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Lesotho Country report

For the SADC-DFRC 3P



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1 Overall evaluation of the Lesotho's readiness for PPPs

1.1 Background

We evaluated the Member Country by looking at 6 broad categories, containing a number of sub-categories. The six ('6') broad categories include:

- Attractiveness of the member countries
- Availability of domestic capital and debt funding
- Judicial system
- Governance and decision making
- Ease of doing business in the member country
- PPP environment in the member country

The information and indicators were obtained from external sources like World Bank, World Economic Forum, IFC, Ibrahim Index of African Governance, KPMG country reports and actual visits to the member countries (with exception to three ('3') countries, namely , Democratic Republic of Congo, Swaziland and Seychelles). Where possible, KPMG utilised its in-country office to address the categories and answer questions surrounding the projects.

During the country visit we were hosted by the PPP Unit of the Ministry of Finance. This team facilitated meetings with the following key stakeholders:

- Ministry of Finance (Private Sector Development Programme & the Principal Secretary)
- Ministry of Development Planning
- Ministry of Public Works and Transport
- Nedbank Lesotho
- Stanlib Lesotho

Each sub-category was rated either one ('1'), two ('2'), three ('3') or four ('4') based on the indicators from various reputable sources. Where one ('1') and two ('2') refers to "Developing towards PPP readiness" and three ('3') and four ('4') indicates a "Maturing level of PPP readiness". Where no information was available, no value was given. Where there was an element of subjectivity, KPMG, based on years of experience, applied its own mind in coming up with a value. The overall broad category value is addressed in more detail below.

1.2 Attractiveness of the member countries

Attractiveness of the member country	Source of information	Results
GDP % growth for last 3 years	World Bank	4.2%
Actual GDP in numbers (size of economy), current USD\$	World Bank	US \$2.4 billion

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Lending Interest rates	www.trading_economics.com/country-list/inflation-rate	10.4%
Inflation rate	www.trading_economics.com/country-list/inflation-rate	5.07%
Credit Rating	Moody	Stable
Political Stability and Absence of Violence (0 to 100)	Governance indicator, World bank	55.7
Macro-Economic Environment (1 to 7)	The Global Competitiveness Report 2012-2013, World Economic Forum	3.93

Attractiveness of Lesotho, overall result is a two ('2')

Lesotho has a relatively small economy with a GDP of USD2.4billion, although this has grown at an average of 4.2% over the last three years. Its credit rating is Moody's Ba2 with a negative rating, partly based on the poor structural factors in the economy including a low GDP/capita and a very limited private sector. This analysis results in an overall value of two ('2'), Lesotho is thus considered "developing" in terms of this category.

1.3 Availability of domestic capital and debt funding

There are 4 Commercial banks in Lesotho, all of whom are subsidiaries of South African banks. There are five insurance companies, two collective investment schemes, insurance brokers, and credit and savings cooperatives. There are a number of equity and pension funds.

Commercial banks in Lesotho are considered to relatively conservative, as many of the projects proposed are not bankable. There is a view that financing conservatism is due to the financial sector legislation which is relatively constraining in terms of the requirements for the financial sector, and banks in particular.

Availability of domestic capital and debt funding in Lesotho, overall result is a two ('2')

This analysis results in an overall value of two ('2'), Lesotho is thus considered "developing" in terms of this category.

1.4 Judicial system

Judicial system that contributes to effective commercial dispute resolution	Results	Source of information
Enforcing Contracts (country rank 1 to 185)	139	Doing Business 2013 – The World Bank and IFC
Rule of Law (0 to 100)	47.4	Governance indicator, World bank

We used the key indicator 'Enforcing Contracts' from Doing Business as they focuses on how public institutions function in the case of a commercial dispute¹. Doing Business measures the time, cost and procedural complexity of resolving a commercial lawsuit.

Judicial system of Lesotho, overall result is a one ('2')

¹ Doing Business 2013, the World Bank and IFC

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Lesotho ranked 139th in the world in the enforceability of contracts and rated 47.4 out of 100 for application of the Rule of Law, this analysis results in an overall value of two ('2'), Lesotho is thus considered "developing" in terms of this category.

1.5 Governance and decision making

Governance and decision making in member country	Results	Source of information
Institutions (score 1 to 7)	3.3	The Global Competitiveness Report 2012-2013, World Economic Forum
Africa's Governance (score out of 100)	61	Ibrahim Index of African Governance
Voice and accountability (rating of 0 to 100)	45.1	Governance indicator
Government effectiveness (rating of 0 to 100)	44.5	Governance indicator
Regulatory Quality (rating of 0 to 100)	30.3	Governance indicator
Control of Corruption (rating of 0 to 100)	64.5	Governance indicator

Governance and decision making of Lesotho, overall result is a one ('1')

Lesotho was given a rating of 61 out of 100 for governance by the Ibrahim Index of African Governance and a government effectiveness rating of 44.5.

This analysis results in an overall value of one ('1'), Lesotho is thus considered "developing" in terms of this category.

1.6 Ease of doing business in the member country

Ease of doing business in the member country	Results	Source of information
Starting a business (country ranking from 1 to 185)	79	Doing Business 2013 - The World Bank and IFC
Dealing with Construction permits (country ranking from 1 to 185)	140	Doing Business 2013 - The World Bank and IFC
Getting electricity (country ranking from 1 to 185)	133	Doing Business 2013 - The World Bank and IFC
Register property (country ranking from 1 to 185)	157	Doing Business 2013 - The World Bank and IFC
Getting credit (country ranking from 1 to 185)	154	Doing Business 2013 - The World Bank and IFC
Protecting investors (country ranking from 1 to 185)	100	Doing Business 2013 - The World Bank and IFC
Paying taxes (country ranking from 1 to 185)	95	Doing Business 2013 - The World Bank and IFC
Trading across borders (country ranking from 1 to 185)	144	Doing Business 2013 - The World Bank and IFC

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Resolving insolvency (country ranking from 1 to 185)	75	Doing Business 2013 – The World Bank and IFC
Overall ease of doing business in the member country	136	Doing Business 2013 – The World Bank and IFC

Ease of doing business in Lesotho, overall score is a one ('1')

Lesotho is ranked 79th in the world for Starting a Business, and 154th for Getting Credit and a far poorer 140th for Dealing with Construction Permits.

This analysis results in an overall value of one ('1'), Lesotho is thus considered “developing” in terms of this category.

1.7 PPP environment in the member country

Enabling environment in the member country for PPPs	Source of information
Legal system enabling PPPs in the member country	
- Is there a presence/development of enabling legislation ie PPP Law/ regulations etc?	Lesotho has a draft PPP policy. This policy will be approved by Cabinet by the end of July 2013. Thereafter, legislation will be drafted and enacted. However, in the absence of this legislation at the moment, the existing legislative environment still allows for PPPs to be implemented.
- Does a policy for private participation in the member country exist?	Private participation is enabled by the existing legislation, as discussed above.
- Public Sector appetite/capacity and experience relating to PPPs in the member country	In general, there is not much awareness of what PPPs actually entail. As a result there is a common misconception that PPPs translate into privatisation. In addition to this, there is also a view that PPPs could undercut the socio-economic imperatives of government and this is particularly important given the levels of poverty in Lesotho as it is ranked as one of the Least Developed Countries (LDC) by the World Bank.
Is there Political support for PPPs?	
- Is there a PPP focal point/ Unit in the member country?	The Ministry of Finance in Lesotho does have a small team of people who are driving the PPP policy. This is the unit that has been driving the drafting of the PPP policy and they have set up a program for creating awareness of the policy amongst politicians and government officials.

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<ul style="list-style-type: none"> - Does an existing PPP track record in the member country exist? 	<p>According to officials, a number of PPPs have been implemented to date. One PPP is often used as an example of PPPs in Lesotho; it was for the renovation and operation of Queen Mamohato Memorial Hospital. The PPP process began in 2006 and was then fully operational by 2011. The IFC was the transaction advisor for this PPP.</p> <p>Currently, there are a number of challenges that are being experienced in the operational phase which relate to monitoring of the implementation of the project. There is also a view that the project has not provided sufficient value for money.</p>
<p>Private sector capacity, capability and appetite</p>	
<ul style="list-style-type: none"> - Are multiple firms active in the PPP market? 	<p>Yes</p>
<ul style="list-style-type: none"> - Does capacity exist in the private sector? 	<p>Capacity is a big constraint in Lesotho, particularly human capacity, with many skills being acquired and utilized from South Africa. Many businesses in the financial sector undertake certain operations through their South African parent companies.</p>

PPP environment in the Lesotho, overall score is a two ('3')

Lesotho is in the process of developing a PPP Policy and has a PPP Unit in the Ministry of Finance. The 390 bed Queen 'Mamohato Memorial Hospital is a full service referral hospitals procured as a PPP in Maseru. This analysis results in an overall value of three ('3'), Lesotho is thus considered "developing" in terms of this category.

1.8 Observations

Our results are based on the most recent verifiable information available at time of the report

Reputable external sources were used where appropriate and fact based observations were made.

Representative of the member countries PPP units did not recognise most of the projects identified in the RIDMP and STAP. In addition to this, a number of the projects are already in implementation phase.

1.9 Conclusion

The legislative environment in Lesotho does enable the implementation of PPP, in addition to this, the PPP policy and legislation will be enacted in the near future. Political will and support for the implementation of PPPs is a key requirement and there is a view that once PPP policy framework is in place, and the PPP unit has undertaken activities to raise awareness, this will provide the level of transparency required in order to gain full political support.

Lesotho also has a track record in the implementation of PPPs (the renovation of the Queen Mamohato Memorial Hospital being the most prominent example), however, there are a number of challenges that have ensued in the operational phase of this PPP.

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Some of the key challenges and constraints to implementing PPPs include the constraining financial sector environment and therefore a potential lack of appetite for local investment.

Overall Lesotho is thus considered “developing” in terms of this category.

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