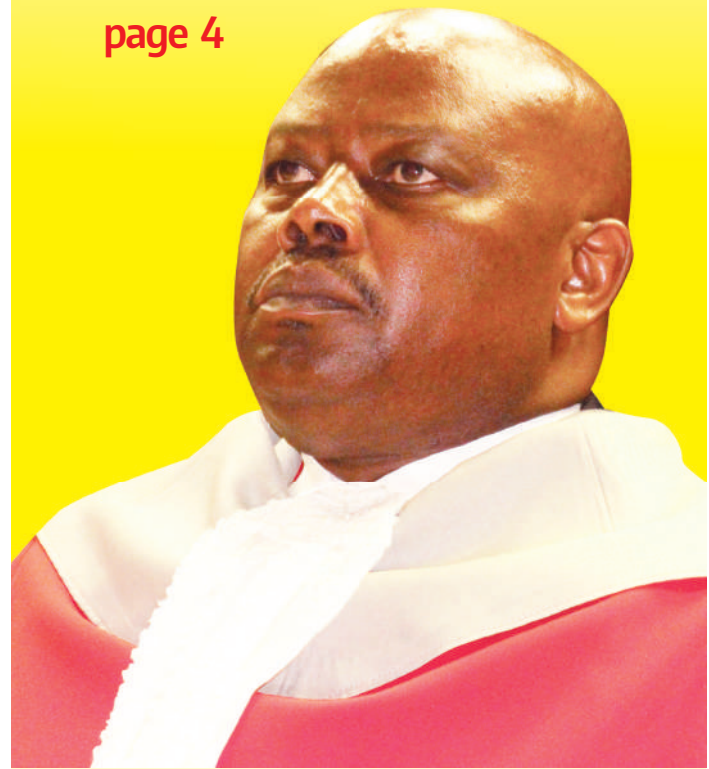
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Local judges take over high profile cases

- Amid fears that their verdicts may not be universally accepted.

page 4



Botched Frazer Solar deal to bleed economy

- Seizure of govt assets to pay off German company to cost Lesotho's 2 percent of GDP

story on page 2

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Botched Frazer Solar deal to bleed economy

... seizure of govt assets to pay off German company to cost Lesotho's 2 percent of GDP

Kaleen Chikowore

THE previous Thomas Thabane administration's botched 2018 M1, 7 billion solar power deal with Frazer Solar could lead to a massive financial haemorrhage estimated at 2 percent of Lesotho's gross domestic product.

Fitch Ratings, a leading international credit rating agency, delivered the warning in its report on Lesotho published last week.

Fitch's gloomy predictions are in tandem with Prime Minister Moeketsi's own submissions to the Gauteng High Court last month. Dr Majoro said that any seizure of Lesotho's assets to pay off the alleged debt to Frazer Solar "would be catastrophic for the finances of Lesotho".

Fitch Ratings is one of the big three credit ratings agencies in the United States (US) and on the globe along with Moody's Investors Service and Standard & Poor's Financial Services.

Credit ratings are an opinion on the ability of a government or an entity to meet financial commitments such as repayment of principal loans, interest payments, dividends and insurance claims.

Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them by governments in accordance with the terms on which they invested. Where ratings are negative, as in the case of Lesotho, this may influence potential lenders and investors to shy away from extending loans and investing in a particular country.

In its latest report on Lesotho published last week, Fitch Ratings gave a Lesotho a "negative B rating," saying the "the negative outlook reflects risks to medium-term growth prospects and increased pressures on public finances aggravated by the prolonged pandemic and structurally lower receipts from the Southern African Customs Union (SACU)".

The agency paints a gloomy picture of the economic situation, saying, "Lesotho's economy contracted 9, 5 percent in 2020, as infrastructure projects such as the second phase of the Lesotho Highlands Water Project (LHWPII) were disrupted as a result of two (covid-19 induced) lockdowns in March 2020 and January 2021".

"Two of the biggest sectors in the economy, mining and textiles, also suffered from weaker global demand and containment measures affecting the domestic economy," Fitch states.

The agency further states that the economy, which was already reeling from the impact of the Covid-19 induced slowdown on global business activity, could suffer even more if Frazer Solar succeeds in seizing Lesotho's water royalties and other assets to pay off a £50 million (M856 million) damages awarded to the German company by a South African arbitrator in 2020.

The arbitrator, South African lawyer Vincent Maleka, was appointed by the Johannesburg Bar Council at the request of Frazer Solar who argued that the terms of its botched agreement with the Lesotho government for the supply of solar power provided for the appointment of an arbitrator in the event of either party breaching the contract.

Dr Majoro was finance minister at the time of the deal in 2018. He later refused to sign the financing agreement for the project aimed at providing Lesotho with 40 000 solar water heating systems, 20 megawatts of solar power capacity, 1 million LED lights and 350 000 solar lanterns over four years.

Former Minister in the Prime Minister's Office, Tšolo, had already signed the main supply agreement before Dr Majoro's refusal, the German company claimed.

Commenting on the issue, Fitch states that, "seizure under legal proceedings in South Africa by the German company Frazer Solar of Lesotho's foreign receipts including water royalties that South Africa pays to Lesotho, if successful, would lead to a potential 2 percent of GDP revenue loss".

This according to the rating agency, will only compound Lesotho's fiscal woes since "a sharp decline" in SACU revenue is expected in the 2021/22 financial year.

"The impact of the third wave of the pan-

demical and associated containment measures on revenues and the resumption of capital projects will outweigh continued tight expenditure control using warrants and expenditure cuts backed by a mid-term budget review in October (2021), and some progress on improving revenue collection and broadening the tax base.

"As a result, we expect fiscal deficits to reach 7 percent and 5, 4 percent of the GDP in 2021 and 2022 (respectively)... We forecast that debt/GDP will rise to 64 percent before stabilising in 2025," Fitch states.

It remains to be seen whether Lesotho will succeed in its bid to reverse the Gauteng High Court's April 2021 judgement awarding the £50 million damages to Frazer Solar.

The judgement was granted after Frazer Solar petitioned the court to endorse the January 2020 award by Adv Maleka. The South African court also granted Frazer Solar's application to garnish the royalties due to Lesotho in terms of the bi-national LHWPII.

Buoyed by the court judgment, Frazer Solar also moved to seize Lesotho government assets in other countries. These include the government's shares in a Mauritian company, West Indian Ocean Cable Company (WIOCC).

The looming seizure of the assets finally jolted the government into action. In June, it dispatched an inter-ministerial delegation for talks with South Africa to stop the company from laying its hands on the water royalties and any other Lesotho assets in South Africa.

The government subsequently assembled a team of lawyers from four different law firms in South Africa to collectively formulate an application for the reversal of the court judgement garnishing the water royalties.

In his founding affidavit filed with the Gauteng High Court last month, Dr Majoro accuses Mr Tšolo of illegally signing the controversial deal with Frazer Solar.

Dr Majoro said Mr Tšolo had no right to negotiate and sign such an agreement.

The premier said the Directorate on Corruption and Economic Offences (DCEO)'s investigations had established that the deal was corruptly and fraudulently signed by both parties.

The premier alleges that he only learnt about the Gauteng High Court's April 2021 judgement in favour of Frazer Solar from the media on 18 May 2021.

He further states that any seizure of Lesotho's assets to pay off the alleged debt to Frazer Solar "would be catastrophic for the finances of Lesotho".

Frazer Solar has however, insisted that all

its dealings with the previous Thabane administration was above board. It also accuses Dr Majoro of lying when he said he was not aware of the deal which could cost Lesotho big time.

TEMEKI Tšolo.



FORMER prime minister Thomas Thabane (left) and the Prime Minister Moeketsi Majoro.