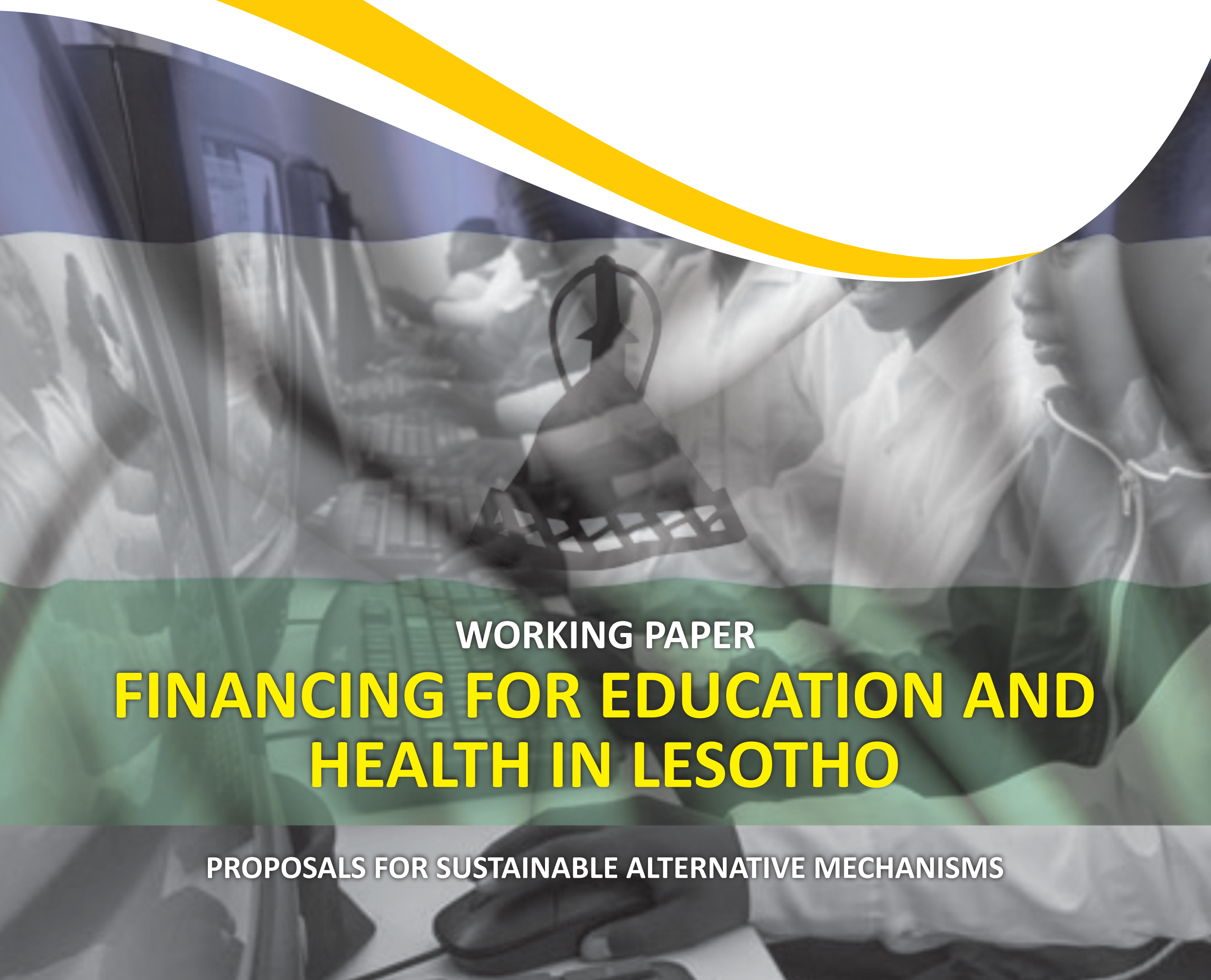
AFRICAN FORUM AND NETWORK
ON DEBT AND DEVELOPMENT



WORKING PAPER

FINANCING FOR EDUCATION AND HEALTH IN LESOTHO

PROPOSALS FOR SUSTAINABLE ALTERNATIVE MECHANISMS

CONTENTS

ABSTRACT

The trend of private investment in social services delivery has made an intrinsic mark on how African governments allocate resources to finance sectors such as education, health, public services and social protection. In Lesotho it has led to an increase in private sector role and subsequent privatisation of education and health to the extent that government ministries have clung on to the mantra of privatisation and public private partnerships (PPPs) as the financial panacea to resource mobilisation and freeing up of fiscal space for development. As such, it is important to note the risks associated with privatisation that include higher user fees, high fiscal risks for governments, limited development impact and the exacerbation of inequality.

This paper makes proposals on the need to institute sustainable alternative financing to not indebt the Government of Lesotho. These include amongst others broadening sin taxes and earmarking, renegotiating the SACU revenue sharing agreement and modernisation of the country's tax systems to plug leakages.

I. INTRODUCTION

The Addis Ababa Action Agenda on Financing for Development outcome document underscores the need for sustainable and resilient infrastructure and services delivery as a pre-requisite to sustainable development. Public-Private Partnerships (PPPs) are expected to deliver infrastructure in furtherance of this Agenda. Recognizing the continental strategic visions on infrastructure development namely Programme for Infrastructure Development in Africa (PIDA), Agenda 2063 and the African Development Bank's High Fives, the focus on PPPs has been on a rising trajectory as they are regarded as a solution to closing the financing gap for infrastructure development, achieving the Sustainable Development Goals (SDGs) and financing Agenda 2063 in Africa[1]. Whilst the definition of PPPs is debatable and with no common agreed position, PPPs can be defined as long-term contractual arrangements where the private sector provides assets and services that have traditionally been provided by governments with the arrangement ensuring some form of risk sharing between the private player and the public sector[2]. Such infrastructure and services include roads, railways, airports, hospitals, water and sanitation plants and education institutions and facilities.

Recognizing that Africa's rapid economic growth over last decade has brought relatively small improvements for human development; limited enabling infrastructure has been noted as a fundamental and structural barrier to progressive improvement for growth[3]. As a result, the World Bank, the International Finance Corporation and International Monetary Fund have been at the forefront of promoting PPPs for infrastructure and services development; resulting in government and business leaders across Africa accepting PPPs as a means of procuring and financing infrastructure projects and financing the attainment of the SDGs. This has also seen an increasing number of countries developing PPP policies and frameworks that typically reflect the institutions, procedures and rules needed to implement the models[4]. However, PPPs and privatisation have often led to unsustainable risks for governments as they tend to bear heavy financial risks related to economic fluctuation which often lead to higher debt stocks. Moreso, given the debt effect of PPPs, governments tend to have constrained fiscal spaces that affect the financing of social services such as education, health, social protection thereby resulting in inequalities between and amongst citizens access to basic goods.

Given the above-mentioned concerns, this working paper builds a case on the need for sustainable alternative financing mechanisms for education and health in Lesotho. The paper maps out strategies of dealing with the challenge of privatisation and making the private sector and governments accountable for the rights to access to basic services of citizens in Lesotho. It proffers recommendations on alternative sustainable mechanisms of financing education and health services whilst drawing examples from proposed financing initiatives by international, regional and national CSOs for institution by governments in a bid to comprehensively and sustainably finance the two sectors.

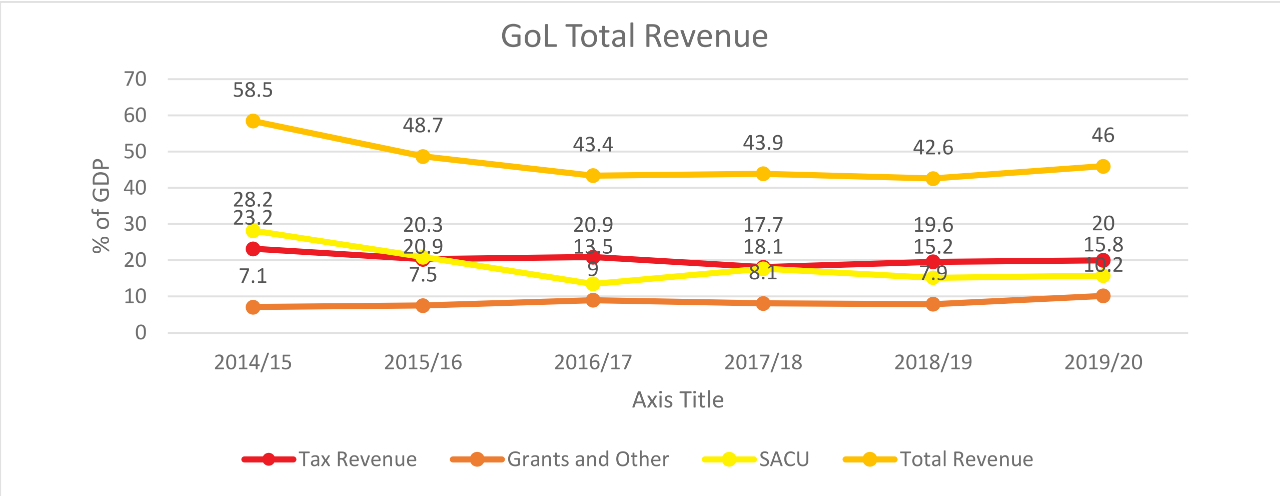
II. NATIONAL RESOURCES MOBILISATION IN LESOTHO

Financing for national development in Lesotho is administered under the Ministry of Development Planning which is the custodian of the country's Vision 2020, the National Strategic Development Plan II for the period 2018/19-2022/23(NSDP II). The NSDP II in overall guides the development path that the Government of Lesotho (GoL) chose to take to realise its targeted development goals namely employment, poverty eradication, shared prosperity, lasting peace and security, a strengthened human capital base and the protection of its fragile ecosystems and cultural heritage[5]. For the health and education sectors, the National Health Strategic Plan 2017-2022[6] and the Education Sector Strategic Plan 2016-2026[7] respectively guide the route and target that they ought to achieve. The three policy documents also point out where finances for these development plans will be sourced from and expectations of use and sustainability.

[1] Public-Private Partnerships and the 2030 Agenda for Sustainable Development Fit for Purpose? ,https://www.un-ilibrary.org/deliver/f42bd4bb en.pdf?itemId=%2Fcontent%2Fpaper%2Ff42bd4bb-en&mimeType=pdf
[2] History RePPPeated, How PPPs have failed, https://eurodad.org/files/pdf/1546956-history-repppeated-how-public-private-partnerships-are-failing-.pdf
[3] https://blogs.worldbank.org/ppps/infrastructure-africa-s-development-ppp-imperative
[4] SADC Banking Association, PPPs in Africa, https://www.sadcbanking.org/news/public-private-partnerships-africa/

The GoL is the main driver of economic activity through high levels of public spending estimated at around 60 percent of GDP. The large public sector leaves little room for the private sector (which accounts for only 14.6% of GDP) resulting in limited private sector job opportunities. This has exacerbated poverty and inequality within the state. Resultantly, the public sector has become the de facto employer resulting in a bloated public sector, leaving limited fiscal space for government to pursue other development objectives.

Figure 1: Government of Lesotho Revenue Streams 2012-2018



Source: NSDP II 2018-2023. (Note 2019/20 are projections)

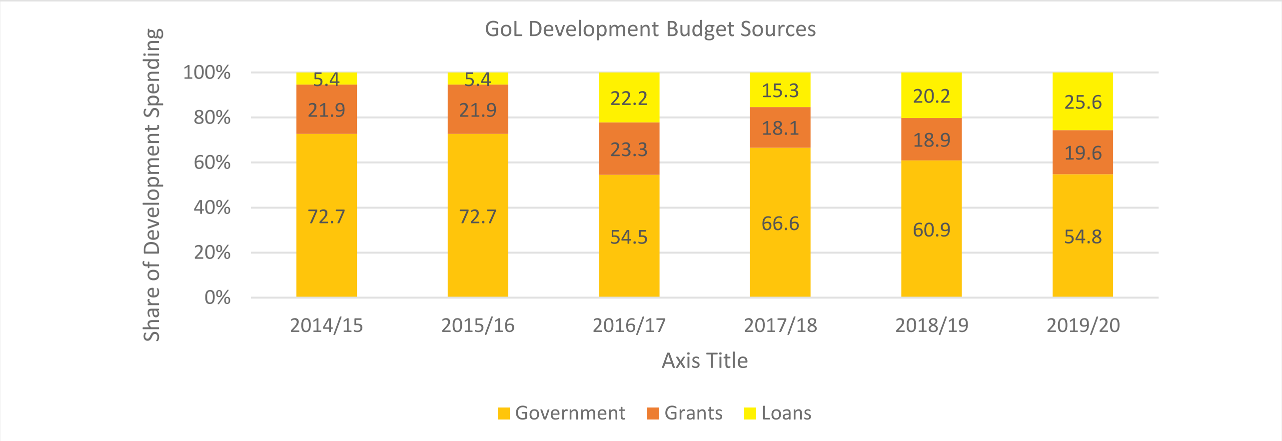
Government expenditure is also largely dependent on the volatile Southern Africa Customs Union (SACU) transfers, which have been on a decline between fiscal years 2012 and 2018 (Figure 1). Tax revenue has contributed atleast an average of 20% of GDP since 2014 with grants and other revenues rising from 7% of GDP to 10% of GDP as between 2014 and 2020. In totality, government revenue fell from 58.5% of GDP in 2014 to a projected 46% of GDP for fiscal year 2019/20. From a sustainability perspective, this decline and limited spread of revenues has posed serious macroeconomic stability risks as well as fiscal constraint on comprehensively financing social services delivery in the country. For a change to growth and sustainable development, there is need for a structural shift in the country's growth model from one driven by government spending only to a model where the private sector also substantially and sustainably drives economic activity and employment creation. Whilst Lesotho has the opportunity to utilise external private capital to meet its development needs and closing the financing gap, it however needs policy reforms that enhance the ease of doing business as well as attracting investment. The reforms range from the development of policy frameworks for private sector engagement and dealing with weak technical and institutional capacities of state own enterprises (SOEs) and ministry departments and agencies (MDAs).

[5] http://www.planning.gov.ls/wp-content/uploads/2019/11/onetwo.pdf
[6] https://www.childrenandaids.org/sites/default/files/2018-05/Lesotho_Nat%20Health%20Strat%20Plan_2017-2022.pdf
[7] https://www.globalpartnership.org/sites/default/files/education_sector_plan_2016-2026._lesotho_0.pdf
[9] https://www.gov.ls/wp-content/uploads/2018/04/National_Vision_Document_Final.pdf

III. FINANCING FOR EDUCATION AND HEALTH IN LESOTHO, CURRENT TRENDS, CHALLENGES AND OPPORTUNITIES

The government of Lesotho has been financing its budget as well as sectors such as education and health sectors firstly from the national budget allocations, however, an introspection of the development budget shows that since 2014, the government share of the development budget has been dwindling whilst shares for grants and specifically loans have been increasing (Figure 2). The share of loans is the most worrisome as they entail the need for prudent debt management as the rise from 5% to 25.6% as at 2019/20 entails increasing levels of indebtedness for Lesotho[9].

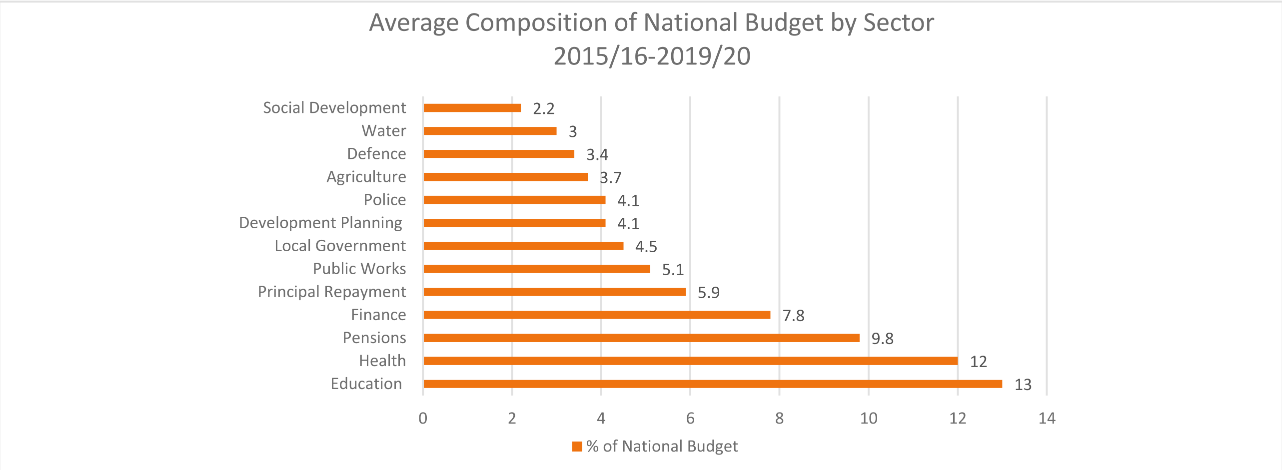
Figure 2: GoL Development Budget Sources



Source: UNICEF National Budget Brief

It is no doubt that the top two priority sectors of the Government of Lesotho are education and health. For the period 2014/15 to 2019/20, the government allocated an average of 13% and 12% of the national budget to education and health, respectively (Figure 3). However, the respective budget allocations fall short of international and regional targets for spending in these sectors. These expenditures have been inadequate in ensuring that comprehensive cover for education, health and development project needs are achieved. Resultantly the GoL has been acquiring loans to compliment the development of the two sectors but could only contract those deemed sustainable enough to ensure that Maseru can repay. In essence therefore, Lesotho faces a challenge to develop prudent fiscal strategies for financing the two sectors.

Figure 3: Composition of National Budget by Sector



Source: 2: UNICEF Budget Brief 2019/20

[10] XXXXX

b. Health Sector Financing in Lesotho

Governed by the NHSP 2017-2022, the health sector is administered by the Ministry of Health which oversees policy and operational regulation on both primary and tertiary health care as well as medical professionals. The sector has been financed through national budget revenue, aid support, grants and loans from multilateral institutions as-well as through bilateral support. On average through the NSDP I and II, the GoL has investment an estimated 12% of GDP (Figure 3). This is not far off from the Abuja Declaration that stipulates atleast 15% of GDP investment to health sector development. Whilst some considerable positive health outcomes may have been witnessed, it is important to reiterate the fact that the government is the main driver of growth and consumerism therefore, budgetary allocations to health as well as education are expended on recurring items including salaries, operations and maintenance. This situation gave impetus for the government to tap into financing through Public Private Partnerships and or privatizations in which the GoL in collaboration with private sector would agree on arrangements on private sector management (albeit problematic) of either state owned or governed institutions including schools, universities, clinics as well as hospitals. One such problematic arrangement is the Queen Mamohato Memorial Hospital PPP.

IV. WHY ENGAGE PRIVATE SECTOR FOR THE PROVISION OF PUBLIC GOODS?

In the past decade, the process of globalization has assumed various forms and dispositions. The global development finance system has consequently witnessed privatization being adopted as a vehicle for economic growth and development by most countries in Africa and the Southern Africa region in particular. This wave of privatization and restructuring that has gripped Southern Africa's regional economies has resulted in the extension of the market concept to areas as diverse as the provision of education, health care and water utilities. In most cases, public entities have not been spared - from marketing boards to infrastructure parastatals and public utilities - the concept of markets is being applied unreservedly.

Despite some of the perceived benefits, it is argued that massive privatisation programmes have not brought about the anticipated benefits. The extension of the market concept has resulted in the reversal of past gains, especially in the areas of education and health, with outcomes pointing towards the negative in terms of enrolment, pass rates, financing and progression as well as mortality rates, wellness and healthy livelihoods respectively[11]. The effects arising out of the privatisation and restructuring of State-Owned Enterprises (SOEs) or public service delivery institutions on user fees, accessibility, employment and general economic well-being of the workers has also been phenomenal[12].

African governments are undertaking PPPs as a way of tapping into the private sector resources. This generally implies that resource constraints on the part of the public sector as well as lack of the requisite expertise mostly push governments into inviting private sector participation in areas that should have been their sole responsibility in providing the infrastructure services[13]. Amongst other reasons why African governments have been taking up PPPs are the facts that PPPs free up space for social investment and tend to offer better value for money. The ability to transfer risk to the private entity and the possibilities of greater efficiency in project execution, service delivery and cost recovery are also reasons considered by governments when undertaking PPPs.

[11] https://eurodad.org/files/pdf/1546956-history-repppeated-how-public-private-partnerships-are-failing-.pdf
[12] Ibid
[13] ZEPARU, 2016, Status And Performance Of Public-Private Partnerships In Select Eastern And Southern African Countries, http://mefmi.org/wp-content/uploads/2018/12/Status-and-performance-of-PPPs-in-Eastern-and-Southern-Africa-Main-Report.pdf

Africa's involvement in PPPs has been limited as compared to other continents. However, PPPs have grown in importance citing the fact that, African governments, some of which are largely strapped for resources, now have a greater need for infrastructure development to support the continent's population growth and services demand[14]. Cementing this need, the African Union, through the African Union Commission came up with Agenda 2063[15] whose Strategy for Financing the Ten Year Plan points out PPPs as one of the targeted external mechanisms from which financing for infrastructure will be derived from[16].

For Lesotho, the genesis of the processes of privatisation are enshrined in various legislative instruments that include the Privatisation Act of 1995 which were supported by the World Bank under the Lesotho Privatisation and Private Sector Development Assistance Project appraised in June 1993[18]. The rationale for this process in Lesotho was justified by the stakeholders interested i.e. World Bank, International Monetary Fund (IMF), International Finance Corporation (IFC) and the government of the time as a way to turn the economic fortunes of Lesotho which was characterised by an increasing unemployment rate triggered by dwindling job opportunities in South Africa, inadequate diversity of economic activity, as-well as failing and poor management of parastals[19].The initial plan for the privatisation of parastals was targeted at sectors including banking, mining, energy, transport, tourism, water production and agriculture[20], however the privatisation process has been extended to other sectors, including the health and pharmaceutical industries, as well as the education sectors as a result of inadequate budget to finance the development agendas of the two sectors. The impacts as a result of this policy shift from public financing to a publicly supported private finance or privatisation has not only had a negative bearing on public sector service provision but also on the human rights-based access to public goods such as education and health. This has been triggered mainly by the implementation and policy gaps that has left ordinary Sotho citizens at the mercy of economic predators operating in the provision of public goods. These gaps are characterised by the non-alignment between the ideals of the provisions of the Lesotho Health and Education Act and the respective 2017 Public Private Partnership Policy, and supporting policies such as the Public Procurement Policy Amendments of 2007 and 2018 as well as the Loans and Guarantees Act of 1967 and its Amendments.

a. Challenges and Risks of PPPs and Privatisation of Education and Health in Lesotho[21]

Recognising that SDGs are defined by their broad and ambitious scope, universal application across all countries and sectors, and indivisibility from one another[22] it is important to be alive to the fact that private capital and private-sector innovation are needed to achieve the SDGs agenda. The impact of privatisation on sustainable development, is however problematic to measure as it includes several complex and little understood transmission conduits. When privatisation is implemented successfully, it leads to efficiency in allocation of resources, higher productivity, innovation and entrepreneurship. Empirical experience from all parts of the developing and emerging countries has clearly demonstrated that State Owned Enterprises (SOEs) exhibit a significant lower productive efficiency in comparison with privately owned companies[23]. However, given the increasing trend on the privatisation of health and education services and the subsequent buy-in by Southern African governments, it is important that they be alive to the fact that privatisation of education and health services - including the engagement of private sector actors through PPPs - have the following proven impacts:

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14 Iossa & Martimort 2012,
15 Agenda 2063 is the African Unions blueprint for Africa's development discourse, it carries the hopes and aspirations of the African people and the strategies they intend to employ to achieve the African development aspirations
16 Financing Agenda 2063 First 10-Year Plan Agenda 2063 Financing, Domestic Resource Mobilization And Partnership Strategy, https://www.tralac.org/images/docs/8260/financing-agenda-2063-first-10-year-plan-september-2015.pdf
17 http://www.commonlii.org/ls/legis/num_act/pa1995181.pdf
18 http://documents.worldbank.org/curated/en/425031468758700425/pdf/multi0page.pdf
19 https://www.iol.co.za/news/africa/lesotho-in-massive-privatisation-drive-11607
20 https://unctad.org/en/Docs/aconf191cp34les.en.pdf
21 http://childrenandaids.org/sites/default/files/2018-05/Lesotho_Nat%20Health%20Strat%20Plan_2017-2022.pdf
22 Conceiço, Malloch-Brown, Nabarro, 2017
23 ibid

- High User Fees and out-of-pocket expenses for public goods and infringement of basic human rights.
- Limited access to services by ordinary citizens which exacerbates inequality of access as those without financial means acquire services
- Crowding out of expertise and resources from public to private sector services delivery
- Commodification of education and health services
- Leads to corruption specifically in the tendering and soliciting stages which remain highly secretive
- Compromises quality because of private vendor profit motive.
- Lowers state employee morale and contributes to fear of displacement.
- Government accountability will be diminished due to cover-ups by the private sector.
- National policy makers usually lose control over privatised services as they are governed by corporate institutions.

Box 1: The Case of the Queen Mamohato Hospital PPP

The Queen 'Mamohato Memorial Hospital was built to replace the Queen Elizabeth II Hospital, Lesotho's old main public hospital under a public–private partnership (PPP). The PPP signed in 2009 was described as opening a new era for private sector involvement in healthcare in Africa, and was seen as the International Finance Corporation (IFC)'s flagship model to be replicated across the continent. Instead, the Ministry of Health in one of the poorest and most unequal countries in the world has been locked into an 18-year contract that is already using atleast 51% of the health budget through recurring payments whilst providing high returns of 25% profits to the private partner. This is a worrisome diversion of limited public funds from primary healthcare services in rural areas, where 75% of the population live. Lesotho's experience supports international evidence that health PPPs are high risk and costly, and fail to advance the goal of universal and equitable health coverage. The IFC should be held to account for the poor quality of its advice to the Government of Lesotho and for marketing this health PPP as a success internationally, despite its unsustainable costs.

(OXFAM International, Consumer Protection Association of Lesotho - A DANGEROUS DIVERSION Will the IFC's flagship health PPP bankrupt Lesotho's Ministry of Health?, 2014)

V. SUSTAINABLE ALTERNATIVES TO PRIVATISATION AND PPPS IN FINANCING EDUCATION AND HEALTH SERVICES

Given the risks associated with the institution of PPPs and privatisation of health and education, there rises a dire need for more sustainable and alternative forms of financing for the two sectors. However, these alternative sources of finance come in various mechanisms and structures. Within this context, alternative finance or financing by definition refers to any non-traditional tool or mechanism used to raise capital from private or public sources that are developed to address systemic issues that have led to poor and ineffective services for marginalised communities[24]. Whilst this definition is debatable and has not found much uptake from governments, this working paper argues that domestic resource mobilisation remains key for the government to have resources to finance education and health services provision, but given the inadequacy of domestic resources; the government of Lesotho can broaden its tax base by curbing illicit financial flows, increasing its revenue streams equitably, ensuring that private sector companies pay their fair share of tax remittances whilst prioritising and equitably redistributing development-oriented budget allocations to the two sectors. However, given the slow pace at which DRM systems reforms have been moving, the government ought to broaden the revenue base through the following alternative resource mobilisation such as:

(i) Broaden Sin Taxes - A sin tax is an excise tax specifically levied on certain goods deemed harmful to society and individuals, for example alcohol and tobacco, candies, drugs, soft drinks and fast foods[25]. Whilst Lesotho has sin taxes on tobacco, alcohol and fuel, it can broaden sin-taxes towards the already muted telecommunications sector and also add additional ones to the aviation sector and other luxury goods such as luxury vehicles and casino gambling. Sin taxes are important to broaden as they are used to increase the price to collect more revenue whilst in an effort to lower their use, and or to increase and find new sources of revenue.

[24] http://www.undp.org/content/dam/undp/library/innovation/Alternative%20Finance.pdf

[25] Bader, P; Boisclair, D; Ferrence, R (2011). "Effects of tobacco taxation and pricing on smoking behavior in high risk populations: a knowledge synthesis". Int J Environ Res Public Health. 8 (11): 4118–39. doi:10.3390/ijerph8114118. PMC 3228562. PMID 22163198

(ii) Earmarking-Taxes - Earmarking revenues for the education and health sector is one-way Lesotho can look to mobilize and stabilize the level of funds available. The government of Lesotho can earmark at least 3% of proceeds form the diamond and medicinal marijuana industry that are booming in the country. The mobilisation of these taxes should be linked to the establishment of a special purpose fund in the name of either the Education Fund or the Health Fund.

(iii) Tax Administration Modernisation – One fundamental challenge in Lesotho's tax systems is the fact that it's administration is inefficient and ineffective leading to revenue leakages due to corruption, delays and duplication. To avert this, there is need to modernise the tax system, enhance efficiencies to comprehensively collect revenues effectively. An AfDB project on tax harmonisation projects that with tax modernisation including in the extractive sector, Lesotho can increase its tax to GDP ratio from 20% of GDP to 26% of GDP. Increased revenue will trigger increased funding to social sectors.

(iv) Diversify Economy and Renegotiating the SACU Revenue-Sharing Arrangement – The GoL must diversify its economy by promoting deepened domestic private sector activities in infrastructure development and the manufacturing sector as these are drivers of growth that will push the country's GDP up. With the implementation of this as stipulated in the Vision 2020 and NSDP II, Lesotho must work towards renegotiating the SACU revenue sharing agreement whose revenue remains volatile in its case. This may trigger revision of the sharing formulas[26] on the customs, excise and development components of the revenue sharing arrangement. This will increase the country's receipts from SACU which may boost revenues for government coffers for financing development initiatives.

VI. CONCLUSION

Given the challenges faced by the Government of Lesotho in financing education and health services delivery due to dwindling aid, inadequate tax revenues, policy and regulatory frameworks; it is important that the country focuses on broadening the tax bracket in such a way that does not exacerbate poverty and inequality and also not overtax the citizenry. This paper has proposed that the GoL broaden sin taxes and earmark tax thresholds from booming sectors such as the diamond and medical marijuana industries. Moreso, it is important for the country to renegotiate the SACU revenue agreement as SACU receipts remain an important source of international public finance that can be utilised for national development. However, the discharge of its fiscal mandate, the GoL MUST Increase education and health budgetary allocations to revive the two essential sectors in line with global standards. i.e. Abuja Declaration, Dakar and Incheon Frameworks as well as the Abidjan Principles. This should be coupled with reviewing outdated national education and health policies, with inputs from other stakeholders inclusive of the private sector, academia and civil society organizations.

When engaging in PPPs government should ensure that they do due diligence to evaluate the merits and de-merit to such ventures. Besides financial costs, they should also assess the capacity of the communities to pay for the services that the PPPs project will bring. Whereas, civil society must continually push against the commercialization of education and health services and conduct their watchdog role of monitoring reforms and proffer technical assistance to the revamping of regulatory frameworks in both education and health sectors and their financing.

[26] The revenue sharing formula has three components. The Customs Component is allocated based on each country's share of intra-SACU imports. The Excise Component, which constitutes 85 percent of the excise revenue, is distributed based on each country's share of total SACU GDP, a proxy for the value of excisable goods consumed. The Development Component, fixed at 15 percent of total excise revenue, is distributed according to the inverse of each country's GDP per capita. The deviation in GDP/capita from the SACU average is reduced by a factor 10 to reduce disparity in the distribution of shares for the Development Component. Revenue sharing is also a significant source of conflict between members. The revenue can be volatile, and the formula results in delayed adjustments. There are concerns from the BLNS about South Africa's management of the Common Revenue Pool and use of rebates, while there is some disquiet on the South African side about perceived subsidisation by South Africa of the other member states.

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