



Austerty

FINANCE .ADVISORY. INVESTMENT



COMPANY PROFILE | 2023

Registration Number: 82320

THE CURRENT SITUATION IN LESOTHO

COUNTRY OVERVIEW

A LANDLOCKED SOUTHERN AFRICAN COUNTRY DEPENDENT ON TRADE FLOWS WITH SOUTH AFRICA

Located In southern Africa, Lesotho is a landlocked country with an economy mainly focused on service and manufacturing sectors and with a frail agriculture sector although 80% of the population depends on subsistence farming. The country is highly dependent on revenues from the joint customs pool of the Southern African Customs Union (SACU), which explains why it has been affected by the most recent Covid-19 pandemic and related lockdown leading Lesotho to negotiate a new credit facility from IMF.

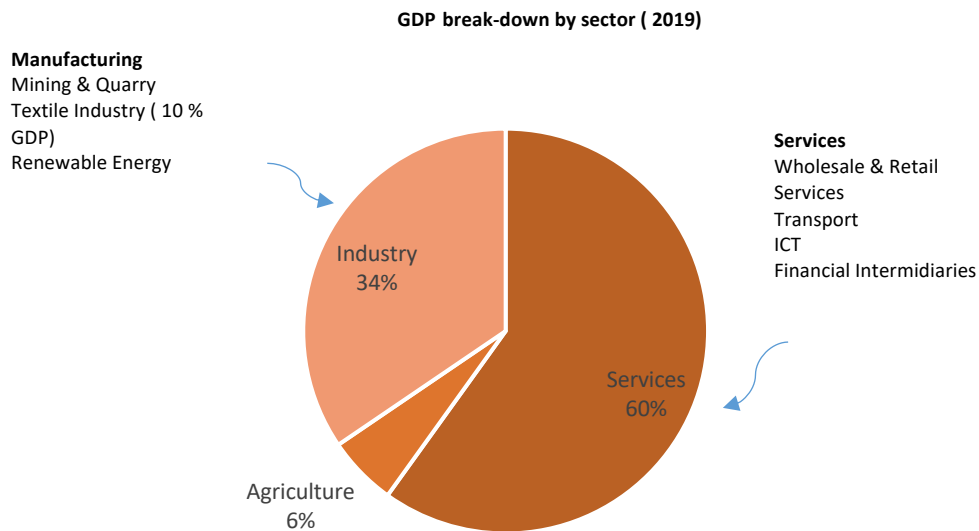
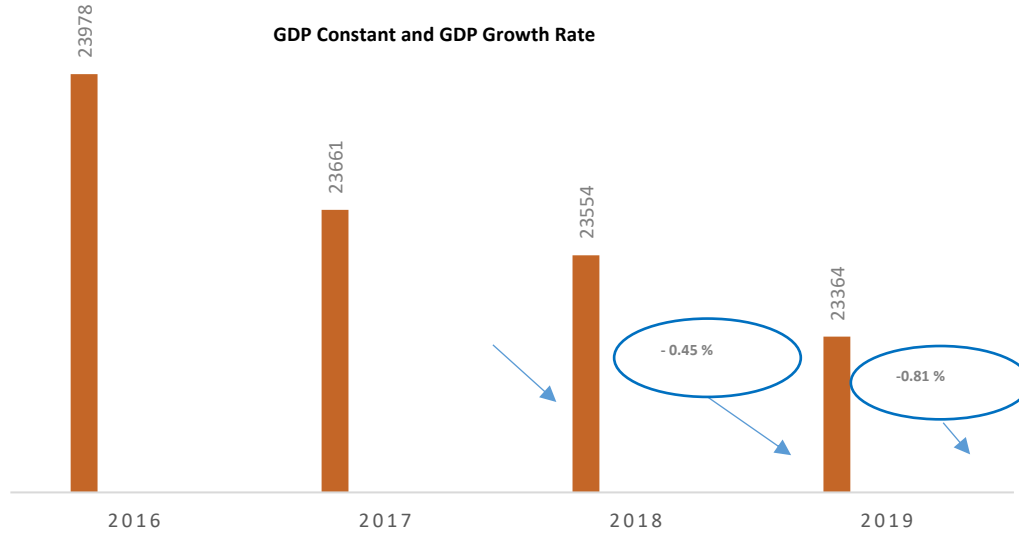
Sovereign Rating	• B (2020 Fitch)
Area	• 30,355 km ²
Population	• 2,150,615 (as of December 2020)
Capital	• Maseru
Currency	• Lesotho Loti (December 2020 exchange rate 1 USD(= 14.5611 Loti), it is pegged to the ZAR (South African Rand)
GDP nominal	• \$ 2.376 Bn (as of December 2019)
Real GDP growth	• - 4.8% (2020)
GDP Capital	• \$ 2,704 (as of December 2019)
GDP breakdown per sector	
Agriculture Industrial Services	• 5.3% • 34.6% • 60.1%
Inflation	• 5.6% (estimation 2019/20)
Budget balance (%GDP)	• 3.9% (estimation 2020)
Current account balance (% GDP)	• 8.4% (estimation 2019/20)
Public Debt (% GDP)	• 54.4% (estimation 2019/20)
Assessment of risk of indebtedness	• Moderate risk of external and public debt distress(July 2020)

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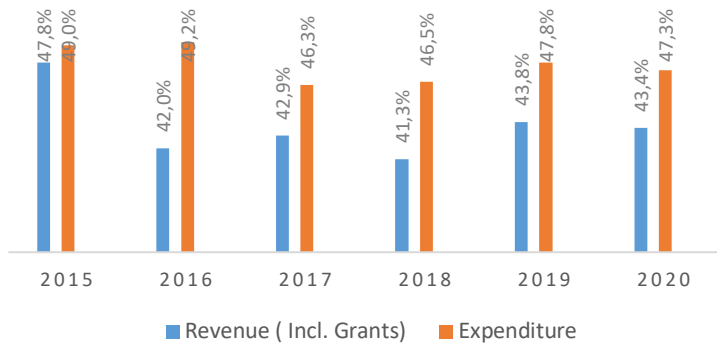
MACROECONOMIC CONTEXT

AN ECONOMY IN SEARCH OF SOURCES OF GROWTH WHILE DECREASING FISCAL DEFICIT

AN ECONOMY SUPPORTED BY THE SERVICES AND MANUFACTURING SECTORS



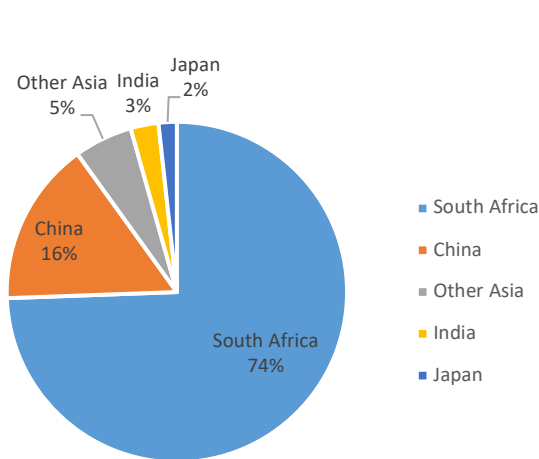
A DETERIORATION IN FISCAL DEFICIT WEAKENS THE COUNTRY'S ECONOMY



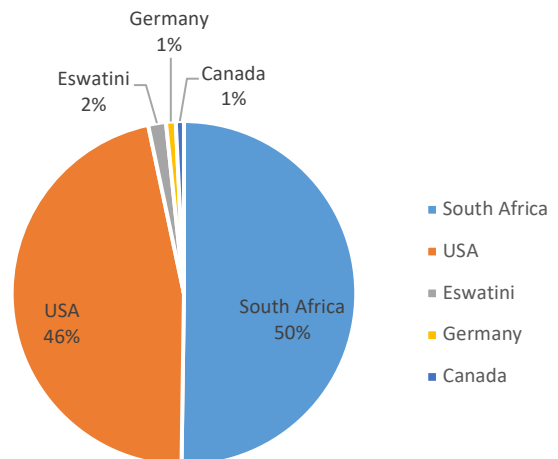
The Government of Lesotho has a fiscal deficit, however it plans, post crisis, to align spending to available resources by reducing recurrent expenditure by 9.5% of GDP, especially the wage bill. The government plans to introduce a levy on alcohol and tobacco, and the diamond tax regime can be updated

SOUTH AFRICA: MAIN TRADE PARTNER TO LESOTHO

Lesotho's key import and export markets



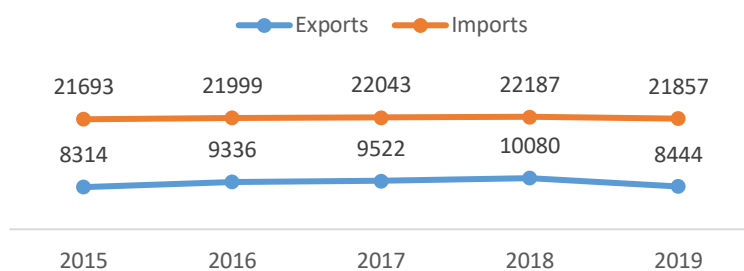
Lesotho's Main Exporters (USD-2017)



Lesotho's Main Importers (USD-2017)

EXTERNAL CURRENT ACCOUNT BALANCE

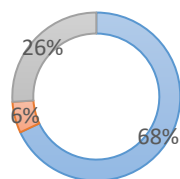
Exports vs Imports (USD)



IMF projects that Lesotho's balance of payments will come under pressure as exports (reduction in the demand for textile and diamond) and remittances fall due to the Covid-19 impact on South Africa's economy. However, lower oil prices and compressed import volumes will mitigate the impact on the current account.

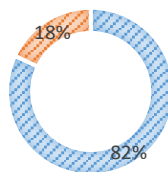
PUBLIC DEBT AND RELIANCE ON EXTERNAL DEBT

External Debt (USd 878mn)
=45.7 of gdp



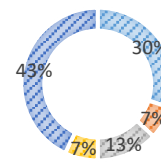
■ Multilateral ■ Bilateral ■ Export Credit

Total Debt
(USD1.068Bn)
= 55.4% of GDP



■ External Debt ■ Domestic Debt

DOMESTIC Debt (USD187 Mn)
=9.7% of GDP



■ Treasury Bonds (Banks)
■ T-Bills (Banks)
■ Fiscal T-Bills (Non-Bank)

External debt

Multilateral concessional creditors are the **IDA, ADF, EIB, IMF** as well as Concessional **bilateral funds** such as the China Exim Bank, Kuwait Fund, Saudi Fund, Abu Dhabi Fund, India Exim Bank and others.

Domestic debt

It includes arrears and guarantees

ELEMENTS OF LESOTHO'S FINANCING STRATEGIES

POLICIES FOR PUBLIC FINANCE

Public Financial Management and Accountability (PFMA)

Public Finance is a constitutional category, regulated by Chapter 10 (sections 110-117) of the Lesotho Constitution, 1993. The PFMA section relates to Chapter 13, which regulates Public Services in Lesotho. The basic law that regulates PFMA is the Public Financial Management and Accountability Act, 2011. The Act defines the basic categories in PFMA and provides regulation on financial management, reporting, audit, budget, and procurement.

Strategic Planning

NSDP II has four pillars ('key priority areas' – KPAs), which should deliver employment and inclusive economic growth. The pillars are: 1) Promoting inclusive and sustainable economic growth and private sector-led job creation; 2) Strengthening human capital (health, nutrition, education & skills development); 3) Building enabling infrastructure, and 4) Strengthening governance and accountability systems. The underlying themes of NSDP II are Climate Change, Environment, and Gender.

Budgeting

The budgeting process in Lesotho is the responsibility of MoF, as both capital (investment) and general budgets are controlled by the Ministry. Budget setting is an annual exercise, which includes a proactive relationship with MDAs. The Government has a mid-term view with the Medium-Term Expenditure Framework (MTEF) defining the spending, and the Medium-Term Fiscal Framework (MTFF) defining the revenues over a longer period, which have to be considered during the annual budgetary process.

The ministries' budget proposals are based on their annual sector plans, which in turn, should be in line with NSDP II. In principle, budgetary allocations are linked with the ministries' annual plans and within the ceilings established by MoF.

Multi-year sectorial plans developed by the line ministries are aligned to NSDP II.

Public Procurement

The Public Procurement Policy has been endorsed by the Government in 2018. It outlines the basic principles and rules that have to be followed when the public procurement procedure is applied. The system is decentralised, such that Ministries, Districts, and Agencies are given the authority to undertake public procurement. The overriding requirement of the Policy is to ensure that the best value for money is achieved and at the same time, effective and efficient administration is put in operation.

International Partnership Policy

Lesotho has developed the (International) Partnership Policy. The Policy is currently under review, with the participation of diverse development partners. The Policy is set to facilitate the planning process with better coordination with development partners. Although the policy itself focuses primarily on the collaboration with the international partners, it can also be applied to the mobilisation of in-country development actors. The Policy has three main objectives: 1) improve the effectiveness of development cooperation through greater Government ownership and leadership; 2) increase transparency and accountability between the Government and its citizens and between the Government and Development Partners in the management of development cooperation, and 3) accelerate progress towards policy coherence in Lesotho's relationships with its Development Partners.

Public Debt and Public Debt Management

Lesotho promulgated the Medium-Term Debt Strategy (MTDS) in 2018 (Government of Lesotho, 2018b) and adopted the Public Debt Management Policy Framework (MoF, 2019a) in 2019. However, the proposed Public Debt and Aid Management Bill is still under development, even though it was initially tabled for adoption in 2016 (PEFA, 2017). The Public Debt Management Policy Framework outlines the general approach of the Government towards debt commitments and debt management. The Lesotho Partnership Policy recommends that Government focuses on grants rather than loans. In cases of need for a loan, concessional loans should be considered first. That is to be consistent with a prudent degree of risk to maintain debt sustainability in the medium to long-term'.

The public sector *guarantees* are tighten under this Policy.

Public debt in Lesotho is regulated by the Loans and Guarantee Act, 1967. The Act provides the limit for Government borrowing but does not provide the purpose of acquiring debt. The Minister of Finance has the authority to borrow, and issue guarantees on behalf of the Government.

The Minister can delegate these powers to the Central Bank of Lesotho (CBL), which can issue Treasury bills (T-bills) and other instruments on behalf of the Government. CBL can provide overdrafts and other loans to the Government, but no current legislation states the purposes for which the debt may be acquired or where Government will commit the funds.

POLICIES FOR PRIVATE FINANCE

Foreign Private Investment

The National Investment Policy of Lesotho was approved by the Government in 2016. It clearly states that the Government of Lesotho sees the private investment as an engine of growth that would make development objectives sustainable for the benefit of the citizens. The Policy supports FDIs in all areas of the economy, except for small businesses, which are reserved for the citizens of Lesotho. Foreign investors may establish operations in an unincorporated form, as sole traders or branches, or incorporate them as a Lesotho company under the recently modernised Companies Act 2011. However, to get access to land, the company must have at least 20 per cent domestic ownership. Lesotho has ratified the SADC Protocol on Finance and Investment and has concluded bilateral investment treaties with Germany, Switzerland, and the United Kingdom. The SADC Protocol establishes the fair and equitable treatment of foreign investors, regardless of the country of origin (both SADC and non-SADC members). The SADC Protocol forbids nationalisation of private properties and enables foreign investors to seek foreign arbitration, rather than initiate the cases before the national courts. To promote local employment, regulations impose restrictions on the number of foreign staff a company may employ. In principle, five per cent of total staff can be expatriates.

Domestic Private Investments

Domestic, Remittances and Diaspora

LNDC has developed a policy to engage diaspora (LNDC, 2019). The National Diaspora Policy was developed with the support of the IOM. It was approved by the Government in May 2021. The Policy, shall have a few pillars such as: Human Capital, Institutional and Leadership, Economic, and Diaspora communities. The National Investment Promotion Policy, 2016 outlines the major initiatives that are used to spur domestic investment into Lesotho's economy. The Basotho Enterprises Development Corporation (BEDCO) is a government body that is tasked exclusively with promoting investment in small businesses by the local population. Lesotho has also introduced the Public-Private Partnership Policy, which targets both international and domestic investors. PPPs can be implemented in almost any sector, from the classical hard infrastructure projects to those that provide social services. The Government offers assistance to facilities, where LNDC and BEDCO lease serviced land and factory shells and other premises at discounted rates to investors. The Government has set up the Partial Credit Guarantee Fund (PCGF) to improve access to finance for local entrepreneurs. The fund provides 50/50 guarantee coverage for existing business and 70/30 guarantee coverage for start-ups on the final loss. Certain economic activities are reserved for indigenous citizens of Lesotho only and cannot attract foreign investment

KEY FACTS AND CHALLENGES

FACTS

IMPLICATIONS

Alternative Resource Mobilization	<p>SACU revenues from trade flows between South Africa & Lesotho are a significant but volatile share of Lesotho's revenues for Lesotho strongly correlated to the South Africa's economy.</p>	<p>Identification of alternative sources of revenue or funding are a key challenge for Lesotho. Policy makers must call to a much greater extent on the private sector, as has happened in other regions of the world.</p>
Restructuring the Sovereign Portfolio for Sustainability	<p>Lesotho has one of the better performing SOE sectors in Sub-saharan Africa contributing between 2 % and 5% of GDP to the national budget, mainly due to mining. The financing gap be closed where government retains ownership and operational control.</p>	<p>SPVs through the securitization of revenues (Commercially oriented entities) could provide credit support to commercial borrowing by the new SPV. Supporting the financial and institutional strengthening of revenue earning public entities, (utilities, municipalities, and public corporations) to access private finance can be essential when full PPPs are not feasible.</p>
National Planning and Ministerial sectorial reforms	<p>The (Project Appraisal Guidelines) PAG and other supplemental documents require projects to undergo careful financial and economic analysis as part of appraisal, provided that 'the project is financially viable and has a positive economic returns'. However, neither the PAG itself nor the supplemental instructions would offer any specific guidance on how economic analysis (cost-benefit analysis [CBA], or cost effectiveness analysis) should be conducted. In Lesotho, appraisal of government-financed projects is the responsibility of the Line-Ministries (LMs)</p>	<p>The decisions made in the selection of projects will have long lasting effects on the cost and quality of services. Better project design and better processes for feasibility studies and project selection can save the government billions of dollars in these sectors.</p>
Improving Project Design and Feasibility	<p>The (Project Appraisal Guidelines) PAG and other supplemental documents require projects to undergo careful financial and economic analysis as part of appraisal, provided that 'the project is financially viable and has a positive economic returns'. However, neither the PAG itself nor the supplemental instructions would offer any specific guidance on how economic analysis (cost-benefit analysis [CBA], or cost effectiveness analysis) should be conducted. In Lesotho, appraisal of government-financed projects is the responsibility of the Line-Ministries (LMs)</p>	<p>The decisions made in the selection of projects will have long lasting effects on the cost and quality of services. Better project design and better processes for feasibility studies and project selection can save the government billions of dollars in these sectors.</p>
Low Private Institutional Investment	<p>Investing in Lesotho is challenging, partly due to its size (smallest economy in Southern Africa) and lack of investment ready deals. Quality feasibility studies are needed for smaller but priority projects that could be financed by domestic commercial financing sources, as well as those expected to be financed from domestic budgets</p>	<p>Lack of involvement of institutional investors in comparison with other regions because of perceived risks. Better understanding of risks and the application of risk mitigation in individual projects. Weak pipeline of feasible projects and the need for better project preparation.</p>
Capital Transactions in the Agricultural value chain	<p>Food Security is extremely low in Lesotho, with agriculture contributing only 5% of the GDP, and 50% of the population relying on rain-fed subsistence agriculture.</p>	<p>Development of a sustainable domestic agri-business value chain is key to food security and could be development through PPP & EPZ models.</p>



INTRODUCTION

Austerity is a “one-stop shop” advisory firm that supports clients in bringing project proposals to bankability and financial close. To achieve this, we provide and finance advanced, bespoke advisory services necessary to comprehensive project development thus ensuring projects are developed to the highest standards. We offer financial, commercial, technical and strategic consulting services for the commercial and infrastructure projects based on our experience across a range of emerging markets, technologies, regulatory regimes, project structures and financial partners. Through our investment arm Austerity provides early-stage risk capital therefore reducing risk by closing the financing gap for major developmental capital.



OUR WORK

Our facility supports project sponsors and clients in the following sub categories of project development:

The Enabling Environment

- Sovereign and sub-sovereign policies, legislation, regulations and administrative guidelines of the Kingdom of Lesotho relevant to infrastructure development.
- The Constitution of the Kingdom of Lesotho 1993.
- The modalities of the PPP Policy of 2017, Build-Operate-Transfer (BOT) and (or) Concession agreements.
- The Public Procurement Regulations (PPR) 2007 and the PPR (Amendment) 2018.
- Institutional and Sectorial pieces of legislation relevant to developments such as the Water Act, Environmental Act, Energy Act , Local Government Act, Roads Act, The National Heritage Act and Maseru City Council (MCC) PPP Guideline as prescribed to mention a few.
- Relevant International Conventions to which the Kingdom of Lesotho is signatory such as the Stockholm Convention on Persistent Organic Pollutants, The Montreal Protocol, The SADC Declaration on Gender and Development etc.

Project Feasibility

A refinement of the base case (Pre-feasibility) that will support the commitment of resources to develop the project and provide assurances that will support capital investment, plan acquisition of rights, generate indicative project design, complete technical studies, determine risk mitigation and update financial analysis.

Project Development

Undertaking of long lead-time activities and receipt of authorizations, acquisition of land, electricity and water rights, development of community plans, identification of vendors and EPC contractors, hiring of advisors and refinement of the project financial models.

Project Concept and Pre-feasibility

The initial phase of the project during which fundamental questions such as the what, why, how and when of the project are answered.

- Preliminary Financial viability
- Assessment of constraints, assumptions and risk
- Legal and Regulatory assessments
- Site specific technical appraisals
- The initial project schedule
- Sustainability plans, Cost benefit analysis & Value for Money (VfN) tests
- Estimated tariff requirements
- Market and competitive landscape analysis

Project Financing

Arrangement of finance on terms and conditions sufficient to achieve financial close:

- Agreement of financial plans
- Finalization of term sheets
- Finalization of debt and equity financing and lender securities.

Pre contract services & Tender Documents

- Terms of Reference (TOR)
- Bidding Documents
- Procurement Packages
- Request for Proposals (RFPs)
- Expression of Interests
- Prequalification criteria

Project Construction and Completion

The final stages of the project, which include construction, commissioning and commercial operations: meet all conditions precedent to give Notice to Proceed, construction, testing and commissioning and commercial operation.

Project Structuring

Creating the appropriate technical and commercial structure for a project will be critical for attracting finance at the right mix e.g. from public and (or) potentially private sources, structuring of the project to the extent that project finance can be arranged.

- Structuring of the SPV,
- Purchasing Power Agreement (PPA) negotiations,
- Interconnection agreements,
- EPC contracts and O&M agreements
- Identification and involvement of potential lenders
- Optimal private /public mix: Concessions, Leases and Management Contracts
- For Project Finance considerations: Availability, Terms of finance and project revenue streams
- Insurance or guarantee products that may reduce project risks and lower costs.
- Advisory services for costing and budgeting (makes reference to costing incremental costs for adaptation, in the case of project or programme targets adaptation or cross-cutting results.
- Investment Structuring: Advice on legal, financial, tax, regulatory and governance matters.
- Legal structuring and Advice: Initial drafts of any agreements, e.g Implementation Agreements and Concession Agreements, written and discussed with relevant stakeholders.
- Employment, and other laws: Reviewed to ensure compliance with existing legislation, and to highlight any gaps or inefficiencies that may need to be addressed.
- Technical and engineering: ongoing support to assess the technical and engineering aspects of the project structure for changes that may impact on financing options.

EXPERTISE AND COMPETENCIES

LEGAL & COMPLIANCE

Corporate & Commercial Law, Construction & Engineering Law, Finance & Banking Law, Insurance Law, Exchange Controls, Tax Law, Environmental Law | Intellectual, Property Law, Property Law, Employment & Labour Law

PROJECT FINANCE & INVESTMENT

Deal Structuring, Capital Raising, Venture Capital Investment, Business Development, Strategic Partner Management, Financial Modelling, SPVs, PPP, Crowd funding

TECHNICAL & ENGINEERING

Project Engineering & Management, Facility Management, Infrastructure Design & Maintenance, Engineering Standards & Design, HSE Compliance & Inspection, SHE Audits, Proposals & Tender documentation

ENVIRONMENT & SOCIAL

Sustainable Development, Stakeholder Management, Policy Development, Risk Management, Corporate Governance, Operations & Quality Management

WHO WE SUPPORT

- Private Developers
- Public Developers
- Government Departments
- State owned Organisations and Entities
- Project Sponsors
- Development Finance Institutions
- Private Equity and Infrastructure Funds
- Commercial Banks



SECTOR FOCUS



MANUFACTURING

Strategic Import substituting Industries to the Kingdom of Lesotho



AGRO PROCESSING, HORTICULTURE AND FISHERIES

1. Horticulture including fruit, vegetables, nuts and tea
2. Field Crops Processing and rosehip processing
3. Animal Protein, including red/white meat, poultry etc.
4. Dairy Farming
5. Abattoirs
6. Wool and Mohair Industries
7. Aquaculture & Fishery Industries



REAL- ESTATE & PROPERTY DEVELOPMENT

Development advice and development risk capital with a strong focus on green designs, redevelopments, densification of existing buildings, refurbishments and Greenfield developments. The focus is also on high demand nodes where bulk services and infrastructure already exists.

1. Residential Property
2. Commercial Property



TOURISM

Development of competitive and sustainable tourism products.



SOCIAL INFRASTRUCTURE

1. Schools and other education facilities
2. Affordable housing
3. Hospitals and Healthcare



MUNICIPALITIES AND LOCAL GOVERNMENTS

1. Power and Water Utilities
2. ITC, 5G and Cloud infrastructure
3. Parkades and Parks
4. Waste Management



FUNDING AND INVESTMENT

- Austerity's support reduces risks for major developmental capital, and ensures that projects are developed to the highest standards: from a concept, to a financeable investment opportunity, to a proven operating business.
- Investing directly into early-stage projects which need our financial commitment and development expertise.
- Providing equity to close the financing gap and start construction.
- Investing into innovative solutions that need our support to scale-up or to pilot new products or enter new markets.

Investment and Funding Philosophy

Our directive and mandate are to “de-risk” risk capital by providing catalytic capital and bespoke development expertise and crowd-in private finance. We shall therefore not fund “investor-ready” projects whose capital can readily be procured from financial markets, private investors and development finance institutions. Our priority goes to projects with high economic and social impact, strategic import substituting industries and are commercially sustainable however lacking in development risk capital and expertise precedent to financial close.

Through our investment arm we can also fund “brown-field” and growth infrastructure assets that are already commercial and need to scale-up or restructure.

Despite the timing of our investment, we target to achieve a market return on our investment. Whilst we recognize that those who have invested prior to us have taken greater risk, we will not subsidize the returns of others and would expect to match our partners return's¹¹¹ if they are investing capital at the same time as us with the same risk profile. As having the appropriate governance in place and working to international standards is important to us, we will also expect to have a credible and strong voice on the project steering committee (prior to incorporation) and/or Board.



GENERAL INVESTMENT CRITERIA

DEVELOPMENTAL RISK CAPITAL	
Development/ Risk Capital Commitments	R 2 million – R10million
Funding Mechanism	i. Common Equity (Shareholder’s Agreement) ii. Convertible Loan Agreement
Development Risk Exposure	Minor to significant Majority, 20 %– 35 %
Activities	- Pilot - Construction - Full scale - Operations
EQUITY	
Investment Commitments	R 15 million – R 45Million
Investment Exposure	20%- 40%
Exit	5 – 7 years
Board Representation	Yes



OTHER CONSIDERATIONS

- Project Finance and PPP infrastructure investments with strong contractual structures, demonstrating the appropriate legislative framework and developmental impact.
- Predominant focus on energy complimented by other socio-economic infrastructure projects.
- Quality and track-record of the project sponsors, contractors, credit worthiness of the off-taker (in the case of Energy PPAs; capability of the concessionary authority (in the case of transport concessions), and the robustness of the contractual and financial structures.
- Engagement with project stakeholders e.g. senior sponsor(s), EPC and O&M contractors, local funding institutions and (or) Development Finance Institutions to identify local counterparty risks.
- Investments in (Greenfield) projects, with strong potential of profitability but involving construction risks.
- Investments in (brownfield) projects, generating less profitability but already operating and generating stable cash-flows.
- Appropriate corporate governance rights and board membership in the project company

TEAM

Our culture and actions are defined by a set of core principles:

- Entrepreneurship and a sense of urgency
- Teamwork
- Excellence
- Professional and ethical behaviour
- Long term development and sustainability



**MPHO
MODISE**

Project
Finance



**LERE
LETOMPA**

New Business
Development and
Investment
Analyst



**GRITHIFFTHS
LEROTHOLI**

Conflict
Management



**JOHANN VAN DER
WESTHUIZEN**

Project
Engineering and
Strategy
Development



**ALBERT
BUTARE**

Renewable
Energy, and
Sustainable
Development

The Team has considerable experience advising, structuring project finance transactions and investing.

Austerity brings a team with substantial experience and key competencies within the development finance, water, real estate and built environment health, transport, oil and gas and energy sectors, working to support a variety of organisations across the commercial and infrastructure sector supply chain, including government and regulatory bodies, technology providers, utilities and corporations. Through prior and current roles, we have collectively appraised over 250 projects from the advisory perspective. The Executive Committee members bring together in excess of 80 years of combined experience in project and corporate finance, project engineering, legal and compliance, impact evaluation and sustainable development, renewable energy and infrastructure across the African continent.

In addition to the professional staff core, Austerity has access to a network of specialists and strategic partners in Lesotho, South Africa and the international markets. We call on these resources regularly to ensure that our clients benefit from the best possible project team to meet their specific requirements.

GET INTOUCH

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