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PUBLIC PRIVATE PARTNERSHIP (PPP) AS A STRATEGY FOR DEVELOPMENT

'A public-private partnership is a form of collaboration in which the government and the private sector, each retaining its own identity and responsibilities, join forces to carry out a project on the basis of a predetermined sharing of tasks and risks.'

Public-Private Partnership and the Lesotho economy

The Government of Lesotho appreciates the contribution that PPP can make to the growth of the economy. However the Government does not have a formal statutory declaration on the adoption of PPP as a country strategy. It has nonetheless made several public announcements that it considers PPP as a viable strategy for development. For example, the Government of Lesotho and International Finance Corporation (IFC) recently signed an agreement in which IFC is to assist in the design and implementation of a PPP project to develop a new referral hospital, which will replace the current Queen Elizabeth II Hospital.

The intention of Government to implement a PPP strategy fits well with the general scheme of things; this is in view of government effort on private sector development, which is aimed at eliminating structural and institutional impediments to private sector growth. Some of the hurtles identified by the private sector and Government include: streamlining administrative and regulatory barriers that discourage investment; identification of barriers that impede provision of good immigration and customs services, which are identified as discouraging investors and tourism to Lesotho; creation of an effective minimum platform of physical and human infrastructure; and retention of existing investors, in particular those in textiles and apparel sectors.

Government borrowing Framework

The Government of Lesotho has declared the intension to borrow on concessional rates only. This intention was made during the period 2000 to 2003, when Lesotho implemented the Poverty Reduction and Growth Facility (PRGF) Programme supported by the IMF. The stance was considered vital to create an environment conducive to achieving the set benchmarks and indicators.

However since Lesotho is currently not implementing any IMF supported programme, similar commitments taken under the PRGF may be adopted in order to maintain consistency and prudence in managing the macroeconomic indicators from now onwards

Borrowing to Finance PPP

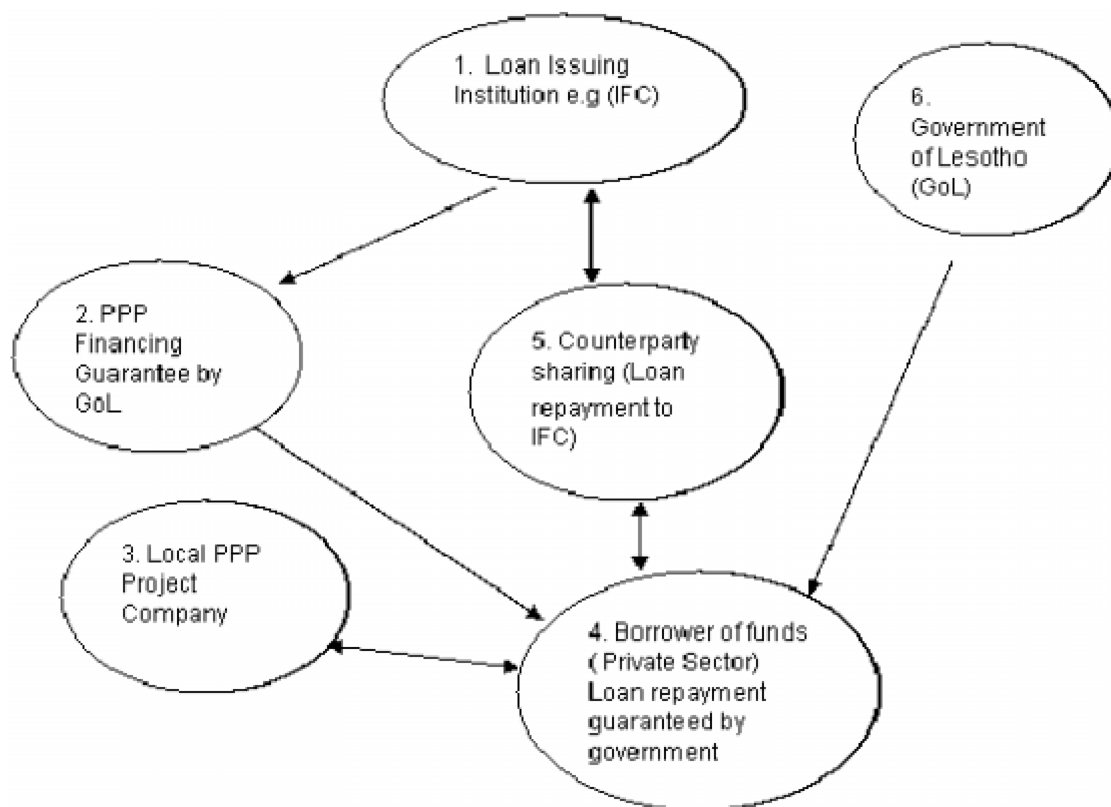
There are two alternative methods that the Government may decide to follow in financing of projects. The first option is borrowing on concessional rates with an estimated interest cost of 0.75 percent to 1.5

percent. The second option is borrowing on commercial rate, with interest cost estimated at 5 percent upwards. Though interest comparison is a vital element of cost-benefit analysis, there are other considerations that are vital for loan evaluation. It may also depend on the maturity structure of the loan. The loan can be awarded a grace period of 10 years, of which a country can be allowed only to pay interest costs, before paying the principal. This can assist on cushioning the weight of the repayment burden. The other evaluation measure can be retirement period of the loan, in some instances this is given up to 40 years. This is also put in place to minimise the possibility of default on a loan. It should, however, be highlighted that there is a cost in borrowing in each of the options discussed.

Mechanisms for Securing Loans

The PPP borrowing on commercial rate assumes private sector efficiency, which is in most cases limited, especially in developing countries like Lesotho. Therefore, countries at this stage of development usually rely on guaranteed loan facilities, as illustrated in the chart below. However, a loan guarantee tends to be a disincentive for private sector efficiency, as the cost of failure is likely to be negligible on the part of the private sector and borne mainly by the guarantor (Government in this case). Under the loan guarantee scheme, funding is automatically secured for a private company to be involved in a project while, at the same time, the Government guarantees to bail out such a company in the case of failure.

SOVEREIGN GUARANTEED LOANS



Under this approach, the ideal preference would be to set up a separate, autonomous, PPP infrastructure financial institution. The role of the company as represented by "3" on the flow chart will, among others, ensure that developmental goals are met, and government does not take majority share in the execution of a PPP project and is limited to at most 15 percent equity holding. The company would be managed and controlled by the private sector. Examples of such companies are Infrastructure Finance Company in South Africa and Infrastructure Development Finance Corporation (IDFC) in India.

Benefits from PPP

The question that is being asked here is whether the Government of Lesotho can maintain value for money by going through PPP in provision of some of the infrastructure in the public sector. It is often stated that government will benefit from new and recent research and development in engineering, to which the private sector tends to have timely access. It can also be argued that it may be more beneficial for the Government to sub-contract than enter into a partnership, under which it acts as a guarantor to potential project failure. Nonetheless, each option has its own advantages and disadvantages. As such whichever approach is followed needs to be guided by a careful cot-benefit analysis, to maximise the success rate of the chosen project.

On the financing part, the cost of borrowing on commercial terms is always higher than that of concessional loans. In this regard, the cost of the project will have to be weighed against the expected benefits in the provision of public infrastructure and overall economic development.

The way forward: When is a PPP appropriate?

Lesotho has already engaged in projects that have an element of PPP as outlined in the Privatisation Policy that was adopted and implemented in 1995, though at the time there was no formal adoption of PPP as a development strategy. This is considered a learning curve for the economy; certain pre-conditions are necessary in creating a favourable environment for a fully fledged PPP, and include the following:

- One policy consideration involves the need for clarity about the purpose of collaboration with the private sector.
- On the basis of a prior evaluation, there must be an indication that such collaboration can deliver added value relative to alternative options.
- The Government and the private sector must share a common understanding about the objectives of projects.
- The existence of political will, and administrative commitment both to the project and environment conducive to the private sector.
- Collaboration with the private sector must offer benefits in respect of controlling the risks attendant on the project (through transferring risks to private sector companies that are better equipped to control them), and/or the risks must be capable of being equitably shared.
- The contours of the project must be sufficiently clear before any partnership with the

private sector can be entered into. On the other hand, the project must not already have been fully 'mapped out' since that would leave no room for effective input from the private sector partner or partners.

- There must be sufficient manifest interest in the project and the proposed PPP by the private sector.

Table 1. Monetary and Financial Indicators+

	May	June	July
1. Interest rates (Percent Per Annum)			
1.1 Prime Lending rate	11.83	11.63	11.50
1.2 Prime Lending rate in RSA	10.50	10.50	10.50
1.3 Savings Deposit Rate	1.00	2.00	2.00
1.4 Interest rate Margin(1.1 – 1.3)	10.83	9.63	9.50
1.5 Treasury Bill Yield (91-day)	7.16	6.93	7.08
2. Monetary Indicators (Million Maloti)			
2.1 Broad Money (M2)	2392.26	2320.91	2456.06
2.2 Net Claims on Government by the Banking System	-1009.02	-817.22	-1140.70
2.3 Net Foreign Assets – Banking System	4428.37	4151.03	4565.89
2.4 CBL Net Foreign Assets	3191.39	3000.88	3343.90
2.5 Domestic Credit	-355.5	-159.89	-562.98
2.6 Reserve Money	327.4	358.14	382.99
3. Spot Loti/US$ Exchange Rate (monthly average)	6.356	6.6970	6.6038
4. Inflation (year-on-year percentage change)	3.5	3.1	3.3
5. External Sector (Million Maloti)	**2004**	**2005**	
	Q4	**Q1**	**Q11**
5.1 Current Account Balance	-116.5	22.3	22.3
5.2 Capital and Financial Account Balance	225.6	-39.3	-39.3
5.3 Reserves Assets	-1.2	-199.8	-199.8

+These indicators refer to the end of period. Prime and deposit (savings) rates are averages of all commercial banks' rates operating in Lesotho. The Statutory Liquidity Ratio in Lesotho is 25 percent of commercial banks' short-term liabilities.

Table 2. Selected Economic Indicators

	2001	2002	2003	2004*
1. Output Growth(Percent)				
1.1 Gross Domestic Product – GDP	3.2	3.5	3.3	3.4

1.2 Gross Domestic Product Excluding LHWP	3.5	2.9	3.1	3.3
1.3 Gross National Product – GNI	0.2	1.6	6.3	3.6
1.4 Per capita –GNI	-2.1	-0.2	4.0	2.4
2. Sectoral Growth Rates				
2.1 Agriculture	0.5	-4.2	-1.8	0.5
2.2 Manufacturing	7.9	6.9	5.2	5.0
2.3 Construction	1.4	6.9	4.3	4.0
2.4 Services	2.2	2.2	4.4	3.9
3. External Sector – Percent of GNI Excluding LHWP				
3.1 Imports of Goods	75.3	93.9	79.4	73.0
3.2 Current Account	-2.9	-11.6	-5.7	-0.8
3.3 Official Reserves (Months of Imports)	11.7	6.2	5.8	5.8
4. Government Budget Balance (Percent of GDP)	0.3	-5.5	-1.9	7.7

* Preliminary estimates